

A Primer on Unbundling of Rates

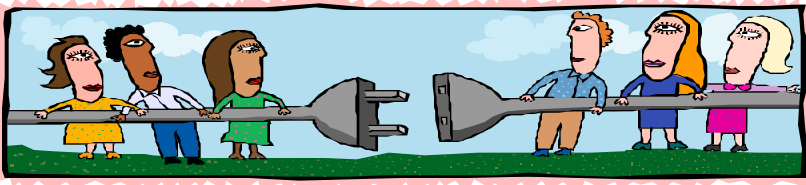


It Pays to Know Your Electric Bill



Energy
Regulatory
Commission

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Q: What is unbundling of rates?

A: The unbundling of rates is the identification and separation of the individual cost for providing each electric service to consumers. The services identified in the Act are Generation, Transmission, Distribution and Supply.

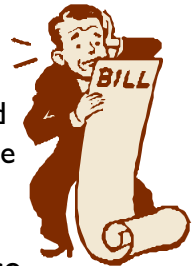
In simple terms, it is the itemization or breaking down of the specific components of electricity bill to make the pricing of electricity more transparent and understandable to electricity consumers.

Q: How does a “bundled” bill differ from an “unbundled” bill?

A: When you examine closely your electricity bill, you do not know exactly how much goes to each particular service you are paying because your bill is still bundled. For instance, the generation and transmission charges are not segregated. This means that the specific cost for generation and transmission of electric power is not reflected in your bill. With an unbundled rate, the consumer will be able to know and understand the components of his electricity bill by showing how much goes to generation, transmission, distribution, metering, supply and other charges. A peso-value will be placed for each component of your bill to arrive at the amount which you are going to pay to your electricity service provider.

Q: What benefit will the consumers get if the rates are unbundled?

A: Once the rates are unbundled, electric bills will become clear and informative and customers of electricity will be able to see the rates of each service they are paying.

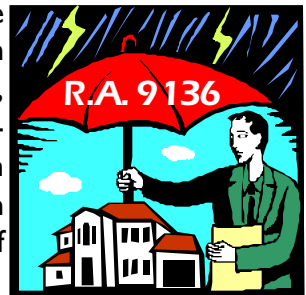


Q: Will the unbundling of rates increase or decrease the rates charged to customers?

A: No. The unbundling of rates *per se* will neither increase nor decrease the rates. However, the use of a new test year may change existing rate levels. It must be noted that the test year prescribed under the Uniform Filing Requirements (UFR) in determining utility revenue requirements was FY 2000 to obtain a closer estimate of the cost of providing electricity service to consumers since the passage of RA No. 9136 in 2001.

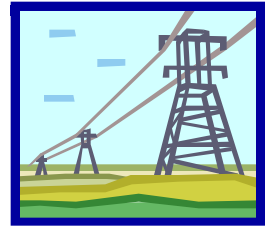
Q: What is the legal basis for filing applications for revised rates by the distribution utilities and the National Power Corporation (NPC)?

A: Section 36 of R.A. No. 9136, otherwise known as the ***Electric Industry Reform Act of 2001*** provides that within six (6) months from the effectivity of said Act (which is on or before December 26, 2001), NPC and each distribution utility shall file with the Commission (ERC) its revised rates, which must be reflective of the cost of providing electricity service.



Q : What are the differences of these rate filings from previous rate cases?

A : The differences are as follows:
(1) The utilities are required in these rate filings to establish separate retail rates for each category of service. This requires the unbundling or separation of all elements of the revenue requirements calculation including operating expenses and rate base so that the required transparent retail rates can be determined for each category of service and each customer class.



(2) The rates determined are to be free from all inter-grid and intra-grid subsidies in the case of inter-class subsidies in the distribution utilities. In words, the rate structure shall reflect the true cost (free of other subsidies) of serving each customer class.



Q : Why should there be a removal of cross-subsidies?

A : The purpose is to reflect the true economic cost of serving each customer class.

Q : How will the removal of cross-subsidies be undertaken?

A : It shall be done gradually to lessen its impact on the consumers.

Q: What is a subsidy?

A: It is the difference between the total customer class cost of service for a particular sector and the price currently being charged by the utility.



Q: What cross-subsidies should be removed?

A: NPC is required to remove the inter-grid (i.e., between Luzon and Visayas Grids) and intra-grid (i.e., within the Luzon Grid) subsidies while the distribution utilities are to remove inter-class subsidies (i.e., between industrial and residential classes). The National Grid is composed of the Luzon, Visayas and Mindanao Grids while Customer Classes include Residential, Large Industrial, Small Industrial, Large Commercial, Small Commercial and Street Light.

Q: What is the impact of the removal of cross-subsidies on the consumers?

A: It may increase or decrease the electric bill of consumers because subsidy costs will be shifted from one customer to another.



If customer A subsidizes customer B by P0.005/kwh, same amount will be added up to customer B's bill.

Subsidized consumers will bear the brunt of the increase in rates as the subsidizing consumers will be relieved from the cross-subsidies.

Q: Will the electricity be free from ALL subsidies?

A: No. The Act provides for lifeline rates for low-income end-users to balance the social impact of rates on the marginalized sector of our society.

Q: What is a lifeline rate?

A: A lifeline rate refers to the subsidized rate given to marginalized/low-income Captive Market End-users who cannot afford to pay at full cost.

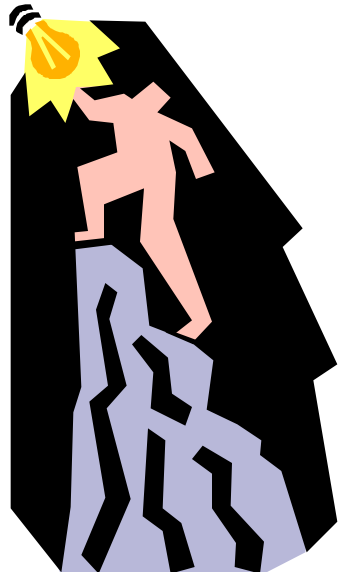


Q: Who are Marginalized End-Users?

A: They refer to low-income, captive, household electricity consumers who cannot afford to pay at full cost and have levels of electricity consumption below a threshold level to be determined by ERC.

Q: Who comprises the Captive Market?

A: The Captive Market comprises the electricity end-users who do not have the choice of a Supplier of Electricity.



Q : How will the consumers be further protected in an unbundled environment once the new caps on system losses are established?

A : The Act requires the Commission to establish new caps on system losses for each utility to replace the cap on the recoverable rate of system losses prescribed in Section 10 R.A. No. 7832. Consumers are further protected because the utilities will be required to improve their services. Technical and pilferage losses will be reduced significantly.

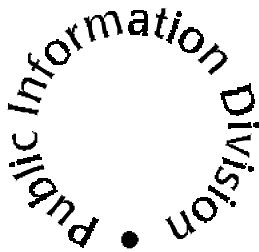
Q : How and when is ERC expected to act on the rate applications?

A : At present, the ERC is conducting a comprehensive review of the rate filings to determine if the utilities have substantially complied with the prescribed filing requirements and the Act, and that the resulting rates are just and reasonable. The ERC is mandated under the law to

act on the unbundled rate applications or before six (6) months from the time the utility has fully or substantially complied with the Uniform Filing Requirements (UFR)

that will enable the Commission to make a sound decision on the basis of the documents at hand.





For more information, please contact the
Regulatory Operations Service
at 634-86-41, 636-33-17, or 634-86-37