“MATRIX OF STAKEHOLDER’S COMMENTS ON THE COMMISSION RESOLUTION OF THE NGCP’S ISSUES PAPER 2016-2022”

ANNEX “C”

No.	Page /Section No.	Stakeholder	Discussion of Comment/s and/or Question for Clarification	Suggestions/Proposed Changes	ERC Staff Initial Position
1	Pages 7 to 11 2.1 Section 2.4 Classification of Services	TRANSCO (T.1)	1. The Regulatory Asset Base (RAB) should be limited to assets that are used in the regulated transmission services of NGCP. Assets that serve specific customers of NGCP should not be included in the RAB. The return of assets (depreciation), return on assets and the costs to operate and maintain them as well as taxes attributable to income from these assets should be appropriately charged to those who benefit from them. This will prevent cross subsidies amongst the customers of NGCP and maintain economic efficiency. 2. Specific to the Transmission Connection Assets (TCA) for which NGCP avers it is not recovered, may we know if these are the same assets which NGCP says have been omitted from the asset valuation based on the SKM Supplementary Report dated March 2, 2010? The amount of missing assets reported therein is PhP2,285,819,012. 3. The Commission also mentioned that “…those eight (8) electric cooperatives that were included in the Motion for Reconsideration filed by PHILRECA, should be transferred to the RAB in the next reset.” TransCo asks for clarification since in the Third Regulatory Reset Final Determination, under Section 5.23 Rate Arrears – Transferred Assets, the Commission has already allowed the charging of the associated unrecovered connection charges for 2006-2010 to the 2011 unsmoothed MAR. As early as the Second Regulatory Period, these assets have essentially been deemed as part of the RAB.	TransCo agrees with the position of the Commission that TCAs with no recovery should be addressed through a true-up in the relevant Connection Charges and Residual Sub-transmission Charges (CC/RSTC) application. The reconciliation should not be through the MAR/RAB.	1. TCA and RSTA are not part of the RAB. However, Resolution No. 4 Series of 2013, provides that RSTAs with two (2) or more connected DUs, other than those listed in Annex "A" of the said resolution, are reverted to NGCP's RAB effective January 1, 2013. 2. This will form part of the review during the next reset process. 3. The matter on the eight (8) ECs will be subject to appropriate proceedings and review.
2	2.1 Section 2.4 Classification Service	MERALCO **(M.1)**		We recommend that the RTWR should categorize NGCP’s assets consistent with other rules and regulations promulgated by the ERC, namely ERC Resolution No. 23, Series of 2016 and the proposed amendments to the OATS Rules.	Yes, NGCP’s asset should be categorize consistent with other related rules and regulations such as the OATS and Res 23 as much as possible. Further, the Commission ensures that existing rules and regulations have been properly reviewed and amended, as necessary, given the realities of the times.
3	Page 13, 2.2 Section 5.2 Price Control Formula	TRANSCO (T.2)	In the forthcoming regulatory period, volatility in input prices and capital costs may warrant an adjustment in the Maximum Allowable Revenue of regulated entities, among other factors.	The Commission should establish clear conditions that will warrant an automatic correction to the MAR and the mechanism for such automatic correction.	Any correction to the MAR or warrant for a re-opening and adjustment events needs to be applied to the

				The trigger conditions should be symmetric on both the positive and negative aspects. For instance, the adjustment should not only be on account of major forecasted acquisitions beyond a certain threshold, but also on account of major projects that do not proceed, at the same threshold. As an additional suggestion, the Commission can direct the breakdown of the MAR arising from the price control formula into the corresponding amounts of the building blocks (OPEX, WACC recovery, Taxes and Depreciation).	ERC and is subject to the Commission's evaluation. Thus, Section 12.13.1 States that: *Section 4(e), Rule 3 of the Implementing Rules and Regulations (IRR) of R.A. No. 9136 should be strictly adhered to in all applications filed with the ERC for rates and other relief affecting consumers. Any application that would lead to revenue recovery on the part of Regulated Entity and therefore give rise to an adjustment in rates for consumers (which could be an increase or decrease), including applications for applying pass-through costs and re-opening events for recalculating the X-factor, should comply with Section 4(e), Rule 3 of the IRR and the ERC's Rules of Practice and Procedure.*
4	Page 15, 2.3 Section 3.3 Values of W1 and W2 in the CWI Computation	TRANSCO (T.3)	"The review of the ERC's implementation of Performance-Based Regulation (PBR) is aimed at making the rate setting mechanism, simpler, less complicated and more responsive to the evolving electricity industry." (Emphasis provided.) The CWI adjusts the MAR at t-1 to prices that prevail at time t. Such adjustment is meant to restore the purchasing power of the cash flows of the investors of the regulated entity. W2 is presumably meant to restore the purchasing power of cash flows in replacing/putting up assets that are purchased in foreign denominated currencies. The MAR should be adjusted only to restore the purchasing power of the investors. As such, CWI should be limited to W1. The higher costs of imported equipment will still be fully recovered since these are valued in PhP and will be part of the asset base.	In line with its goal to simplify the rate setting mechanism, the Commission should consider the Consumer Price Index (CPI)-based inflation rate as the sole basis for the change in weighted index for regulatory year t (CWIt). Using the CPI-based inflation rate allows the revenues from regulated transmission services to increase in accordance with the general rise in consumer goods in the country and, consequently, restores the purchasing power of the investors of the regulated entity. In the event that the Commission will maintain W1 and W2, a regulatory guidance document should be established to institutionalize the determination of these variables. The proposal of NGCP should be based on this guidance document.	The Regulated Entity is in better position to provide such values for W1 and W2. Thus, they are allowed to propose as such in their revenue application. Further, the Transco's proposal shall be considered as the Commission finalizes these Rules or adopts other related rules in line with the rate setting mechanism.
5	Page 16, 2.4 Section 12.9	TRANSCO (T.4)		A guidance document should be established to define the scope of the foreign exchange rate adjustment and the corresponding mechanism for such adjustment.	The Regulated Entity is in better position to provide such exchange rate

