



COMMENTS ON THE DRAFT IMPLEMENTING RULES OF THE DEFERRED ENERGY COST RECOVERY (DECOR)

Section 1. Definitions

Carrying Charge

We believe that anchoring the Carrying Charge on the 91-day Treasury Bill is very unreasonable. NPC's actual cost of foreign borrowings from lending institutions like the World Bank, Asian Development Bank and Japan Bank for International Cooperation (JBIC) averaged 5.84% as of December 31, 2002, similar to domestic loans (e. g. those from Citibank).

The 91-day Treasury Bills rate is only 4.25% (Land Bank figure as of February 4, 2003). The rate levels vary among Banking Institutions which win in the bidding conducted by the Bureau of Treasury for offers of 91-day, 182-day and 364-day Treasury Bills. Nevertheless, the interest rate for a 91-day Treasury Bill is definitely lower than NPC's actual cost of borrowing, both for short/long-term and domestic/foreign loans.

We wish to reiterate that the Weighted Average Cost of Capital (WACC) be considered as basis for the Carrying Charge. However, should the Honorable Commission find WACC to be disadvantageous to customers, we would like to suggest the use of NPC's actual average cost of borrowing covering the test period or the average non-prime lending rate of its depository bank for the same period, whichever is higher. This shall reasonably compensate NPC for the cash float it has incurred as a result of the deferment of recovery of actual fuel and purchased power costs.

Recovery Period

The three (3)-year minimum recovery period is too long and disadvantageous to NPC. We reiterate our proposal to have a recovery period of three (3) months minimum to a maximum of one (1) year. Should actual calculations by the Honorable Commission result to a significant increase in the Generation Rate, then the recovery period may be extended up to a maximum period of three (3) years. However, this should be provided for explicitly in Section 11, "Exceptions from Regulations".

Section 5. Deferred Generation Cost Accounting Application

We believe that the minimum five percent (5%) threshold/deviation in fuel and purchased power cost (P/kWh) is not reasonable to trigger the filing of DECOR. The fuel and purchased power costs in the DECOR formula represent allowable costs based on approved heat rates and the P0.40/kWh cap on purchased power cost. The more notable portion of the

DECOR formula is the Deferred Accounting Adjustment (DAA) which is significant compared to the allowable fuel and purchased power costs, but is not part of the fuel and purchased power costs referred to by the Honorable Commission in calculating the 5% deviation. We hereby suggest that the threshold be reduced to two percent (2%) in order to reduce deferrals and safeguard NPC's viability. This will also lessen the absolute amount of carrying charge passed-on to customers.

Section 11. Exception from Regulations

Although the Honorable Commission already considered NPC's comments particularly on the exclusion of this Section in the coverage of the "exception", we wish to reiterate our suggestion to cite specific criteria or conditions as bases for the said exception/s.

COMMENTS ON THE DRAFT IMPLEMENTING RULES OF THE DEFERRED INCREMENTAL CURRENCY EXCHANGE RECOVERY (DICER)

Section 1. Recovery Period

The three (3)-year maximum recovery period is too long and disadvantageous to NPC. We reiterate our proposal to have a recovery period of three (3) months minimum to a maximum of one (1) year. Should actual calculations by the Honorable Commission result to a significant increase in the Generation Rate, then the recovery period may be extended up to a maximum period of three (3) years. However, this should be provided explicitly in Section 11, "*Exceptions from Regulations*".

Section 5. Deferred Generation Cost Accounting Applications

We believe that the threshold of five percent (5%) deviation in the Base Rate is reasonable as far as deferred incremental currency exchange adjustment is concerned. Thus, NPC is amenable to the proposal of the Honorable Commission.

Section 10. Exception from Regulations

Same comments stated for Section 11 of DECOR.