

VISAYAN ELECTRIC COMPANY INC.  
Cebu City



**ADDITIONAL COMMENTS on the Deferred Energy Cost Recovery (DÉCOR)**

- Most distribution utilities are purchasing power from NPC and/or Independent Power Producers (IPP). Although there are a few that are self-generating for back-up or stand-by power, but not as the main source. A self-generating (fully or partially) distribution utility means its generating assets are still part of the company's rate base.
- Distribution utilities that no longer own and generate its own power need to recover and/or pass-on to its consumers any changes in the cost of its purchased power from its suppliers (NPC/IPPs). These changes in cost of purchased power are beyond the control of the distribution utility company.
- ERC has set the unbundled generation rate of the distribution utility based on the prevailing average cost of purchased power. If there are changes in the cost of purchased power the basic generation rate may have to be adjusted through rate application/petition with ERC. But due to regulatory lag, it may take time for ERC to hear, evaluate and approve such generation rate adjustment petition. **Hence a need for an automatic recovery mechanism or adjustment clause to allow the distribution utility to correspondingly recover changes in the cost of purchased power from the suppliers, duly approved/authorized by ERC.**
- The proposed Deferred Energy Cost Recovery (DÉCOR) is practically similar to a petition for a rate adjustment in the utility's existing unbundled generation rate. Again due to regulatory lag in the approval of DÉCOR, considering there are hundreds of distribution utilities and electric cooperatives, the utility will have to bear the consequences of such lag. The proposed DÉCOR will result in the following:
  - <sup>additional</sup> ~~the~~ working capital requirements of the distribution utility company
  - the prescribed 3-year recovery period will pose a problem to the utility when open access and retail competition will be in effect; the utility may have to recover yet the DÉCOR thus making its ~~the~~ generation charge at that time no longer competitive for the contestable market.
  - the cost recovery from customers with disconnected/terminated service can no longer be collected

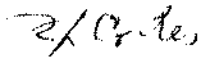
The distribution utility may opt to file a petition for a generation rate adjustment rather than a DÉCOR which is recovered on a staggered basis.

- **Instead of DÉCOR it is suggested that distribution utilities shall be allowed to have an automatic recovery mechanism for changes in the cost of purchased power (excluding transmission cost) from suppliers approved by ERC.**

- The adjustment formula shall consider the following:
  - ERC or ERB-approved power supply agreement
  - The purchase price of the utility from its various power source that were used by ERC in setting the utility's unbundled generation rate. This price shall be the reference price in the adjustment formula.
  - The actual power bill (both the peso value and kwhr supply) from the utility's various supplier.
  - The ERC approved systems loss cap and company use

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By:

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