



Philippine Chamber of Commerce and Industry

10 February 2003

ATTY. LETICIA V. IBAY
Acting Chairman
Energy Regulatory Commission
Pacific Center Bldg.
San Miguel Ave.,
Ortigas Center
Pasig City



Attn: Atty. Marina C. Bugayong

Re: Comments on ERC Case 2003-34

Dear Atty. Ibay:

We thank you for this opportunity to submit some of our comments on the above subject.

The Chamber, as you know, generally speaks in representation of the major producers in the industry, the major consumers, potential investors, both local and foreign, and as one for the key front line spokes channels of the government on private investments.

It is, therefore, in that context that we submit these specific and general comments, some of which may dwell on the so-called larger picture, thus:

1. Studies and available samples appear to show that the proposed formula or process are currently adopted by developed economies, where there are already established hard, reliable and progressive data available on the subject, which are not generally true in developing economies like our country, where all corporate data are somewhat contentious and where SEC is not even able to compel or even validate and challenge submitted corporate information. Could we ever locally develop a concrete case against corporations like an ENRON or WORLCOM as they have done in the U.S.?
2. The formula or process appears to be quite complex and difficult for even the large consumers to understand. There would be a need to present a comparative advantage and disadvantage of the current RORB versus the Proposed Formula in order for the consumers to appreciate what would drive the "wheeling charges" up or down and to achieve more competent consensus and also avert future "finger-pointing" between the TRANSCO and the Distributors and the Generators as what is now happening between the MERALCO, NPC and DOE regarding the PPA and the PPCA, etc. due to poor consumer information programs.

3. More specifically, some uncertainties present themselves in areas like:

- On the so-called MAR or Maximum Annual Revenue of Php 20.198 Million, where did this number come from? What is the basis?
- On the WACC or Weighted Average Cost of Capital, why is it based on a 60-40 equity structure instead of what the actual would be?
- Why is the "Calendar Year" computed on ending on September 3rd quarter?
- What is the basis for the reward mechanism of 4%?
- What would be the basis for negotiating "Productivity and Efficiency" to fill in the factor "X"? Is that going to be a case-to-case basis or period-to-period basis?

However it may be, we would like to pursue a wider perspective by presenting the following concerns:

1. Where does this fit into the EPIRA's assurance that the tariff would eventually be lower and suffer least political distortion as it is today?
2. With the apparent application of the "Postage Stamp" mechanism, how shall this process assure elimination of "subsidies" as mandated by the EPIRA?
3. Perhaps, a Simulation Study should be presented as part and parcel of this Case showing the advantage of the proposed formula versus the current RORB and projecting the key items that could drive the tariff whichever way.

Finally, we submit our full support to the decision of the ERC with proper consideration on the above points and those that shall further be raised by some of our members individually and as PCCI affiliate organization during the hearing.

We trust that you look into these matters in the light of the scope of our representation mentioned above.

Very truly yours,


MR. JOSE S. ALEJANDRO
Chairman, Committee on Energy

cc. **MR. SERGIO R. ORTIZ-LUIS, JR.**
President

MR. RAUL A. BONCAN
VP, Infrastructure, Energy & Housing

ATTY. FLORECITA P. FLORES
Director-General