

**GUIDELINES ON DÉCOR AND DICER
SUMMARY OF COMMENTS**

MECHANISM/ SECTION	ISSUE	COMMENT	RECOMMENDATION
<p style="text-align: center;">DÉCOR</p> <p>Section 1 – Definition</p>	<p>1. Adjustment Date</p>	<p>A definite time period should be set within which the Commission should decide on applications related to these adjustments, otherwise, the costs that DUs advance do not immediately become recoverable for which the DUs incur additional financing costs. (MERALCO)</p>	

	<p>4. Generation Cost</p>	<p>Include generation cost that will be incurred due to increase generation; No recovery mechanism for changes in transmission charge. (AEC)</p> <p>Include/provide specific criteria/s and firm up its definition, particularly those that are considered as “prudently incurred, reasonable and eligible for recovery” considering that NPC-SPUG has to perform Missionary Electrification. (NPC-SPUG)</p>	
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	<p>5. Recovery Period</p>	<p>3-year minimum is too long and disadvantageous to NPC. (NPC)</p> <p>Min 3 year recovery period is unreasonable. Recovery lag for incremental cost should not be more than one month. This will give wrong signal to consumers when deferred incremental cost of fuel is recovered at time when fuel prices are low. (COLIGHT)</p> <p>There should be a basis for setting the recovery period. (MERALCO)</p> <p>The deferred amount will continually increase and result to higher power rates in the long run. (ILIGAN)</p> <p>3 years is too long. New customer will pay for the cost incurred before they got service connections. (VECO)</p> <p>3 years is too long (FIRST GAS)</p>	<p>Not to exceed one year</p>
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<p>Sec. 5 – Deferred Generation Cost Accounting Application</p>	<p>Significant Change in PP Cost as basis for ERC Filing</p>	<p>The magnitude of the increase will vary depending on the base purchased power cost of the utility. For MERALCO, the 5% translate to 22-centavo change based on the Jan 03 purchased power cost of P4.36/kWh. For others, the significant change would be lower. For DICER, the 5% would only amount to a very small value. (MERALCO)</p> <p>The minimum 5% threshold/deviation in fuel and purchased power cost (P/kWh) is not reasonable to trigger the filing of DÉCOR. DAA is significant but not part of the fuel and purchased power cost in determining the 5% deviation. (NPC)</p>	<p>It maybe more appropriate to set a fixed rate per kWh change rather than set a percentage that is based on values that differ for each utility.</p> <p>Reduce the threshold to 2% in order to reduce deferrals and safeguard NPC's viability</p>
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<p>Section 7. Calculation of DAA</p>	<p>DAA Formula</p>	<p>Definition of “T” (COLIGHT)</p> <p>Failed to state how DAA is reconciled, audited or reckoned. (FIRST GAS)</p>	<p>T = The total estimated <i>kWh</i> sales for the recovery period</p>
<p>Section 8. Accounting for Disallowed Costs</p>	<p>“Current Policies of the Commission”</p>	<p>Set a criteria, e.g. prudently incurred, reasonable and eligible for recovery. (COLIGHT)</p> <p>Are the ERB approved purchased power contracts no longer valid if they run counter to the “current policies of the Commission” considering that these contracts are entitled to stranded cost recovery under Sec. 33 of RA 9136? (MERALCO)</p> <p>Failed to provide details on items deemed “allowable costs”</p>	<p>Operations and Maintenance fits definition of recoverable</p>

<p>Section 9. Carrying Charges</p>	<p>91-day TBill Rate</p>	<p>91-day TB is far way below the commercial rate. This is unreasonable and illogical. (COLIGHT)</p> <p>Small DUs would have a hard time acquiring funds at the 91-day TB rate. (TARLAC)</p> <p>Interest rate is too low. 91-day TBill rate is not enough to cover financial charges. (DAVAOLIGHT)</p> <p>Use of the 91-day TB rate as basis for the carrying charge assumes that there are always available funds for the utility to borrow at this given rate. (MERALCO)</p> <p>Define how carrying charge is computed; whether it is based on end of period or an average. (MERALCO)</p> <p>ERC Guidelines proposed different benchmarks. (MERALCO)</p>	<p>Set standard benchmarks for carrying charges.</p>
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	<p>Carrying Charge</p>	<p>The 91-day TBill rate does not reflect the actual cost of borrowing. In reality, MERALCO will end up shouldering more than the carrying charge if there is an under-recovery, since its borrowing cost is higher than the 91-day TBill rate and it pays taxes on the interest. On the other hand, if there is an over-recovery, MERALCO's gain is less than the 91-day TBill rate because it pays 20% final tax on the interest from its placements. (MERALCO)</p> <p>The 91-day TBill rate is not sufficient to cover for the actual interest expense nor does it provide a just and reasonable return for the additional working capital that DUs invest to bridge finance and deferred incremental costs. (CEPALCO)</p> <p>The 91-day TBill rate may not be sufficient to cover actual interest expense incurred by the utility. (ILIGAN)</p>	<p>Increase permanent working capital.</p>
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<p>Section 11. Exception from Regulations</p>	<p>-</p> <p>Exempt in the Deferment of FCA and FOREX</p> <p>“Public Interest”</p> <p>Exceptions</p>	<p>This clause gives too much leeway for changes in the recovery mechanism without due process. (MERALCO)</p> <p>SPUG does not have any means to finance the expected budget deficit except from the collection of the monthly cost adjustments. (NPC-SPUG)</p> <p>Has to be clearly defined.</p> <p>Exception clause is so nebulous that it provided the ERC with too much latitude to interfere with the working of the market (FIRST GAS)</p>	<p>Specify the condition that would compel ERC to issue an exception from Sec. 2-9 (MERALCO & NPC)</p> <p>NPC-SPUG be exempted in the deferment of FCA and FOREX in its effective rates.</p>
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	3. Recovery Period	The proposed max 3 year recovery period is inconsistent with DÉCOR and unreasonable. (COLIGHT)	Acceptable recovery period is monthly.
Sec. 3. Deferred Accounts	Interest Expense Account	Is the interest portion of the CERA also recoverable? This account is huge on the part of NPC. (COLIGHT)	
Section 5. Deferred Currency Exchange Accounting Adjustment	Regulatory Lag	ERC should anticipate how much workload they have to add when all utilities file their applications. How long will ERC decide on the applications? Prolonging the implementation will only burden the consumers if exchange rates improve, or Debt services have been fully paid. (COLIGHT) Cumbersome procedures.	

