



FREQUENTLY ASKED QUESTIONS ON POWER RATE ADJUSTMENTS

Energy Regulatory Commission
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Is there reason for the power rates increases, if so, is the increase in power rates fair and reasonable? These are the common questions that consumers and cause-oriented groups ask every time a power rate hike looms. In this regard, the Energy Regulatory Commission (ERC) came up with answers to these FAQs (Frequently Asked Questions) to enable the consumers and the general public to better understand the facts behind a rate adjustment.

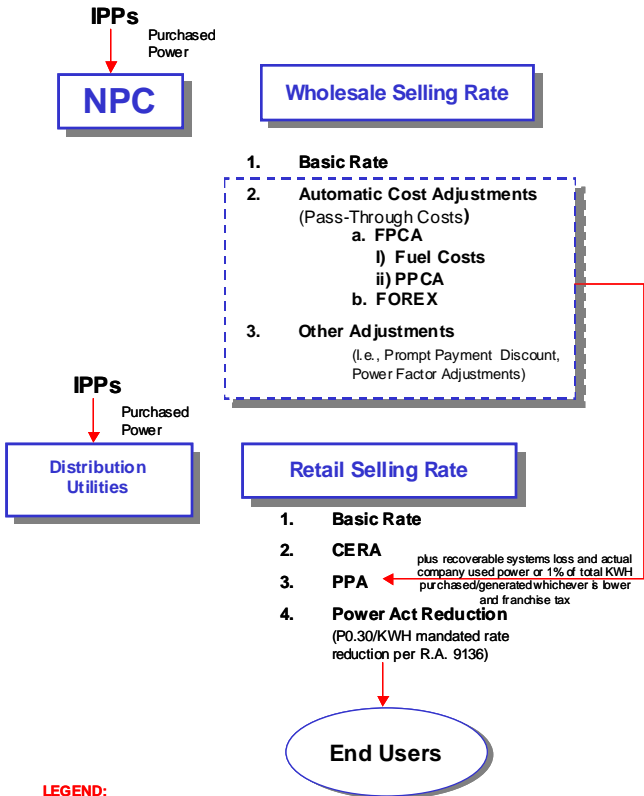
What are the components of an electricity bill?

- A. The components of a typical electricity bill presented to the consumer by a private distribution utility company (i.e., Meralco) include:
1. *The Basic Charge* – allows the utility firm to recover its operating expenses and attain a reasonable return on its investment. In the case of Meralco, it refers to a portion of the Purchased Power Cost equivalent to ₱1.7845 per KWh which has not changed since 1994.
 2. *Currency Adjustment* – covers the increases and decreases in the operation and maintenance expenses and foreign debt principal payments due to changes in the peso-dollar exchange rate. This is expressed as a percentage of Basic Charges.
 3. *Purchased Power Adjustment (PPA)* – covers the increases and decreases in the cost of power bought from the National Power Corporation (NPC) and other power suppliers such as the IPPs. For Meralco, it represents changes in the utility's Purchased Power Cost beyond the base level of ₱1.7845 per KWh. Included in the PPA are (1)

recoverable systems loss, (2) actual company used power or 1% of total Kwh purchased/generated, whichever is lower, and (3) 2% franchise tax

4. *Power Act Reduction* – refers to the mandated rate reduction of P0.30 per KWH pursuant to Section 72 of Republic Act No. 9136. For instance, a consumption of 100 KWH will reduce the consumer’s electric bill by P30.00.

COMPONENTS OF AN EXISTING ELECTRICITY BILL



LEGEND:

- FPCA – Fuel Purchased Power Cost Adjustment
- PPCA – Purchased Power Cost Adjustment
- FOREX – Foreign Exchange Adjustment
- CERA – Currency Exchange Rate Adjustment
- PPA – Purchased Power Adjustment

Q. How is the PPA of the power distributor distinguished from the PPCA of the NPC?

A. The Purchased Power Cost Adjustment (PPCA) is a component of the Fuel and Purchased Power Adjustment (FPCA). It reflects the movements in the cost of power that NPC buys from its Independent Power Producers (IPPs). NPC has been authorized by the then ERB (now ERC) to collect these charges from power distributors. The Purchased Power Adjustment (PPA), on the other hand, reflects all the adjustment charges of NPC, plus the changes in the cost of power the distributors buy from suppliers other than the NPC. The PPA also includes system losses and other authorized adjustments. The illustration provides a better distinction between the PPCA and the PPA.

Q. Are the PPCA/PPA charges added income to NPC and distribution utilities, respectively?

A. No. These PPCA/PPA charges are revenue-neutral. The NPC and the power distributors do not get any income from the imposition of the said fees.

Q. What will happen to PPA if the rate is unbundled?

A. PPA will no longer be reflected in your electricity bill because it will be absorbed by some components in the unbundled bill.

Q. Is it fair for a utility firm to charge the consumer a proportionate share of the cost of system losses?

A. Yes. At present, private utilities are allowed to recover a maximum of 9.5% of their system losses while electric co-operatives are allowed to recover up to 14% system loss. System loss is composed of technical and non-technical (pilferage) losses. Unlike gas, electricity cannot be stored; hence, whatever the consumer decides not to use is lost and cannot be recovered. It would only be fair then for the customer to share a part of this loss.

Q. How can the consumer be assured that the power rate charge is fair and just?

A. Section 43 (f) of R.A. 9136, otherwise known as the Electric Power Industry Reform Act of 2001 partly provides that “the rates must be such as to allow the recovery of



just and reasonable costs and a reasonable return on rate base (RORB) to enable the entity to operate viably. The rate-setting methodology so adopted and applied must ensure a reasonable price of electricity.”

Q. Will the distribution utility be allowed to recover all its operating expenses stated in its application?

A. No. Not all expenditures may be allowed by the ERC. These are subject to review and evaluation by the Commission. The expenditures must be justified by the utility, to the satisfaction of the Commission, that:

1. the expense was actually incurred;
2. the expense was necessary in the proper conduct of its business or was of direct benefit to the rate payers;
3. the expense was recurring; and
4. the amount of expenditure was reasonable.

- Q. Is there a limit to the profits of the distribution utility?**
- A. Yes. The rate of return on rate base allowed under existing jurisprudence to a private distribution utility is 12%.
- Q. What are the common reasons cited by electric utilities to justify their recent petition for rate increase?**
- A. The common reasons cited by electric utilities to justify their recent application are as follows:
1. To finance its requirement which would necessitate them to borrow or supplement equity with loans;
 2. To enable the utilities to service its debts; and
 3. To improve and sustain a high level service quality and upgrade its system and equipment to meet the growing demands of customers.
- Q. Are the consumers given the opportunity to be heard first before a petition is finally approved?**
- A. Yes. Public hearings are held to allow all parties concerned to air their views and clarify issues with the petitioner. These public hearings are conducted with the petitioner and designated representatives of all parties concerned in attendance. The schedule of hearings of unbundled rates applications is published in newspapers and/or announced through radio and television. Under R.A. No. 9136, the ERC is mandated to act on the unbundling of rates applications on or before six (6) months from the time the utility has fully or substantially complied with the Uniform Filing Requirements (UFR) prescribed by the Commission.