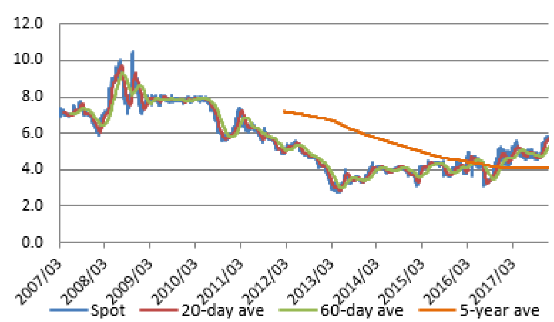
	PhP/$US Exchange Rate Adjustments			Should the Commission maintain a foreign exchange rate recovery mechanism in the RTWR, such mechanism should be revenue neutral. Foreign exchange losses and gains should be properly substantiated by the NGCP and result in appropriate tariff adjustments.	adjustments but subject for ERC's evaluation. Thus, Regulated Entity is allowed to propose in their revenue application such Exchange rate adjustments.
6	Page 19, 2.6 Section 5.5 Primary Building Blocks	TRANSCO (T.5.1)	*1.* Risk and uncertainty i. The regulated entity is expected to identify, quantify, and manage its enterprise risk. The costs of managing risks are presumably recovered in the operating expenses of the regulated entities. ii. As regards market risk, the weighted average cost of capital incorporates a risk premium to account for the appropriate magnitude of market risk	i. It is not necessary to add a building block to account for operating risks. ii. The regulated entity should not be accorded other premiums for risks that can be diversified by investors.	Given the developing nature of the regulatory environment, especially performance-based regulation, in the Philippines and the fact that many of the regulatory decisions may still be subject to challenges and delays while the processes are embedded, Regulated Entity face an unusual degree of regulatory uncertainty. Section 4.5.4 of the RTWR, states that: When undertaking the economic and financial analysis to determine the ARRt , the ERC will adequately compensate the Regulated Entity for all identified and **justifiable risks inherent in an electricity transmission business** in the Philippines
7		TRANSCO (T.5.2)	*2.* Working Capital i. The proposed resolution "allows the NGCP to recover its actual working capital requirement for the past five years, to be submitted together with the regulated entity's reset application, subject to the Commission's review."	i. A detailed guideline can be incorporated in the prevailing rules that govern the recovery of working capital. It should include provisions on the treatment of Commission-approved level of bad debts and the recovery of receivables which were earlier considered as bad debts. The latter should be appropriately considered as a cash inflow that lowers the revenue requirement of the regulated entity. NGCP proposes to add an additional buffer on Bad Debts to cover uncontrollable non-paying customer. But again, Working Capital is a provision for cash outflows hence bad debts should not be included in the determination	Please be guided that under Section 2.15.2 of the Issues Paper, working capital is calculated in accordance with Clause 4.9 of the RTWR and is set as a proportion of the difference between real operating and maintenance expenditure and the real amount of bad

				of the level of the WCA. Regulated entities are not allowed to charge its customers for self-insurance and speculative expenditures.	debts for a Regulated Transmission System. Also, Section 2.15.5 of the Issues Paper, The ERC may allow the Regulated Entity to recover its latest actual working capital requirement of its regulated transmission business based on its Audited Financial Statements such that it should reflect its lead/lag analysis for the past five (5) years and pro-forma cash flow calculations, to be submitted together with the regulated entity's reset application, subject to the review of the ERC.
8	Page 22, 2.7 Section 5.6 Asset Valuation	TRANSCO (T.6)	The proposed resolution finds it "more appropriate to update regulatory asset base for the next regulatory period using the rolled-forward approach." TransCo agrees with the rolled forward approach to update the regulatory asset base which has already undergone the Optimized Depreciated Replacement Cost (ODRC) valuation in the previous regulatory period. And the use of optimized, depreciated historical/acquisition cost approach on the assets procured during the 3rd regulatory period which will be approved as part of the updated RAB.	The rolled-forward approach should be detailed prior to the determination of the Commission. Stakeholders should be allowed to comment on the proposed rolled-forward approach.	Stakeholders are allowed to give comments on the valuation methodology to be used or adopted for the 5th RP of NGCP.
9	2.7.5 Commission's Resolution	MERALCO **(M.2)**	For utilities under PBR, a transition to rolled forward approach considering that one regulatory period is already completely delayed by the time of a reset decision is made results to a very long time where asset values have not moved with respect to uncontrollable movements in prices of goods. It is fair to index RAB by inflation up to the latest regulatory period.	We suggest that the RAB values be indexed for inflation from the last ODRC valuation to the latest period.	There are two methodologies described in the RTWR (a) revaluation and (b) rolled-forward. The optimized deprival method is an example for a revaluation methodology. Other example for revaluation methodology would be "indexation" (discussed under the 3RP RTWR). Further, the Commission excludes the

					addition of inflation factors at the time of roll forward RAB calculation. The Commission shall consider the application of any inflation factor only once, either thru the RAB or WACC.
10	2.7 Section 5.6 Asset Valuation; 1.7.1 RTWR Provision; 2.7.1 Issues Unplanned CAPEX; 2.7.3 NGCP's view; 2.7.4 Stakeholders' Position; and 2.7.5 Commission's Resolution.	ABOITIZ **(A.3)**	All unplanned capex approved in the 3rd regulatory period and subsequent years should be included in the Opening RAB in 2021. For any unplanned CAPEX after 2021, specifically those related to new power plants, we recommend that the PIPPA proposal be adopted by the Honorable Commission. As we understand, the proposal of PIPPA consists of two processes – 1. Forecasting of CAPEX; and 2. Recovery of NGCP. The forecasting of CAPEX for new power projects may be in the form of generic projects or unidentified projects, or listing of possible projects with probabilities. The final CAPEX to be implemented shall still be approved by the Honorable Commission before implementation by NGCP. For the recovery of NGCP, the proposal states that there will be a G factor. The basic MAR formula should not be affected by this proposal. Instead, NGCP may be able to recover unplanned CAPEX in a more efficient way. This will lessen the CAPEX burden of the power plant, thereby increasing competition in the generation sector.	We note that this issue is related to Section 2.11 on CAPEX Forecast. Since the CAPEX forecast used is only for committed projects, then we can expect that there will be a significant number of unplanned CAPEX during the implementation of the regulatory period. Another issue is the recovery of these unplanned CAPEX. Specifically, for requirements of new power plants, there might be a need to introduce another factor in the recovery mechanism.	Generally, all Unplanned Capex should be considered in the opening RAB before proceeding in the next reset. At least this should be already completed. We can avoid significant unplanned capex if reliable planning process is achieved by the stakeholders particularly on the generation side. The unplanned CAPEX is considered as re-opening events under Article XII of the Revised RTWR.
11	Page 24, 2.8 Section 5.7 Rolled Forward Regulatory Asset Base	TRANSCO (T.7)	The Commission proposed to develop a RAB Handbook. 1. *<u>Review of the Asset Register Template;</u>* • TransCo agrees with the review using as reference the Asset Categories enumerated in Section 4.6.5 of the RTWR and 2008 SKM Asset Valuation Report. 2. *<u>Revisit the replacement costs of transmission assets;</u>* • With the required revisit of the replacement costs, is there a possibility or need to conduct another asset valuation by an independent appraiser? Same with the 2004 and 2008 SKM Valuation? Or will the revisit entail review of/consider alternative method of valuation as well? - i.e., optimized, depreciated, acquisition cost, etc.? By looking at the Reset Timelines for NGCP-4th and 5th RP, this might be between January 2019 (Finalize RTWR/Position Paper) to July 2019 (Pre-Filing Conference)?	a. TransCo agrees with the development of a RAB Handbook. How the RAB handbook will be developed and what it will contain should follow a clear, transparent and defined process. b. Disposition of Asset i. Disposition of assets should be part of the RAB Handbook ii. In the valuation of disposed assets, the Commission should consider both the transaction value and the rolled forward value of the disposed asset. c. Construction Work in Progress (CWIP) Factor i. In computing for the CWIP factor, the Commission may employ the WACC.	The process of the rolled-forward approach can already be incorporated in the Issues/Position Paper. Agree to consider the disposition of assets.