<p>Section 6. Calculation of the Deferred Accounting Adjustment</p>	<p>No Currency Exchange Formula</p>	<p>-</p>	<p>T = The total estimated <i>kWh</i> sales for the recovery period</p>
	<p>DAA Formula</p>	<p>Definition of “T” (COLIGHT)</p>	
	<p>Currency Exchange Adjustment</p>	<p>Silent on the nature of currency adjustment</p>	
<p>Section 8. Carrying Charge</p>	<p>91-day TBill Rate</p>	<p>91-day TB rate is inadequate to cover interest expense for the additional working capital that DUs may invest to finance the deferred incremental cost. (COLIGHT)</p>	

<p>General</p>	<p>Rationale of DÉCOR and DICER</p>	<p>No need to change the current mechanism (DECORP, DAVAOLIGHT, COLIGHT)</p> <p>Deferral should not be more than one month (TARLAC)</p> <p>Unreasonable recovery period. Automatic cost adjustment should be an integral part of ratemaking and changes should be made monthly. This is intended to maintain 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. (DAVAOLIGHT)</p> <p>The use of DÉCOR and DICER is a departure from the usual practice of using automatic mechanisms for the recovery of purchased power and foreign exchange losses. (MERALCO)</p>	<p>Rename PPA to DÉCOR but the mechanism should still be the same</p>
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	<p>The Rules negate the original intent of adjustment clauses</p> <p>Provision for Franchise Tax</p>	<p>Aggravation of the financials of the DUs, especially during periods of volatilities, without providing real relief to consumers, who eventually also shoulder the burden of reimbursing utilities for the carrying costs incurred from the deferral. ERC's involvement in the process can be limited to ensuring that there is no "over-recovery".</p> <p>The recovery should correspond to the revenues derived from recovery of the incremental cost. (COLIGHT, DAVAOLIGHT)</p>	<p>Deferment should be made optional upon distribution utilities.</p>
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	<p>Impact on Cash Working Capital</p>	<p>Cash working capital must be increased to compensate for the deferred incremental cost. In which case, working capital should earn a reasonable return. (COLIGHT)</p> <p>Additional working capital is needed by the DU to compensate for the accumulated incremental cost of power. (DAVAOLIGHT)</p> <p>Cash flows will suffer undermining their ability to stay in business. (CEPALCO)</p>	
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	<p>Transfer of burden</p>	<p>Deferring recovery of cost of power to a later time will eventually result to unjustified transfer of cost burden to other customers especially if customer's consumptions fluctuate over time with the market situation. (COLIGHT)</p> <p>Unfair to other users because the burden of deferral may fall on other customers not commensurate to their actual consumption[e.g. industrial & commercial consumers] (DAVAOLIGHT)</p> <p>Provide wrong signal when timing of recovery would not coincide with the right economic conditions. (CEPALCO)</p>	
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	<p>Pass through</p>	<p>In case the deferred incremental cost is essential to delay the pass through of unused contracted power, it should be limited only to affected utilities. (COLIGHT, DAVAOLIGHT)</p> <p>Defeats the very purpose of an adjustment clause. Recoveries are not supposed to provide added margins for the utility, these are merely “passthroughs.” Any attempts at controlling their recovery will severely compromise their operations. (CEPALCO)</p> <p>Pass through for cost beyond DUs control should be automatic, without an automatic adjustment, there will be no matching of recoveries to added cash expenditures. (CEPALCO)</p>	
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	Accounting	The degree and volume and volume of accounting is so overwhelming that such submission will also overwhelm ERC. (FIRST GAS)	
	Timing	The rules are silent on the timing applicability of the DÉCOR and DICER. Under a fully deregulated market, it is expected that no artificial “cap” should be placed on the generation cost to ensure genuine competition. (FIRST GAS)	

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as of 14 February 2003