



Republic of the Philippines
ENERGY REGULATORY COMMISSION
San Miguel Avenue, Pasig City

GUIDELINES FOR THE CALCULATION OF THE OVER OR UNDER RECOVERY IN THE IMPLEMENTATION OF SYSTEM LOSS RATE BY DISTRIBUTION UTILITIES

Pursuant to Section 43(f) of Republic Act No. 9136 otherwise known as the Electric Power Industry Reform Act of 2001 (EPIRA), the Energy Regulatory Commission (ERC) hereby adopts and promulgates these guidelines to establish a process for the calculation of the over or under recovery in the System Loss Rates by Distribution Utilities (DUs).

ARTICLE I

GENERAL PROVISIONS

These Guidelines shall have the following objectives:

- a) To ensure transparent and reasonable prices of electric power service in a regime of free and fair competition and to achieve greater operational and economic efficiency;
- b) To ensure full recovery of the system loss due to adjustments in the cost of generation and transmission;
- c) To protect the public interest as it is affected by the rates and services of DUs; and
- d) To ensure and maintain the quality, reliability, security and affordability of the supply of electric power.

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ARTICLE II

SCOPE AND DEFINITION OF TERMS

Section 1. Scope - These Guidelines shall apply to all Distribution Utilities

Section 2. Definition of Terms - As used in these Guidelines, the following terms shall have the following respective meanings:

- a) **“Act”** unless otherwise stated, shall refer to Republic Act No. 9136, otherwise known as the “Electric Power Industry Reform Act of 2001;
- b) **“Distribution Utility”** refers to any electric cooperative (EC), private corporation, government-owned utility or existing local government unit which has an exclusive franchise to operate a distribution system in accordance with the Act;
- c) **“Energy Regulatory Commission” or “ERC”** shall refer to the regulatory agency created under Section 38 of the Act;
- d) **“System Loss Rate”** for the purpose of these guidelines, shall refer to the charge associated with the system loss of the DU which has been determined by the ERC in the Unbundling Decisions of the DUs.

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ARTICLE III

CALCULATION OF OVER OR UNDER RECOVERY IN THE SYSTEM LOSS

Section 1. The Commission allows for the one-time refund or recovery of the over or under recovery on the DU's system loss charge caused by adjustments in the generation and transmission cost from the time they implemented their unbundled rates up to the effectivity of the Guidelines for the Automatic Adjustment of Generation Rates and System Loss Rates by Distribution Utilities. System loss rate in the calculation of Adjusted System Loss charge should be pegged at the same level as provided in the approved unbundled rates of the DUs.

Section 2. Adjustment Formula – The calculation of the over or under recovery in the implementation of the system loss rate to effect the refund or collect thereof from the time they first implemented their unbundled rates up to the effectivity of the Automatic System Loss Rate Adjustment Mechanism in November 2004 shall be based on the following formula:

System Loss

$$\text{Over or Under Recovery} = \frac{\text{Total Over or Under Recovery}}{\sum_{i=1\dots n} \text{kWh Sales}_i}$$

Total Over or Under

$$\text{Recovery} = \sum_{i=1\dots n} [(\text{Total Adjusted System Loss Charge}_i - \text{Existing System Loss Charge}) \times \text{kWh Sales}_i]$$

Total Adjusted System

$$\text{Loss Charge}_i = [(\text{AGR}_i + \text{ATR}_i) \times U]$$

i = refers to month 1, month 2 until month n , where month 1 refers to the month the DU implemented its unbundled rates and month n refers to the month prior to the implementation of the automatic system loss adjustment

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AGR_i = the actual NPC generation rate for month i if DU is sourcing 100% of its power from NPC; if the DU has source(s) of power other than NPC, it should be the authorized Generation Rate Adjustment Mechanism (GRAM) composite generation rate or the authorized composite generation as provided in the unbundling decision of the DU in the absence of an approved GRAM application for the month i

ATR_i = the authorized Average Transmission Rate of the DU for month i

U = Grossed-up System Loss Rate incorporated in the approved unbundled rates, which is calculated as:

$$\text{System Loss Rate} / (1 - \text{System Loss Rate})$$

Note: System loss rate is inclusive of the allowed company own use

Existing System Loss Charge = the system loss charge incorporated in the approved unbundled rate schedule of the DU

kWh Sales_i = total kWh sales for month_i

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Section 3. Billing of the Over or Under Recovery in the System Loss Rate – The DU shall bill its customers the over or under recovery in the system loss rates calculated in accordance with Section 2 hereof without need of prior ERC approval commencing on the next billing period after this Guidelines become effective until such time that the total amount of over or under recovery has been refunded or collected.

The system loss over or under recovery will be incorporated in the existing system loss rate of the DUs. Hence, the single line item for the system loss rate shall be retained.

ARTICLE IV

VERIFICATION PROCESS

Section 1. Reportorial Requirements – Within 15 days from the start of the billing of the over or under recovery of the system loss in Article III, Section 3, the DUs shall submit to the ERC, all calculations (using the format provided in Annex A hereof) along with supporting documents, including, but not limited to, the following:

- Official receipts of payment of NPC Genco's invoices;
- Monthly Financial and Statistical Report (MFSR) for ECs and M001 and M002 for PUs;
- Other documents deemed relevant by the ERC.

Section 2. Verification – The ERC shall verify the over or under recovery on the System Loss Rate by comparing the adjusted System Loss Rate and the Existing System Loss Rates as provided in the Schedule of Unbundled Rates of the DUs, within twelve (12) months from submission of the documents required under Sec.I hereof. Should ERC fail to verify the over or under recovery in the System Loss Rate within the prescribed period, the rates shall be deemed final and confirmed. Upon completion of the verification process, the ERC shall issue an Order fixing the final adjustment to be included in the system loss rate resulting from said verification. This adjustment shall be implemented in the succeeding period prescribed by the ERC to reflect any over or under recovery. The calculation of the over or under recovery in the System Loss Rate should be expressed in PhP/kWh.

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ARTICLE V

Section 1. Fines and Penalties. Violation of any provision of these Guidelines shall be subject to the imposition of fines and penalties in accordance with the Guidelines to Govern the Imposition of Administrative Sanctions in the Form of Fines and Penalties Pursuant to Section 46 of Republic Act No. 9136 promulgated by the ERC on May 17, 2002.

ARTICLE VI

FINAL PROVISIONS

Section 1. Exception Clause. Where good cause appears, the ERC may allow an exception from any provisions of these Guidelines, if such exception is found to be in the public interest and is not contrary to any law, rules and regulations.

Section 2. Separability Clause - If for any reason, any part or section of these 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 - These Guidelines shall take effect on the fifteenth (15th) day following its publication in two (2) newspapers of general circulation.

Pasig City, _____

RODOLFO B. ALBANO, JR.
Chairman

OLIVER B. BUTALID
Commissioner

JESUS N. ALCORDO
Commissioner

RAUF A. TAN
Commissioner

ALEJANDRO Z. BARIN
Commissioner