			3. *<u>Provide a review and audit information and process to assess the actual existence and condition (use and usefulness/idle/retired) and actual costing (historical/acquisition cost) of all transmission assets;</u>* • Will the conduct of physical inventory for 100% of the population, to assess the actual existence and condition of all transmission assets, be required/ considered? 4. *<u>Latest Approved Opening asset value to be rolled forward;</u>* • Does the Opening asset value pertain to the Opening RAB in the 3rd Regulatory Period? 5. *<u>Treatment of any difference between the replacement costs of assets procured after the Re-valuation Date and the same asset included in a Regulated Entity's financial accounting base;</u>* • What will be the mechanism to determine the Replacement Cost of assets procured after the last revaluation or the 2008 SKM Valuation? Is there a possibility that another revaluation has to be conducted? Or will the Commission consider another alternative method of valuation or just consider acquisition cost of the assets – optimized and depreciated? 6. *<u>Require a financial auditor/valuation expert to which it will certify the manner in which the information has been processed, the accuracy of calculations, and the consistency of the valuation process with the requirements of the RAB Handbook.</u>* • Who is going to hire the <u>independent</u> financial auditor/valuation expert? Will it be selected from among ERC-accredited entities?	ii. In light of the delay in the fourth regulatory reset, the Commission should estimate the WACC that would have been determined based on the prevailing data at the time of the original regulatory reset.	
12	2.8.5 and 3. Additional Courses of Action	MERALCO **(M.6)**	There is no timeline for the development of NGCP's RAB Handbook. This may impact on the timing of the reset filing.	We suggest inclusion of the of the RAB Handbook timelines for the draft, public consultations and final release.	The process of the rolled-forward approach can already be incorporated in the Issues/Position Paper
13	2.8 Section 5.7 Rolled Forward Regulatory Asset Base	ABOITIZ **(A.4)**	We agree with the rolled forward approach (indexed latest ODRC) on RAB, as this is the more efficient method. We further propose that the RAB Handbook be subject to public consultation.		The process of the rolled-forward approach can already be incorporated in the Issues/Position Paper
14	Page 25, 2.9 Section 5.8 Regulatory Depreciation	TRANSCO (T.8.1)	a. Section 16 (l) of CA 146 provides that the fund will be provided for "amounts required over and above the expense of maintenance to keep such property in a state of efficiency corresponding to the progress of the industry" and that the fund "shall not be expended otherwise than for depreciation, improvements, new constructions, extensions or additions to the property of such public service".	a. The Commission proposes to require the NGCP to set up a depreciation fund in accordance with Section 16 (l) of CA 146. The sinking fund may restrict the optimal use of the regulated entity's funds. The regulated entity should be allowed to decide on how to fund its assets.	Under the RORB, the regulator is only able to review the revenue requirement based on a (historical) test period and not the cash flows for the subsequent years. Hence, to ensure that the funds are available to finance CAPEX requirements, or at

					least to monitor the disbursement of the funds, DUs are required to set up depreciation fund. Wherein the case under the PBR, cash requirements for the next four years are provided, and approved already by the Commission through the Annual Revenue Requirement (ARR). This ARR would also provide for allowance for depreciation. Hence, the requirement to set up a depreciation fund may not anymore be necessary as the depreciation allowance under the PBR is already provided.
15		TRANSCO (T.8.2)	b. The Commission proposes to clarify in the RTWR that the income from sale of disposed assets should be adjusted from the rolled forward RAB. The said income is "equivalent to the income from the sale of the disposed assets that were previously part of the RAB, after deducting any expenses associated with the sale but excluding the value at which the disposed assets were valued to be removed from the rolled-forward RAB."	b. The Commission may want to rephrase the way it describes the income from the sale of disposed asset for clarity. The Commission should be guarded against double counting in the recovery of the expenses associated with the disposal of assets as such expenses may also be classified as a recoverable operating expense. If our understanding is correct, the Commission means this – the rolled forward value of the disposed asset should be removed from the RAB. Accordingly, any OPEX and gain/loss on the disposal of assets should be reflected as part of operating transactions. Accounting Entry: Cash XXXX Opex on the Disposal of Asset XXXX Loss on the Disposal of Assets XXXX RAB XXXX Gain on the Disposal of Assets XXXX	We confirm that the income from disposal is a deduction from RAB and any OPEX and gain/loss from disposal does not form part of the OPEX.
16		TRANSCO (T.8.3)		c. Timing of Asset Disposals should be part of the RAB Handbook	Asset Disposals form part of the roll-forward process.

17	2.9.4 Sinking Fund Require the NGCP to set up a depreciation fund in accordance with Section 16(l) of CA 146	MERALCO **(M.3)**	Depreciation is a recovery of past cost is not related to future investment. Setting up a depreciation fund is not aligned with the concept of the Regulator Depreciation building block under PBR. Future capex investment will be sourced by the regulated entity from fresh capital either through debt or equity, and not from a depreciation fund.	We suggest that the requirement to set up a depreciation fund be removed from PBR rules.	There is no basis for the establishment of Depreciation Fund.
18	Page 26, 2.10 Section 5.9 Weighted Average Cost of Capital (WACC)	TRANSCO (T.9.1)	a. The Commission intends to "use the direct approach to measure the risk-free rate by adopting the average 10-year PDST-R2."	Recommendation: The Commission may consider the following in its determination: i. Instead of using the direct approach, use an average of the direct approach and indirect approach. ii. Use a five-year average daily yields; this averaging period is based on the five-year duration of the regulatory period. It is in contrast to the 26-day averaging period in the second regulatory determination and the 60-day averaging period in the third regulatory period. A longer averaging period is common in regulatory jurisdictions in Europe. It is a more stable measure of expected risk-free rate and, consequently, protects regulated entities and stakeholders from risk-free rate determination that is unusually high or low during the time of regulatory determination. (Refer to the figure below.) Risk-free Rate: 10-year PHP Denominated PH Bonds  Source of basic data: Bloomberg, cut-off: December 2017	The Commission may still consider the direct approach in estimating the risk free rate for the 5RP and subsequent RP since it is deemed appropriate and reasonable considering the availability of the Philippines (local) data which reflects sufficient liquidity. However, the NGCP may propose in its Revenue Application for an indirect approach citing your recommendation. Transco's proposal for the determination of the risk-free rate by averaging the direct and indirect approach may be considered in the reset process.
19		TRANSCO (T.9.2)	b. The Commission intends to introduce the risk adjustment factor, RAf, instead of the traditional Equity Beta to arrive at individually determined risk-based compensation for the use of the investors equity. In the 2016 Rules for Setting Distribution Wheeling Rates, the Commission defined RAf as the average risk factor determined for a	Recommendation: The Commission should reconsider its decision to use RAf. It is recommended to retain the traditional equity beta for the following reasons: i. Notwithstanding the limitations of the traditional capital asset pricing model, CAPM, it remains as the principal model used in the determination of the cost of equity in most regulatory jurisdictions.	The approach of adopting a Raf applicable to the Transmission Company shall be subject to review of the ERC.

