

**Comments Raised during the
Public Consultation on
DÉCOR and DICER
February 17, 2003**

| Participant | Issue | Comment |
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| Mr. Hagan (NASECORE) | DÉCOR & DICER | <p>Why is it that the Commission already has draft guidelines on both the DÉCOR and DICER?</p> <p>Was consumer protection taken into consideration in the drafting of said guidelines?</p> <p>Before the consultation, is there any participation from the consumer group?</p> <p>ERC should not change the term from PPA into DÉCOR because it may confuse the consumers and assume that these PPA is not part of the power bills when in fact it is incorporated in their bills. There must be a rule on how much should be included in the PPA. ERC's position on the matter is unclear and the consuming public feels that they are not effectively protected.</p> <p>The recovery mechanisms are mere collection process. What's essential is that the components of PPA be made clear to the consuming public.</p> |
| Mr. Lualhati | | <p>The presentation implies that the PPA will still be collected from consumers. In the formula, it seems that the undelivered power will be included. ERC or MERALCO should present justification for collecting the PPA.</p> |

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| | | ERC should first decide whether the electric power that is going to be recovered is actually used by the consumers. It depends on the ERC to prove that the PPA was actually used by the consumers. |
| Atty. Baldonado | | The draft guidelines were presented for public consultation without informing first the consumer groups. It is disadvantageous because the utilities had the time to study and to comment thereon while they cannot comment on the proposed mechanism intelligently. The presentation was made for formality's sake. Apparently, the Commission is trying to balance the interest of the utilities and the consumers. |
| MERALCO | | On the Implications of the recovery mechanisms: While the rationale of the mechanisms intend to fix the rates for a certain period costs, ERC should realize the implications as far as the viability of the utility is concerned and that any deferral of cost recovery needs that the utility has to set aside additional cash and such cash comes from a very expensive cost. |
| FIRST GAS | General Comments: | <p>While FGHC commends the ERC for seeking ways to reduce electricity rates (and address price volatilities) for the benefit of consumers, we take exception to the manner by which this laudable objective is sought to be achieved under the Rules.</p> <p>The Rules negate the original intent of adjustment clauses, which is to allow electric utilities a way of recovering significant and easily verifiable cost items such as fuel and purchased power or a combination of the two, and foreign exchange losses (on the foreign exchange component of the O&M expenses as well as the amortization of the principal component of a utility's debt service) without going through a tedious process of, and avoiding the expenses attendant to a formal rate application.</p> <p>Most utilities at present already resort to deferring the recovery of these costs and losses over a period of time so as to control revenue swings without passing on the attendant carrying costs of such deferral to the consumers. The MERALCO for one, had implemented a deferred recovery scheme which was made subject of an ERC Cease and Desist Order (under ERC Order dated May 7, 2002) issued, incidentally,</p> |

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| | | <p>without affording MERALCO its right to due process. Under this scenario, the ERC's task would have to be limited to examining and evaluating the formula used by utilities in the recovery process so as to evaluate the legitimacy of cost items and cost increases, to ensure that no margins are added thereon, and to monitor the monthly submissions of the utilities.</p> <p>What the proposed DÉCOR and DICER accomplish, however, is the aggravation of the financials of the distribution utilities, without providing real relief to consumers, who eventually also shoulder the burden of reimbursing utilities for the carrying costs incurred from the deferral.</p> <p>The concept of deferrals and the setting of the Recovery Period (to not less than three (3) years) are in themselves subject to question. The utility must shoulder the account for all monthly movements as well as the interest costs/earnings attendant to the deferral. Under these circumstances, the so-called automatic recovery mechanism loses its meaning.</p> <p>In economics, this mechanism is equivalent to freezing the price signal for a time period, cutting the link between supply and demand responses (leading to distortions in the supply/demand bids) and thereafter, releasing the same after prices reach an uncontrollable level. The analysis also mirrors the consequence when prices spiral downwards from the base rates.</p> <p>The deferral mechanism is contrary to the general aim of deregulation as it effectively discourages, through the resulting uncertainty in the recovery of purchased power, the entry of new players in the generation sector. Added to this is the mandated cap on the generation rate (which artificially lowers electricity prices) to a level which renders the sector unattractive to new investors.</p> |
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| | | <p>The concept of deferrals is objectionable on the ground that it assumes that every distribution utility would have access to financing.</p> <p>The ERC would do well to heed the lessons from the California experience: Six months after the PUC set the retail rate at US\$0.06, deferred purchased power costs reached at alarming US\$12 Billion. In the end the State of California was compelled to infuse approximately US\$10 Billion in an attempt to hedge against the industry’s collapse.</p> <p>It is strongly recommended that the mandated “deferral” of recovery of fuel, purchase power costs and exchange rate costs be made optional upon the distribution utilities. Utilities can make their own business judgments on the advantages and disadvantages of a proposed deferral, considering their own viability and the potential benefits such deferral to their customers. The ERC can limit its involvement in the process to ensuring that there is no over recovery.</p> |
| COLIGHT | <p>DÉCOR formula</p> <p>Tax recovery clause</p> | <p>Colight is generating power but the cost incurred in running the power plant is not included as part of the operation and maintenance expenses. The cost of generating power is relatively high as compared to the cost if they just buy power form NPC. Colight would like to appeal that the Commission consider this in Colight’s formula.</p> <p>Since there is no provision as to the recovery of the franchise tax that should correspond to the revenues derived from the recovery of the incremental cost, the utility should be allowed to recover franchise tax.</p> |
| VECO | <p>Line loss</p> <p>Unrecovered transmission charges</p> | <p>Assuming that the utility is entitled to a generation rate adjustment, does the line loss charge to the consumer be correspondingly adjusted?</p> <p>The line loss charge line loss charge that is being fixed will also have corresponding adjustment.</p> <p>Can the utility apply the same formula (DÉCOR) for unrecovered transmission charges?</p> |
| MERALCO | | <p>Under DÉCOR, does adjustment include both generation and transmission?</p> |

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| CEPALCO | DÉCOR & DICER | The deferrals may give a wrong signal when utilities recover such deferrals at the time that fuel prices have gone down or a deferred forex adjustment will be recovered at the time that the peso appreciates. |
| MERALCO | | Some customers are expected to leave come open access. If these costs were deferred, the customers who incur the cost will not be the one to repay but the captive customers. Residential customers will be paying for the cost incurred by the industrial customers. |
| DECORP | | Is DÉCOR & DICER time bound considering there is a WESM and the generation is deregulated. |
| CEPALCO | | Come open access, generation will be competitive but the retail rate and generation will still be subject to a cap. We have a retail rate that's capped and a generation rate which is open. |
| NPC | | How will NPC recover the unrecovered portion when the generation is already deregulated? Will the application be on a per grid basis? |
| MERALCO | | What is the basis for determining the recovery period? |
| NPC | | Can ERC extend the recovery period to four or five years depending on the deferred balance? Cite criteria for exceptions because it is not safe that the provisions be left open. |
| TRANSCO | | Exempt TRANSCO from DICER |