

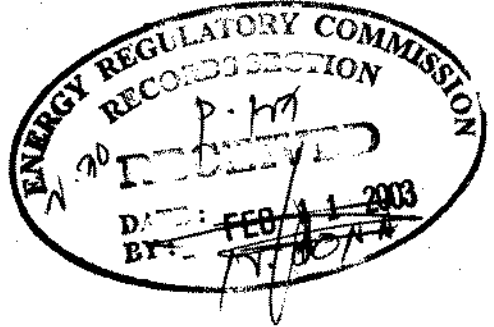


# National Power Corporation

CPG/ETD-03-02-028

February 10, 2003

**HON. LETICIA V. IBAY**  
Acting Chairperson  
Energy Regulatory Commission  
Pacific Center Building  
San Miguel Avenue. Pasig City



Dear Chairperson Ibay:

In connection with the Honorable Commission's Notice on ERC Case No. 2003-34 entitled, "In the Matter of the Adoption of an Alternative Form of Rate Setting Methodology for the National Transmission Corporation (TransCo) and any Future Concessionaire Thereof," we are pleased to submit the attached initial comments of NPC.

We hereby respectfully request the Honorable Commission to allow NPC to submit additional comments particularly on the more technical aspects of the guidelines, as soon as we complete our analysis on the same.

NPC is hopeful for the Honorable Commission's consideration.

Very truly yours,

  
**FROILAN A. TAMPINCO**  
Vice President  
Sales & Services



## METHODOLOGY for Setting Transmission Wheeling Rates

Reference	Comments
Section 3.4 Over/Under Recovery Formula Section 3.4.1	In given formula to calculate the correction factor for Regulated Year $t(K)$ , $AMR_{t-1}$ is defined as, "the actual net revenue dervied..." There is no clear indication as to what adjustment factors are to be considered to dervie the "net revenue"
Section 4.5 Primary Building Blocks	We propose the exclusion of the "corporate income tax" from the Annual Revenue Requirement (ARR) to be consistent with the Ruling of the then Energy Regulatory Board (ERB) disallowing income tax as part of the operating expenses of Manila Electric Comapany. Said Ruling was upheld by the Supreme Court in its Order of November 2002
Section 6.2 Annual Rate Setting Timetable Section 6.2.1 Item (b):	We propose that the maximum transmission wheeling rates proposed by the regulated entity be supported with calculations and submitted to the ERC in both written and electronic copies. This shall serve as ready reference for the ERC and a vehicle for the regulated entity to explain the details of its proposal
Section 6.2.1 Item (e):	We suggest that additional information required by the ERC be covered by a written request and delivered to allow receipt by the regulated entity at least ten (10) days before the November 30 deadline. This would provide ample time for the regulated entity to prepare the requested information
Section 6.2.1 Item (f):	We suggest that should ERC fail to render its decision on or before January 1 of the application year on the proposed maximum transmission wheeling rates submitted by the regulated entity, the proposal should be deemed provisionally approved until such time that the ERC renders its Decision

# Methodology for Setting Transmission Wheeling Rates

Reference	Comments
Section 6.2.1 Item (f) (ii) (B):	<p>The provision mandates that the regulated entity must implement the amended rates by sixteen (16) days after ERC renders its decision on the maximum transmission wheeling rates proposed by the regulated entity, but not earlier than January 1 of the application year. We propose that the new rates should take effect on the 26th day of the month following the ERC decision, considering that it is the start of billing cycle/period of the regulated entity, the National Transmission Corporation (TransCo). Imposition of fractional billing may cause billing problems for TransCo, unless it adopts a new billing period starting from the 1st day of every month.</p>
Section 6.4 Side Constraints on Proposed Maximum Transmission Wheeling Rates Section 6.4.1	<p>After one (1) year from imposition of Universal Charge, a portion (e. g. one third) of the Intra-Grid Regional Cross-Subsidy Charges shall be removed and recovered through the Universal Charge in order to mitigate sudden price shocks to affected customers. Assuming the Performance Based Regulation (PBR) will only be adopted/implemented after the above-stated period, will the remaining Intra-Grid Cross-Subsidy Charges be automatically removed?</p> <p>The Intra-Grid Regional Cross-Subsidy Charges in the unbundled power rates cover both NPC (Generation ) and TransCo revenue requirements. Gradual removal of the same, in accordance with Section 43 (g) of the EPIRA, will affect revenues of both entities. Bearing in mind that the PBR is only applicable to TransCo, how will these cross-subsidies be reasonably considered? There may be a need for a simultaneous revision of power rates for both NPC (Generation) and TransCo upon adoption of PBR.</p>