<table>
<tr>
<td></td>
<td></td>
<td></td>
<td>specific regulated entity to be used as the multiplier of the Market Risk Premium, to obtain an estimated overall risk exposure for the regulated entity.

To illustrate the determination of RAf for a regulated entity, the Commission presented the following sample computation:
<table>
<tr><th>Risk Category</th><th>Preliminary Adjustment Factor</th><th>Weighting</th><th>Final Adjustment Factor</th></tr>
<tr><td>Environmental</td><td>1.4</td><td>10</td><td>0.14</td></tr>
<tr><td>Peace and Order</td><td>1.5</td><td>20</td><td>0.30</td></tr>
<tr><td>Local Government</td><td>1.2</td><td>10</td><td>0.12</td></tr>
<tr><td>Susceptibility to losses</td><td>1.3</td><td>20</td><td>0.26</td></tr>
<tr><td>Geographical</td><td>1.1</td><td>10</td><td>0.11</td></tr>
<tr><td>Management</td><td>1.3</td><td>10</td><td>0.13</td></tr>
<tr><td>Governance</td><td>1.4</td><td>20</td><td>0.28</td></tr>
<tr><td>TOTAL</td><td></td><td>100</td><td>1.34</td></tr>
</table>
</td>
<td>ii. The use of RAf is not widespread; it is not well-grounded in theory in contrast to the CAPM.
iii. The proposed RAf is based on a combination of diversifiable and non-diversifiable risks. However, the equity shareholders should only be compensated for non-diversifiable risks which are best measured by what was referred to as the traditional equity beta.
iv. The proposed RAf is measured based on risks that are subjectively identified and measured. Each of the risk categories are set within a range of 1.0 and 1.5 which effectively limits the possible values of the RAf within the same range.
v. Should the Commission retain the traditional equity beta, it should be based on empirical evidence on the level of beta in the power industry and the regulatory determinations in other jurisdictions.</td>
<td></td>
</tr>
<tr>
<td>20</td>
<td></td>
<td>TRANSCO
(T.9.3)</td>
<td>c. The Commission considers to adopt a market risk premium, MRP, sourced from a reasonably long time-series of market data on long-term government bonds. The regulated entities are required to submit alternative sources of MRP to the commission subject to its review.</td>
<td>Recommendation:
In the evaluation of the alternative MRP, the Commission should be guided by the following:
i. In view of the long-term nature of the investments of the regulated entity, the MRP should be based on the long-run geometric average yields of the market portfolio and the long-term government bond.
ii. If the Commission will decide to use PHP yield on PH bond, the MRP should be based on the MRP in mature markets like the US. The reason: A country risk premium is implicitly embedded in the risk-free rate measure.
iii. Should the Commission decide to use an indicator for MRP using data on the Philippines or adjust the MRP in a mature market (e.g., using relative volatility), the implied country risk premium should be removed from the risk-free rate to avoid double counting.</td>
<td>Per Section 4.10.6 of the RTWR, The Market Risk Premium (MRP) is a measure of the risk associated with holding a portfolio of equity market assets rather than a portfolio of long-dated government bonds. The premium effectively measures the difference between the long-term average return to investors in the equity market of the Philippines (rm) and the risk-free rate within the Philippines (rf). Due to the smaller size, and potential lower liquidity, of the publicly traded equity market in the Philippines, the absence of history on long-term government bonds with reasonable liquidity and the absence of a reasonably long time-series of market data, the ERC will adopt, for the</td>
</tr>
</table>

					Subsequent Regulatory Period, an MRP of 0.06
21		TRANSCO (T.9.4)	d. The Commission considers to retain the current debt margin of 2.5% but it allows the regulated entities to submit its proposal.	Recommendation: The Commission should reconsider its initial view of allowing the retention of the 2.5% debt margin. In its determination, the Commission should consider the following: i. The debt margin should be estimated based on more recent data on yields of debt instruments issued by corporates or utility firms. The debt instruments should have an "appropriate credit rating" considering the Baa2 Moody's rating of the Philippines. ii. The debt instruments should have an "appropriate tenor". Towards this end, the Commission should consider the tenor of debt instruments of an efficient regulated operator. The commission may use as a reference the tenor of the debt instruments issued by NGCP and other utility firms. iii. Consistent with the recommendation on the risk-free rate, the Commission may want to consider migrating to a long averaging period of five years to estimate of the debt margin. iv. As reference, the Commission may want to examine the actual margin of the debt instruments of NGCP.	The regulated entity may propose a debt margin subject to the review of the ERC.
22		TRANSCO (T.9.5)	e. The Commission considers to retain the debt-to-equity ratio of 67:33.	Recommendation: While the assumed capital structure is within a reasonable range, the Commission should examine more recent data to provide an empirical support in its determination.	Agree and considered in the Issues Paper. Section 6.2.2, In the Final Determination for the Third Regulatory Period, the D/E ratio for NGCP was clarified. NGCP's advised D/E ratio was around 72%:28%, with the expectation that planned repayments would result in the D/E ratio falling to provide an average of 67%:33% over the third regulatory period. The ERC has accepted, from the consultation process and

					the submissions made on the subject that a D/E ratio for the Regulated Entity for regulatory purposes should be close to that actually planned (or observed) by NGCP.
23		TRANSCO (T.9.6)	f. The Commission considers to set WACC subject to re-opening adjustment if Delta WACC >=10% is met.	Recommendation: The Commission should clarify the base of the 10% for each regulatory period.	The ERC at any Regulatory Year may review the WACC used for the current Regulatory Period.
24	2.10.5 Risk Adjustment factor (RAf) will be used instead of the traditional Equity Beta	MERALCO **(M.4)**	The proposed RAf is a significant departure from internationally-accepted methodologies unlike the existing methodology which is based on a standard Capital Asset Pricing Model (CAPM) approach. The RAf allows much room for arbitrariness and subjectivity.	We suggest that the WACC be based on the existing Equity Beta determination which is based on financial theory basis and is calculated from available market data.	The approach of adopting a Raf applicable to the Transmission Company shall be subject to review of the ERC.
25	2.10.5 Explore the possibility if categorizing what are short and long-lived assets in setting the WACC.	MERALCO **(M.5)**	It lock-in WACC for both short and long-term assets is deemed fair for regulated entities. This provides a reasonable expectation during the time the assets were invested on their earning potential rather than be dependent of business cycles that impact on the WACC. Regulated entities can be given the choice to categorize its assets and set lock-in WACC for each. There should also be an option to remain in the currently implemented use of a single WACC. The availability of an option seriously considered during PBR public consultations of DUs.	We suggest that regulated entities be given an option to categorize its assets and provide that appropriate lock-in WACC associated to time when the investment was made or remain to adopt the single WACC for all assets.	Per Section 6.1.11 of the Issues Paper, *The ERC will explore the possibility of categorizing what are short and long-lived in setting the WACC. It is worthy to note that for regulated entity where regulation is inherently long-lived, considerations should be made on the rate of return (WACC) because most of the investments are long-term and the regulated entity need some assurance that it be allowed to lock-in the regulatory WACC. The primary objective is to ensure that the regulated entity would be entitled to a full investment recovery of its regulated assets at an appropriate rate of return. It is recognized that using current data for short-lived assets provides efficient investment signals. However, it is also recognized that there are advantages in using long-term average data, which provide greater stability,*

