



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 LIFELINE RATES 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 a revenue neutral implementation of the Lifeline Rates and Discounts by Distribution Utilities (DUs).

ARTICLE I

GENERAL PROVISIONS

These Guidelines shall have the following objectives:

- a) To ensure that Lifeline Discounts shall be applied to all Marginalized End-users of all DUs;
- b) To ensure that the cost of subsidizing lifeline end-users shall be passed on to all non-lifeline end-users;
- c) To ensure the revenue-neutral position of the DUs in the implementation of Lifeline Rate and Discount;
- d) To protect the public interest as it is affected by the rates and services of DUs; and,
- e) 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 DUs.

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, 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) **“Lifeline Rate”** refers to the subsidized rate given to Marginalized/low-income captive market End-users who cannot afford to pay at full cost;
- e) **“Marginalized End-Users”** refers 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 as determined by the ERC; and,
- f) **“Lifeline Rate Adjustments (LRA)”** shall refer to the over or under recovery incurred in subsidizing lifeline end-users expressed in PhP/kWh.

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ARTICLE III

CALCULATION OF THE LIFELINE RATE ADJUSTMENT

Section 1. Adjustment Formula – All Distribution Utilities (DUs) shall calculate the over or under recovery in the lifeline rate based on either of the following two (2) formulas:

FORMULA A

$$\text{LRA} = \text{Total lifeline Rate Adjustment} / \sum_{i=1 \dots n} \text{kWh}_{\text{NLI}}$$

$$\text{Total Lifeline Rate Adjustment} = \sum_{i=1 \dots n} [(\text{Total Subsidy}_i - \text{Total Discount}_i) \times \text{kWh}_i]$$

where:

$$i = \text{month 1, month 2, \dots, month } n$$

$$\text{Total Subsidy}_i = \text{kWh}_{\text{NLI } i} \times \text{LSC}$$

$$\begin{aligned} \text{Total Discount}_i = & [(kWh_{1i} \times \text{TRate}_i) + (\text{NCust}_{1i} \times \text{PhP5/cust})] \times D_1 + \\ & [(kWh_{2i} \times \text{TRate}_i) + (\text{NCust}_{2i} \times \text{PhP5/cust})] \times D_2 + \\ & [(kWh_{3i} \times \text{TRate}_i) + (\text{NCust}_{3i} \times \text{PhP5/cust})] \times D_3 + \\ & \dots + \\ & [(kWh_{Ni} \times \text{TRate}_i) + (\text{NCust}_{Ni} \times \text{PhP5/cust})] \times D_N \end{aligned}$$

$$\text{kWh}_{\text{NLI}} = \text{Total kWh Sales of the non- lifeline customers for the month } i$$

$$\text{LSC} = \text{Lifeline Rate to non-lifeline customers (as provided in the Unbundling Decision of the DU)}$$

$$\text{KWh}_{1i} = \text{Total kWh sales for the first lifeline level (e.g. 0 -15 kWh) for the month } i$$

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KWh_{2i} = Total kWh sales for the second lifeline level
(e.g. 16-20 kWh) for the month i

KWh_{3i} = Total kWh sales for the third lifeline level
(e.g. 21-25 kWh) for the month i

kWh_{Ni} = Total kWh sales for the last lifeline level
(e.g. 25-30 kWh) for the month i

$TRate_i$ = Total rate for residential customers to include generation,
transmission, system loss, distribution, supply and
metering and loan condonation for the DUs in PhP/kWh
for the month i

$NCust_{1i}$ = Total number of customers for the first lifeline level for the
month i

$NCust_{2i}$ = Total number of customers for the second lifeline level for
the month i

$NCust_{3i}$ = Total number of customers for the third lifeline level for the
month i

$NCust_{Ni}$ = Total number of customers for the last lifeline level for the
month i

PhP5.00/cust/mo. = Fixed metering charge for residential customers

D_1 = Discount rate for the first lifeline level

D_2 = Discount rate for the second lifeline level

D_3 = Discount rate for the third lifeline level

D_N = Discount rate for the last lifeline level

Lifeline levels and corresponding discounts vary per DU. Hence, the subscript N being referred to in the formula stands for the last lifeline level or range of kWh consumptions/sales. If there are 4 lifeline levels assigned for a specific DU, then $N=4$ and the formula will have kWh_1 , kWh_2 , kWh_3 and kWh_4 . The same thing applies for NCust and D.

