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AMENDMENT TO THE GUIDELINES FOR THE RECOVERY OF COSTS FOR THE GENERATION COMPONENT OF THE DISTRIBUTION UTILITIES’ RATES

ERC AMENDMENT TO THE GUIDELINES FOR THE GENERATION COMPONENT, December 22, 2004

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SECTION 1. The following provisions of the Guidelines are hereby amended as follows:

1. Section 3 of Article IV of said Guidelines is amended to read as follows:

> Secondary Limitation on the Recovery of Costs through the Retail Rates - The limitation on recovery of costs for the generation component in the supply of electricity within the Retail Rate of a Distribution Utility determined pursuant to Section 2, Article IV shall not apply to any amount of electricity available under the applicable Regional TSC as demonstrated by the relevant Regional TJC Availability Record. The relevant Regional TSC Availability Record shall be the latest record, as updated, on file with the ERC at the time the Distribution Utility files a rate application with the ERC. In such cases where the Distribution Utility seeks to include generation costs for the supply of electricity in excess of that which is available to the Distribution Utility under the applicable Regional TSC, the ERC shall, using an appropriate methodology of benchmarking, evaluate the reasonableness of such generation costs with reference to technical, environmental, economic and financial criteria including but not limited to the characteristics of the technologies used to provide capacity and energy under the contract, the diversity of fuel sources, the compliance with the existing legislation and government policy, the cost over the term of the arrangement under various scenarios of demand, fuel costs, foreign exchange rates and capital costs, the balance of costs and financial risks incurred, and with reference to the Power Development Plan of the DOE. The ERC shall develop specific guidelines on appropriate methodology for benchmarking on or before March 31, 2005. The evaluation methodology shall be applied to all new contracts or amendments to existing contracts. The Distribution Utilities shall submit all relevant technical, economic and financial data as well as cost analyses supporting the contractual costs it seeks to recover through the generation component in its Retail Rates.

2. Section 1 of Article V of said Guidelines is amended to read as follows:

> Recovery of Costs through the Retail Rates - Subsequent to the expiration of the term of the Regional TSCs, the ERC shall, using an appropriate methodology of benchmarking, evaluate the reasonableness of such generation costs proposed to be included in the Retail Rates of the Distribution Utility to its Captive Market based on technical, environmental, economic and financial criteria including but not limited to the characteristics of technologies used to provide capacity and energy under the contract, the diversity of fuel sources, the compliance with existing legislation and government policy, the cost over the term of the arrangements under various scenarios of demand, fuel costs, foreign exchange rates and capital costs, the balance of costs and financial risks incurred, and with reference to the PDP of the DOE. The ERC shall develop specific guidelines on appropriate methodology for benchmarking on or before March 31, 2005. The Distribution Utility shall submit all relevant technical, economic and financial data as well as cost analyses supporting the contractual costs it seeks to recover through the generation component in its Retail Rates.

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3. Section 2 of Article V of said Guidelines is amended to read as follows:

> Cost Recovery Mechanism - Distribution Utilities shall use the Guidelines for the Automatic Adjustment of Generation Rates and System Loss Rates and Incremental Currency Exchange Rate Adjustment (ICERA), if applicable, as approved by ERC to ensure full recovery of prudent and reasonable economic costs associated with purchased power serving the Captive Market regardless of the source of that power.

4. Section 1 (d) of Article VI of said Guidelines is amended to read as follows:

> d) All details on the procurement process used by the Distribution Utility leading to the selection of the Generation Company including request(s) for proposal, proposals received by the Distribution Utility, tender offers, including a certification that the proposed contract underwent public bidding, etc.

5. Section 2 (e) of Article VI of said Guidelines is amended to read as follows:

> e) All details on the procurement process used by the Distribution Utility leading to the selection of the Generation Company including request(s) for proposal, proposals received by the Distribution Utility, tender offers, including a certification that the proposed contract underwent public bidding, etc.

6. Section 3 of Article VI of said Guidelines is amended to read as follows:

> Bilateral Power Supply Contracts to Serve the Contestable Market - Distribution Utilities and Suppliers may enter into bilateral power supply contracts with any Generation Company for the purpose of supplying the Contestable Market following open access and retail competition subject to the limitations of Section 45 of the Act. Such bilateral power supply contracts are not subject to ERC approval but the Distribution Utility shall, not later than six (6) months from the implementation of such contract, file the bilateral power supply contract with ERC pursuant to Section 45 of the Act. Any costs related to such contracts entered into by a Distribution Utility to supply the Contestable Market shall be separately accounted for and shall not be recovered in their Retail Rates to their Captive Market.

SECTION 2. Separability Clause - If for any reason, any part or section of this Guidelines is declared unconstitutional or invalid, the other parts or sections hereof which are not affected thereby shall continue to be in full force and effect.

SECTION 3. Effectivity Clause - This Amendments to the Guidelines for the Recovery of Costs for the Generation Component of the Distribution Utilities' Rates shall take effect immediately upon its publication in a newspaper of general circulation.

Adopted: 22 Dec. 2004

(SGD.) RODOLFO B. ALBANO, JR.

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