

February 10, 2003

ENERGY REGULATORY COMMISSION
Pacific Center
San Miguel Avenue, Ortigas, Pasig City



Attention : Atty. Marina C. Bugayong/Ms. Maurisa Moncada
Regulatory Operations Service

Subject : In the Matter of Adoption of an Alternative Form of Rate-Setting
For the National Transmission Corporation (TRANSCO) and any
Future Concessionaire per ERC Case No. 2003-34

Hereunder are our comments on the guidelines on the methodology for setting transmission wheeling rates:

1. Revaluation of Assets (Sec. 4.6.5 and 4.6.6)

Optimization principle re revaluation of the assets employs that:

Assets that are assessed to have over capacity or excess redundancy * (over-designed or excessive installed capacity) will have their value split between the value of that capacity or redundancy necessary to meet customer requirements and the value of capacity or redundancy in excess of the requirement.

Comments:

In effect, exclude value of excess capacity or redundancy in the revaluation of assets? How does excluding excess capacity from regulatory asset base reconcile with the need to ensure SERVICE RELIABILITY? If intent is to safeguard against over-building of installed capacity, we expect application to be prospective; this principle may eventually be applied on the planned acquisition of some redundant NPC sub-transmission assets by distribution utilities.

2. Maximum Annual Revenue Cap

Comments:

Limits the revenue potential of the utility to MAR and provides no opportunity for additional income; additional income if any must be given back per K (over or under recovery)

What about other income (non-electricity related income) from utilization of transmission assets such as equipment rental, other services, etc.? What is the motivation for the utility to maximize revenue if none of it may be retained?

3. Classical WACC at 40% equity and 60% debt

Comments:

Why assumed at 40:60 when actual debt-to-equity ratio of the regulated entity could actually be less?

4. Rewards and Penalties

Comments:

Who would end up paying the incentives? Increase transmission rates?
Who will pay for the inefficiencies of Transco and the Distribution Utilities?

5. Benchmarking/Yardsticks to Use

Comments:

Benchmarking against historical records may reward regulated entity for past inefficiency or penalize it for past efficiency.

Benchmarking against other companies in the industry or regional/national averages may require adjustments to obtain a comparable benchmark or yardstick and handicapping.

For your consideration.



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