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FORMULA B

$$\text{Lifeline Rate Adjustment} = \text{Total lifeline Rate Adjustment} / \sum_{i=1 \dots n} \text{kWh}_{\text{NLI}}$$

$$\text{Total Lifeline Rate Adjustment} = \sum_{i=1 \dots n} (\text{Total Subsidy}_i - \text{Total Discount}_i)$$

where:

$$i = \text{month 1, month 2, \dots, month n}$$

$$\text{Total Subsidy}_i = \text{kWh}_{\text{NLI}} \times \text{LSC}$$

$$\text{Total Discount}_i = (\text{kWh}_{\text{LI}} \times \text{TRate}_i) + (\text{PhP5/cust} \times \text{NCust}_i) - \text{Total Lifeline Bill}_i$$

$$\text{kWh}_{\text{NLI}} = \text{Total kWh Sales of the non-lifeline customers for the month } i$$

$$\text{LSC} = \text{Lifeline Rate to non-lifeline customers (as provided in the Unbundling Decision of the DU)}$$

$$\text{kWh}_{\text{LI}} = \text{Total Lifeline kWh Sales for the month } i$$

$$\text{TRate}_i = \text{Total rate for residential customers to include generation, transmission, system loss, distribution, supply and metering and loan condonation for the DUs in PhP/kWh for the month } i$$

$$\text{PhP5.00/cust/mo.} = \text{Fixed metering charge for residential customers}$$

$$\text{NCust}_i = \text{Total number of lifeline customers for the month } i$$

$$\text{Total Lifeline Bill}_i = \text{Total Amount Actually Billed to Lifeline Customers for the month } i$$

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Section 2. Quarterly Calculation of the Lifeline Rate Adjustment - On or before the tenth (10th) day of each month following the end of each quarter, all DUs shall be required to calculate the over or under recovery incurred in the implementation of the lifeline rate for the previous quarter in accordance with Section 1 hereof.

This calculation shall start for the quarter ending June 30, 2005.

Section 3. Calculation of the Lifeline Rate Adjustment from the Implementation of the Unbundled Rates up to the First Quarter of 2005- All DUs shall be required to calculate the over or under recovery incurred in the implementation of their lifeline rates from the time they first implemented their unbundled rates up to March 2005, in accordance with Section 1 hereof.

This calculation shall require prior verification of the Commission.

ARTICLE IV

BILLING OF THE OVER/UNDER RECOVERY IN THE LIFELINE RATE

Section 1. Billing of the Quarterly Over or Under Recovery - On or before the tenth (10th) day of each month for each quarter, the DU shall bill its customers the over or under recovery in the lifeline rate calculated in accordance with Article III, Section 2 of this Guidelines without need of prior ERC approval.

The over or under recovery in the lifeline rate will be incorporated in the existing lifeline rate of the DU's existing non-lifeline customers. Hence, the single line item for the lifeline rate shall be retained.

Section 2. Billing of the Over or Under Recovery from the Implementation of the Unbundled Rates up to the First Quarter of 2005 - The DU shall bill its customers the over or under recovery in the lifeline rate calculated in accordance with Article III, Section 3 of this Guidelines, as prescribed in the Order to be issued by ERC upon prior verification.

Any over or under recovery resulting in the prior verification will be incorporated in the existing lifeline rate of the DU's existing non-lifeline customers. Hence, the single line item for the lifeline rate shall be retained.

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ARTICLE V

VERIFICATION PROCESS

Section 1. Quarterly Reporting Requirements – Except for the calculation of the lifeline rate adjustment from the implementation of the unbundled rates up to the first quarter of 2005, the DU shall submit to the ERC on or before the thirtieth (30th) day of the month following the end of each quarter all calculations related to Article III, Section 2 (using the format provided in Annex A or Annex B hereof) along with supporting documents, including, but not limited to, the following:

For DUs that will be using Formula A

- 1) Frequency distribution by kWh Consumption and Number of Customers for the DU's lifeline customers;
- 2) Sample bills to end-users;
- 3) Official receipts of payment of NPC Genco, other generation sources and TRANSCO's invoices;
- 4) Monthly Financial and Statistical Report (MFSR) for ECs and M001 and M002 for PUs
- 5) Other documents deemed relevant by the ERC.

For DUs that will be using Formula B

In addition to all the items above, the DU shall also include the Total Amount Actually Billed to Lifeline Customers.

Section 2. Prior Verification of the Lifeline Rate Adjustment from the Implementation of the Unbundled Rates up to the First Quarter of 2005 – Prior verification of the lifeline rate adjustment from the implementation of the unbundled rates up to the first quarter of 2005 shall be done by the ERC within six (6) months upon submission of complete documents as required under Section 1 hereof. Should ERC fail to verify the adjustment in the lifeline rate within the prescribed period, the rates shall be deemed final and confirmed.