					reduce re-financing risks for long-lived assets.
26	2.10 Section 5.9 Weighted Average Cost of Capital (WACC); 2.10.1 RTWR Provision; **2.10.5 Commission's Resolution**	ABOITIZ **(A.5)**	We propose that the original methodology on WACC should be retained. We note that the Honorable Commission would like to use a Risk Adjustment factor (RAf) instead of the traditional Equity Beta. However, the Commission also noted that it may need a WACC expert to assist it in the WACC determination. On the other hand, it will be easier and more consistent to all regulated entities if we stick to what we already have --a well-established WACC methodology which was used in the previous regulatory resets of TransCo/NGCP.	We would also like to inquire on how the Honorable Commission plans to review the specific risk profile of each regulated entity? Given the large number of regulated entities (DUs and NGCP), then the Honorable Commission may not have enough resources to review all risk profiles in a timely manner.	The approach of adopting a Raf applicable to the Transmission Company shall be subject to review of the ERC.
27	2.10 Section 5.10 Capital Expenditure Forecast	PIPPA **(P.3)**	We note that in adopting the capex as forecasted in the TDP, we only include capex for committed power projects at the beginning of the 5-year regulatory period. In this case, since this reset is for the 4th and 5th regulatory periods, then the forecast may exceed 5 years. Historically, the realized power projects during the regulatory period are not limited to those under committed projects and there are also significant number of projects under committed which were not realized. Thus, we need another methodology in forecasting transmission and connection projects for new power plants. There is a need to mitigate the risk of being unable to recover what has been spent by the regulated entity on transmission assets needed by Generators to be able to connect to the grid. There is nothing wrong in NGCP adopting the TDP as the basis for its CAPEX Forecast, provided there is flexibility in adding a project, which is of higher priority, in lieu of project or projects, which clearly may be deferred even to the following Regulatory Period, subject to ERC's approval. This is reasonable because the TDP in effect has been developed based on certain assumptions, e.g. committed projects to be supported, some of which will not necessarily push through, but priorities can change over the five (5) year span of a Regulatory Period. We understand that it is not practical for NGCP to also introduce projects not included in their RAB, as NGCP also cannot recover the costs of such projects. Thus, in order for the generator to operate and have a transmission/connection facility, it will then have to construct the needed lines by itself. resulting in additional costs and risks to developers that have the potential to negatively impact the commercial viability of these projects. We believe that changes to the RTWR are required to address this issue to remove unnecessary regulatory barriers to the addition of efficient new generation capacity. New capacity is required to allow for efficient operation of the electricity market, meet the rapidly growing	We propose another methodology to be adopted for capex forecasts of new power projects. We would like to recommend 2 options: 1. including generic projects, and 2. Contingency fund. Option 1. Generic projects A relaxed interpretation of the RTWR, with some minor modifications regarding application and interpretation, and cost recovery mechanism would allow for submission and approval of "generic projects", with timing to be determined based on meeting defined trigger conditions. Generic projects could include: (in increasing order of flexibility): • Transmission works associated with known generation developments that have not yet reached financial close, similar to the disallowed projects submitted by NGCP for the 3RP. The scope and cost of the projects would be known with reasonable certainty, with timing subject to the generator developer securing necessary approvals and financing • Known transmission works that will be required to address known constraints in certain areas of the network, that will be required should new generation of a given capacity seek to connect. For example, "Transmission reinforcement and voltage control associated with up to 500MW of generation connected in southern Luzon". NGCP would identify a number of such projects necessary to facilitate connection of foreseeable but as yet unknown generation projects, with indicative capital costs acting as a cap on eventual project costs. • A capped number of "generic" or "placeholder" projects such as "Generic generator connection #1" etc. These could incorporate capital cost bands (eg 1 valued at	It is proper to adopt capex as forecasted in the TDP that include capex for committed power projects at the beginning of the 5-year regulatory period. This is to avoid inclusion of indicative projects that later may not implemented or delayed further with no specific timeline. With this principle, proper capex planning should always be considered.

			demand for electricity necessary to support the economic development of the Philippines, and fulfil policy objectives.	$50M, 3 valued at $10M, ...) to provide an overall cap on the number of such projects that can proceed within a regulatory period, and the total amount of expenditure that could occur. Option 2. Contingency Fund Rather than having to explicitly identify each potential generation connection project at the time of filing its regulatory proposal for the upcoming regulatory period, NGCP would propose a capped "Generation connection contingency fund" within its proposal. The total budget to be included within the fund would be based on expected cost and volume of likely connection projects, consistent with demand forecasts. The basis of this forecast, and total capped amount would be reviewed and approved by the ERC at the time of its determination for that regulatory period.	
28	Page 28, 2.11 Section 5.10 Capital Expenditure Forecast	TRANSCO (T.10.1)	a. The Commission proposes that the NGCP should adopt the Transmission Development Plan (TDP) for its Capital Expenditure Forecast. The pre-construction activities should only form part of the total cost, if the CAPEX is already completed as NGCP do not start the project unless it is approved by the Commission.	**Recommendation:** i. TransCo agrees on the adoption of the TDP for the capital expenditure forecast. ii. The TDP should be developed and updated together with Transco and other stakeholders. iii. The CAPEX programs that are not consistent with the TDP should be properly justified by the regulated entity.	The capex of NGCP to be filed with the ERC should be consistent with the TDP. However, more detailed and relevant information are required for capex filing with the ERC.
29		TRANSCO (T.10.2)	b. The Commission proposes to retain the provision under Section 4.6.9 of the RTWR.	**Recommendation:** As indicated in item 2.8, the following recommendations are reiterated: i. In computing for the CWIP factor, the Commission may employ the WACC. **ii.** In light of the delay in the fourth regulatory reset, the Commission should estimate the WACC that would have been determined based on the prevailing data at the time of the original regulatory reset.	i. This may be considered in the reset application. ii. A Resolution for the treatment of the lapsed shall be issued by the ERC
30	2.11 Section 5.10 Capital Expenditure Forecast; 2.11.1 RTWR Provision CAPEX; 2.11.2 Issue CAPEX Forecasts; 2.11.3 NGCP's View; 2.11.4 Stakeholders'	ABOITIZ **(A.6)**	We support the PIPPA proposal on the alternative methodology of forecasting CAPEX for new power projects. As we understand, the proposal of PIPPA consists of two processes – 1. Forecasting of CAPEX; and 2. Recovery of NGCP. The forecasting of CAPEX for new power projects may be in the form of generic projects, or listing of possible projects with probabilities. The final CAPEX to be implemented shall still be approved by the Honorable Commission before implementation by NGCP. On the recovery of these assets, the PIPPA proposal is to include another element in the MAR, which is the "G factor". With this, the	It came to our knowledge that PIPPA has raised some concerns on the transmission CAPEX provision for new power projects coming online at the middle of a regulatory period. We note that this concern was not sufficiently discussed in this Issues Paper. Nevertheless, we would like to raise this issue again to the Honorable Commission. The projects included in the CAPEX program of NGCP are only from the list of committed power projects of DOE at the beginning of the 5-year regulatory period. This is an issue since there are a number of power projects realized in the middle of each reset. Thus, there may be a significant	Generally, all Unplanned Capex should be considered in the opening RAB before proceeding in the next reset. At least this should be already completed. We can avoid significant unplanned capex if reliable planning process is

