



Davao Light & Power Co.

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February 12, 2003

Atty. MARINA C. BUGAYONG
Director
Regulatory Operations Service
Energy Regulatory Commission



Dear Atty. Bugayong,

This is in reference to the Commission's Draft Implementing Rules for the Deferred Energy Cost Recovery (DECOR) and Deferred Incremental Currency Exchange Recovery (DICER), which is subject for public consultation on February 17, 2003.

Please find attached comments for discussion.

Very truly yours,


JUAN ANTONIO E. BERNAD
Senior Vice President

Comments on the Draft Implementing Rules for the Recovery of Deferred Fuel and Independent Power Producer Costs (DÉCOR) and Deferred Incremental Currency Exchange (DICER)

There is no need to change the existing cost recovery mechanism to a deferred recovery system since this will only create the following problems that will eventually lead to a negative effect to the whole electricity industry:

- 1. It is unfair to other users because the burden of deferral may fall on other customers not commensurate to their actual consumption. Large power users like industrial and commercial consumers whose consumption fluctuates considerably over time with the market condition are the best example of this.**
- 2. The interest rate is too low. The 91-day Treasury bill rate as the basis of carrying charge is way below Distribution Utilities (DU) actual cost of borrowing.**
- 3. The timing may be confusing to customers. For example, the deferred incremental cost of fuel is recovered when fuel prices are low. The same with foreign exchange rate when incremental cost is recovered at the time when peso appreciates. Consumers will get confused why power rates goes up in spite of improvement in economic condition.**
- 4. Additional working capital is needed by the Distribution Utilities to compensate for the accumulated incremental cost of power. It is just proper for the power utilities to recover reasonable return for the additional investment used to finance deferred incremental costs. Again, the 91-day Treasury bill rate is not enough to cover financial charges.**
- 5. The formula does not provide recovery of Franchise Tax (FT). It should be noted that Distribution Utilities pays franchise tax to Local and National Government and it is just proper to recover this**

FT related to the revenues derived from recovery of the incremental costs.

6. **Cumbersome procedures.** Considering that these deferred incremental costs will ultimately redound to adjustments in power rates, Distribution Utilities has to file for the recovery of the deferred incremental costs to the ERC and the Commission has to conduct public hearings at the distributor locations.
7. **In case the deferred incremental cost is necessary to postpone the pass through of unused contracted power, the same should be limited only to affected utilities.**
8. **Unreasonable recovery period:** Automatic cost adjustment should be an integral part of ratemaking and changes should be made monthly. This is intended to maintain the proper relative structure of the rates and to insure that power costs are being equitably recovered from the various rate classes thereby reflecting the true cost of power.

Based on the above premises, we believe that changing the existing cost adjustment mechanism is unnecessary and will not only complicate the rate structure of the power utilities but will also set hurdles to ERC regulatory function. This will further increased regulatory risk to the Distribution Utilities.

We reserve the right to make additional comments if necessary based on the discussion during the public hearing.