



Department of Energy
NATIONAL ELECTRIFICATION ADMINISTRATION
Quezon City

31 May 2005

NEA MEMORANDUM No. 2005-017

TO : ALL ELECTRIC COOPERATIVES

FROM : THE DIRECTOR
Corporate Planning Office

SUBJECT : ERC's Letter Reply to NEA's Comments/Suggestions
on the Proposed Resolution Clarifying the Allocation
of 5% Reinvestment Fund

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Attached for your information and reference is a copy of the above-captioned letter from the Energy Regulatory Commission (ERC).

Please be guided accordingly.

RODERICK N. PADUA



Republic of the Philippines

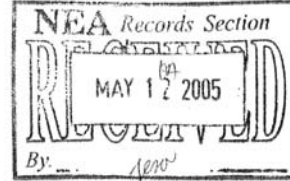
**ENERGY
REGULATORY
COMMISSION**



May 9, 2005



HON. EDITA S. BUENO
Administrator
National Electrification Administration (NEA)



Dear Administrator Bueno,

We sincerely appreciate your comments and suggestions on the Commission's proposed "Resolution Clarifying the Allocation of the 5% Reinvestment Fund."

Provided below are your specific comments and the Commission's corresponding reply:

- 1) The Electric Cooperatives (ECs) are already allocating Reinvestment Funds prior to the unbundling of rates except for some ECs with different rates of allocation other than the 5% Reinvestment Fund which was also approved by the ERC.

ANSWER: Upon the effectivity of the unbundled rates, most ECs effected various reinvestment fund allocations based on their own interpretations. The subject resolution specifically prescribes a uniform allocation of the reinvestment fund from the revenue collected by ECs.

- 2) The provisions in: a. paragraph 5, "WHEREAS, increases in generation and transmission costs..."; b. paragraph 6, "WHEREAS, if increase in gross revenue..."; and c. paragraph 7, "WHEREAS, the aforesaid scenario ultimately ...", may be deleted since all costs are passed-on to consumers, hence, it is understood that any form of increases in power costs will correspondingly increase the rate.

ANSWER: The said provisions were included in the said resolution in order to explain that increases in gross revenue due to generation and transmission costs should neither proportionately increase the ECs' reinvestment funds nor affect their allocations as these are only pass-on costs. The resolution aims to prevent a situation where a portion of the increase in revenue due to increases in generation and/or transmission costs is allocated to reinvestment fund as it should form part of their payments for generation and transmission costs.

- 3) In connection with paragraph 9, "...Electric cooperatives shall allocate their reinvestment funds from Gross Revenue...", although the formula in the subject resolution is correct, it cannot always be expected that the allocated funds will all be collected and at the end of the day, what are maintained/reflected on the ECs' books are only those that were collected.

LOC/gca_NEA_comments on reinvestment 050405

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ANSWER: The formula provided in the resolution prescribes the manner by which the ECs' reinvestment funds are allocated from their gross revenues for a given period based on their kWh sales for the same period regardless of when the transactions are paid or collected.

- 4) The requirements of the ECs are not fully addressed considering that the 5% reinvestment fund is barely sufficient to cover their expansion, rehabilitation program and depreciation expense. As it is now, the ECs are depreciating their assets without the corresponding cost recovery intact in the rate.

ANSWER: The Commission recognizes the fact that the reinvestment fund may not be sufficient to cover the expansion, rehabilitation program and depreciation expenses of the ECs. However, the intent of the said resolution is only to address the issue on the uniform allocation of the reinvestment fund from the revenues collected by them. The Commission will still have to conduct a study on the appropriate level of reinvestment fund.

- 5) Lastly, it is strongly recommended, as a viable way out that the depreciation expense be inputted in the computation of the revenue requirement. It is also suggested that a further review and evaluation of the level of reinvestment from its current level to a specific level of reinvestment needed by the ECs, be undertaken.

ANSWER: As mentioned previously, the Commission will look into the appropriate level of reinvestment fund for the ECs.

Inasmuch as the resolution effectively clarifies the queries regarding the computation and treatment of the reinvestment fund and that the additional comments, suggestions/recommendations from industry players/stakeholders are properly noted, please be informed that the Commission has already signed the resolution on April 7, 2005 effective immediately.

Very truly yours,



ATTY. MARIA TERESA A.R. CASTAÑEDA
Executive Director III

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