	Position; 2.11.5 Commission's Resolution		proposal aims for NGCP to have a timely recovery for the CAPEX so that the power plants will no longer advance the payment for said projects. We support the PIPPA proposal is as follows: MARt=[MARt-1 {1=CWIt –X}]–Kt +Gt Gt = ∑ [CACP1-n, t - DACP1-n, t] x WACC + ∑ DACP1-n, t + ∑ OACP1-n, t CAPCt is Capex on Approved Contingent Projects (1-n) up to year t DAPCt is Depreciation on Capex on Approved Contingent Projects (1-n) up to year t OAPCt is Opex on Approved Contingent Projects (1-n) commissioned prior to year t WACC is the WACC applicable to the current regulatory period	mismatch on the forecast CAPEX and the CAPEX which are really needed for the power projects. We hope that the Honorable Commission will be open on accepting alternative methodologies in forecasting transmission and connection projects for new power plants.	achieved by the stakeholders particularly on the generation side.
31	Page 31, 2.12 Section 5.11 Operating & Maintenance Expenditure Forecast (Retirement fund adopted by NGCP, following the provisions of RA 7641 should be allowed as recovery forming part of its OPEX)	TRANSCO (T.11.1)	a. The Commission proposes to allow the regulated entity to be reimbursed of its previous actual bad debts subject to sufficient documentary requirements and justifications to be submitted together with the reset application for the Commission's review.	**Recommendation:** i. The Commission should limit the recovery for "actual bad debts". Consistent with the Commission's proposed resolution, it should take into account the subsequent recovery of some bad debts. Towards this end, the Commission should review the reversal of NGCP's bad debts as reported in its financial statements.	This will be considered in the Reset Process. For guidance, under Section 4.6.3 of the Issues Paper, The Regulated Entity should clearly specify the recoveries and written-off of receivables in the application. Such bad debts must also comply with the Bureau of Internal Revenue's requisites for deductibility of bad debts.
32		TRANSCO (T.11.2)	b. The Commission proposes to consider the retirement fund as part of the regulated entity's OPEX.	**Recommendation:** i. The Commission should limit the provision for the Retirement Fund. **ii.** The Commission may set the regulated entity's provision for retirement fund based on the <u>minimum amount</u> mandated by RA 7641. Amounts in excess of the minimum should be borne by NGCP.	Retirement Fund as part of the Regulated Entity's OPEX shall undergo careful review and study based on existing laws and jurisprudence.
33	Page 35, 2.15 Section 5.19 Financial Ratios Analysis	TRANSCO (T.12)	The commission proposes to remove the section on financial ratio analysis.	The Commission should retain the financial ratios requirement as the ratios may flag (drastic) changes that should be looked into.	The Financial Ratios Analysis is retained. For guidance, Section 4.21 of the RTWR
34	Page 36, 2.16 Article VIII Service Quality Measures and Targets	TRANSCO (T.13.1)	a. Setting of Targets	**Recommendation:** 1. TransCo supports the retention of the Ancillary Services Availability Index (ASAI) as one (1) of the eight (8) PIS indicator because of the following:	The Commission shall consider various indicators as part of the PIS.

				i. GO 6.3.1.12 of the 2016 PGC states that: *"The System Operator shall be responsible for determining, acquiring, and Dispatching the capacity needed to supply the required Grid Ancillary Services".* If ASAI will be disassociated with NGCP's actual performance, there will be no more indicators to measure its compliance in procuring enough levels of AS in maintaining the system reliability, adequacy and security during normal and contingent conditions. ii. If NGCP considers the removal of ASAI since it foresees the implementation of reserve market, this would be contrary to its own proposal in ERC Case No. 2017-005RM entitled "In the Matter of the Petition for the Approval of Amended Ancillary Services Procurement Plan" that the method of procurement for Primary and Secondary AS shall be through long term ASPA and should not be included in the WESM Energy and Reserve co-optimization. Further, it is agreeable that the launch of the reserve market does not eliminate the need for long term contracting or ASPA. 2. TransCo also reiterates its suggestion that the confirmation, review and evaluation of NGCP submitted data for Ancillary Services Availability, FOT, SA, SISI, FLC and VLC must be through DOE or its attached technical agencies such as TransCo. 3. TransCo supports the inclusion of the Visayas and Mindanao Grids in the monitoring of ConA as Performance Incentive Scheme (PIS). There is a need to consider the implementation of ConA for Visayas and Mindanao Grid as another PIS measure of NGCP. ConA is the availability indicator that measures the availability of the transmission network elements to effectively transmit energy. It is considered as vital and crucial component in the successful operation of the WESM in determining the energy price in the market. As per GP 5.2.1.1 (c) of 2016 PGC: *"The Transmission Network Provider (NGCP) shall have lead responsibility for Grid planning including:*	

				c) Identifying and evaluating Transmission Congestion problems that potentially cause restrictions in the economic Dispatch and/or increased Outages or raise the cost of service significantly". The ConA monitoring of the three (3) grids will marginally give measures to the ERC in determining the effectiveness of the proposed transmission enhancement projects in the Concessionaire's Transmission Development Plan (TDP) if the said projects will address possible restrictions to the economic dispatch of the generating units.	
35		TRANSCO (T.13.2)	b. Unrecovered Amount	TransCo supports the position of the ERC that the 5% that was not recovered by NGCP should not be included in the 4th regulatory period as under recovery.	A separate Resolution on the treatment of the lapsed period will be issued
36		TRANSCO (T.13.3)	c. Customer Satisfaction Index	To maintain the impartiality and integrity of the survey that will be conducted, the market research organization should report directly to the ERC or to TransCo (the Transmission Assets Owner).	This will be considered during the Reset.
37	2.16 Article VIII Service Quality Measures and Targets; 2.16.2 Issue; 2.16.5 Commission's Resolution;	ABOITIZ **(A.7)**	We support the inclusion of the additional indices in the PIS of NGCP.	We would like to kindly clarify if ASAI, ConA, and CSI were implemented? Furthermore, we recommend that these are adopted for the next regulatory reset, as this goes into the essential functions of NGCP.	The Commission shall consider various indicators as part of the PIS.
38	2.16 Article VIII Service Quality Measures and Targets	PIPPA **(P.4)**	We would like to further seek clarification on the scope and process of implementation of these indices. Moreover, we would like to further clarify whether the MRU calls in any way affect the ASAI and ConA scores. It may be a good determinant of these indices since the presence of MRU calls are either for ancillary support or as a constrained-on plant.	We support the inclusion of 3 more indices which are: 1. Congestion Availability (ConA) 2. Ancillary Services Availability Indicator (ASAI) and 3. Customer Satisfaction Indicator (CSI) These indices should be implemented in Luzon, Visayas and Mindanao. For Congestion Availability, there is a congestion threshold set by WESM for the determination of Price Substitution. It may be reasonable to link this performance index to that said WESM threshold (number of times the threshold has been breached or the amount paid to constrained on generators). For ASAI, the availability may already not be limited to those contracted by NGCP, but will have to include those which were scheduled in the WESM Reserve Market (upon its implementation).	The Commission shall consider various indicators as part of the PIS.

39	Page 40, 2.17 Article IX OPEX and CAPEX Efficiency Adjustments	TRANSCO (T.14)	The concern of TransCo is on the re-forecast that is allowed in the RTWR under Section 9.2.4. and how the variance between the original forecast Capex/Opex and the Adjusted Capex/Opex (re)forecast is treated. For instance, what is the effect of a capital project approved for 3rd RP that was not undertaken by regulated entity during 3rd RP but allowed to be replaced by a different capital project? Note that the original capital project formed part of NGCP's 3rd RP RAB and entitled the regulated entity to a Return on Capital (WACC) and Depreciation.	In general terms, what will be the effect if the original Forecast Capex as approved in the Final Determination is greater than the Adjusted (reforecast) Capex? TransCo believes that the corresponding WACC recovery from the difference and the corresponding Depreciation plus cost of money should be deducted from the regulated entity's revenue requirement. In parallel, the same should hold for the variance on Opex.	This will be considered during the Reset.
40	Page 44, 2.19 Article XII Reopening and Adjustment Events	TRANSCO (T.15)		The trigger levels that will be proposed by NGCP should be substantiated by clear studies and bases.	Regulated Entity's proposal should be supported by studies that will provide substantive basis.
41	Page 45, 2.20 Article IV Independent Experts	TRANSCO (T.16)		TransCo suggests that in the directive that the Commission will issue, it will provide that the Commission will make the decision on which consultants to hire. The NGCP will only handle the hiring process per se and the payment of fees.	Regulatory Experts will be engaged directly by the ERC.
42	Page 46, 2.21 Section 4.6 Land-Related Costs	TRANSCO (T.17)	Under the Final Determination for the 3rd regulatory period paragraphs 5.26.2 and 5.26.3, the ERC categorically stated that "land related CAPEX will not be included in the allowed CAPEX forecast and will not be taken into account when calculating the CEA." There shall be an ex post prudency review that will be undertaken by an independent external consultant as part of the rate setting process for the 4th regulatory period. The current draft resolution of the ERC does not seem to jibe with the 3rd regulatory period FD, may we seek clarity on this?	Transco suggests that the mechanism for the ex-post prudency review be developed as provided in the 3rd regulatory period Final Determination and that TransCo be part of this process considering the magnitude of its ROW exposure.	Under Section 4.11.1, to wit: .. For the Subsequent Regulatory Period, Regulated Entity is allowed a certain amount as provision for funding land-related CAPEX where the net difference between the allowed cost vs. the actual land-related CAPEX shall be recovered by the Regulated Entity. The ERC will develop a methodology for the ex-post prudency review of land-related CAPEX.
43	Page 48 Additional Courses of Action	TRANSCO (T.18)	TransCo wishes to be clarified how the "simultaneous" reset process will be carried out. (To our minds, this is really "consecutive resets in one sitting".) While TransCo understands the intent and has actually anticipated this move, TransCo wants to know, for instance, if the parameters that will be factored in for the 4th regulatory period determination will be as of 2015 (supposed year for regulatory reset), e.g., the parameters for WACC, among others. In the case of WACC, TransCo recommends reckoning to the original regulatory reset period timing.	The Position Paper should clearly outline the reckoning periods for the parameters in view of the "simultaneous" reset process. And, specifically, for the WACC for the fourth regulatory period, parameters should be as of 2015, the last year of the prior regulatory period.	A separate Resolution on the treatment of the lapsed period will be issued.

44	3. Additional Courses of Action The Commission intends to conduct the reset process for the 4th and 5th Regulatory Period simultaneously.	MERALCO **(M.7)**	We would like to ask details on the simultaneous 4th and 5th Regulatory Period (RP) reset. Since the the reset timelines provided by ERC envisions a Final Determination by September 2020 and NGCP would have completed it 4th RP by that time, what mechanisms will the ERC adopt to reconcile the forward-looking nature of the PBR mechanism and the substantial delay experienced by NGCP. Previous Regulatory Resets were always conducted prior the start of the relevant Regulatory Period.	We suggest the ERC provide more clarity of its intent to conduct NGCP's 4th and 5th Regulatory Period.	A separate Resolution on the treatment of the lapsed period will be issued.
45	3 Additional Courses of Action	ABOITIZ **(A.2)**	This is regarding the intention of the Honorable Commission to conduct the reset process for the 4th and 5th Regulatory Periods. We support that the process for the 5th regulatory period to already start. However, there may be issues for the supposed 4th regulatory period. Since this regulatory reset process only started this 2018 when it should have started before the 4th regulatory period (2016) it would be more efficient and prudent if the reset immediately start with the 5th regulatory period. We note that NGCP already have interim MAR approvals for 2016 to 2018, and it is expected that the interim MAR approvals will still be implemented up to 2020. With rates for each year included in the 4th regulatory period determined, capital expenditure projects approved, and all having undergone public hearing, it may be more prudent for the whole process to proceed to the next regulatory period starting 2021, owing to the prospective nature of a regulatory reset.		A separate Resolution on the treatment of the lapsed period will be issued.
46	GENERAL	TRANSCO (T.19)	Republic Act 9511 (Section 9) mandates NGCP to pay a franchise tax of 3% of gross receipts in lieu of income tax and any and all taxes, duties, fees and charges of any kind, nature of description levied, established or collected by any local or national authority on its franchise, rights, privileges, receipts, revenues and profits. In its Final Determination for the Regulatory Reset for the NGCP for 2011 to 2015, the Commission specified in Section 5.20.1 that the "3% national franchise tax will not be included in the MAR but will be recovered through a surcharge on the Regulated Entity's customer invoices". There are proposals to revise the tax levied on NGCP's business. For instance, Henry S. Oaminal (Representative of Second District, Misamis Occidental) introduced House Bill 651 in the first regular session of the 17th Congress, "...withdrawing certain tax exemption privileges granted to the National Grid Corporation of the Philippines (NGCP) amending for the purpose section 9 of the Republic Act No. 9511." The bill proposed a 25-year term limit on the tax privileges of NGCP and provides that it cannot "pass-through charges to the consumers."	Recommendation: In the event that RA 9511 is amended to impose corporate income tax on NGCP in lieu of the 3% franchise tax, the Commission has to review the pertinent provisions in the RTWR on the following: • treatment of the corporate income tax in the primary building blocks as provided in Section 4.5 (Primary Building Blocks); and • the details on the computation of the corporate income tax as provided in Section 4.14 (Calculation of Corporate Income Tax). To establish parity across the different sectors in the power industry, it is recommended that the Commission adopts the same principles that govern the rules in treating corporate income tax and the corresponding determinations in the distribution sector. In the distribution sector, corporate income tax is considered as part of the financial Building Blocks as provided in Section 4.7 of the Rules for Setting Distribution Wheeling Rates (RDWR). The computation of corporate	Section 4.13 of the RTWR outlines the calculation for the Corporate Income Tax

			Incessant petitions to impose corporate income tax on NGCP continue. There is greater likelihood that RA 9511 will be amended to impose corporate income tax on NGCP.	income tax is detailed in Section 4.14, Calculation of Corporate Income Tax. Of particular interest is Section 4.14.4 which states: " 4.14.4 Notwithstanding the actual corporate income tax payable by Regulated Entities, for the Subsequent Regulatory Period, the value of the corporate income tax... will be set to zero for the purposes of determining the allowed revenue requirement in Section 4.7.7" The possible change in the tax regime that governs NGCP will also have an impact in the computation of WACC. If a corporate income tax will be levied on NGCP, interest expense will be considered as a tax deductible expense. This will allow the regulated entity to lower its tax base and, ultimately, enjoy an interest tax shield. Thus, the computation of the WACC should be based on the after-tax cost of debt using either the effective income tax rate or the statutory income tax rate. It is suggested that the Commission includes a provision in the RTWR/Position Paper to address the matter of CIT in case there will be changes to current laws.	
47	General Comments:	ABOITIZ **(A.1.1)**	May we kindly seek clarification on who is primarily responsible for providing the connection of a generator to the grid? It is our understanding that this should still be NGCP.		Generally, its NGCP, as long as connection assets are included in the TDP as committed projects (5-year period).
48		ABOITIZ **(A.1.2)**	We note the proposed amendments in the OATS Rules involving PDS application for generators. We would like to kindly reiterate our position for the status quo implementation of the PDS charge.		Will be resolved in the revision of the OATS rule.
49		ABOITIZ **(A.1.3)**	We kindly suggest focus group discussions to be added in the activities for the draft RTWR.		Issues and proposed resolutions can be submitted to ERC without the need of FGDs. Further, Public Consultation process will be in accordance with the rules of the Commission.
50	General Comments	PIPPA **(P.1)**	Kindly note that the following are the general concerns of generators on the RTWR: 1. Current RTWR does not provide for new but un-forecasted, generation units and its corresponding transmission needs. Thus, generators are forced to carry the cost for the infrastructure. 2. Current RTWR does not provide for full recovery of transmission asset costs for new generators. The recovery period does not allow		1. The inclusion of costs for capex such as P2P, are to be considered only if these assets are eventually declared necessary for

			for interest charges within the 5-year period. Moreover, there is no process provided for the distribution of costs among the primary, and the subsequent users of the new transmission facility constructed. 3. For connection/transmission assets imposed on generators, but designed by NGCP- the generators have no benchmark minimum design requirements and no check-and-balance mechanism on appropriateness and cost-efficiency of the design prescribed. Upon PIPPA's discussion with NGCP and ERC in the last few years, we have determined that the concerns may on how the capex forecasts are determined and the recovery mechanism of NGCP for projects not included in their RAB. PIPPA, therefore, would like to propose to the Honorable Commission some options on the capex forecast and recovery mechanism.		competition/ Transmission. Not all costs sunk by the private GenCos are necessarily transmission assets. Note that it is only on the construction of P2P assets that the Private Sector may be allowed to implement, subject to prior approval by the Commission. 2. If Item No. 1 can proceed accordingly, recovery of cost can be addressed also. If Item No. 1 can proceed accordingly, benchmarking issues will also be resolved.
51	General Comments	PIPPA **(P.2)**	We note that the proposed regulatory reset be simultaneous for 2 periods- 2016 to 2020 and 2021 to 2025. We would like to inquire how the implementation for 2016-2020 be carried out when the period has already passed when the final approval will be issued by ERC.		A separate Resolution on the treatment of the lapsed period will be issued.
52	**Additional Proposals from the RTWR (not included in the Issues Paper)**	PIPPA **(P.5)**	This is supported by Section 5.5 Primary Building Blocks in the RTWR, as follows: *"5.5.1 Subject to Sections 5.6 to 5.12, the ERC may adopt a different Building Block analysis to that set out in Section 4.5 for any Subsequent Regulatory Period (including by altering the relevant Building Blocks)."* Also, in Section 5.10 Capital Expenditure Forecast, it states that: *"5.10.2 The ERC may change its approach to capital expenditure forecasts for Subsequent Regulatory Periods following the Third Regulatory Period."*	The mechanism to recover costs within the current regulatory period is to apply the adjustment in the annual MAR calculation that is already performed, via the addition of an additional factor for unforeseen generation investments, to be known as the "G factor". A relatively simple calculation will be incorporated in the RTWR that computes the G factor amount to be applied in any particular year, comprising: • Accumulated capital expenditure within the regulatory period on approved generator connection projects eligible to be included in the G factor, less accumulated depreciation. • Application of WACC and other parameters already determined for that regulatory period • Potentially an allowance for additional operating and maintenance costs associated with new assets, based on typical operating costs as a percentage of	No need for this if the generators will only seek connection application or informed NGCP of their plan connect to the Grid at least 5 years before for consideration in the reset application. Private GenCos should also be responsible enough to: 1. Ensure that their projects are in the TDP and the PDP-DOE; and 2. Provide for good planning foresight to

				capital costs. New formula proposed is as follows: MAR_t=[MAR_{t-1} {1=CWI_t –X}]–K_t +G_t G_t = ∑ [$CACP_{1-n,\ t}$ - $DACP_{1-n,\ t}$] x WACC + ∑ $DACP_{1-n,\ t}$ + ∑ $OACP_{1-n,\ t}$ $CAPC_t$ is Capex on Approved Contingent Projects (1-n) up to year t $DAPC_t$ is Depreciation on Capex on Approved Contingent Projects (1-n) up to year t $OAPC_t$ is Opex on Approved Contingent Projects (1-n) commissioned prior to year t WACC is the WACC applicable to the current regulatory period	ensure the timely delivery of information to NGCP, for consideration in the Reset Process.

Note:

TRANSCO'S COMMENT DATED 27 JULY 2018 (" T ")

MERALCO'S COMMENT DATED 30 JULY 2018 (" M ")

ABOITIZ POWER' COMMENT DATED 30 JULY 2018 (" A ")

PHILIPPINE INDEPENDENT POWER PRODUCERS ASSOCIATION, INC (PIPPA) COMMENT DATED 30 JULY 2018 (" P ")