

**RULES FOR THE CALCULATION OF THE OVER OR UNDER  
RECOVERY IN THE IMPLEMENTATION OF TRANSMISSION  
RATES AND THE CORRESPONDING TRANSMISSION SYSTEM  
LOSS RATES BY DISTRIBUTION UTILITIES**

**2<sup>nd</sup> DRAFT**

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 rules to establish a process for the calculation of the over or under recovery in the Transmission Rates and the corresponding transmission system loss rate by Distribution Utilities (DUs).

**ARTICLE I**

**GENERAL PROVISIONS**

**1.1 Objectives**

- 1.1.1 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;
- 1.1.2 To ensure full recovery of the allowable cost of Transmission;
- 1.1.3 To protect the public interest as it is affected by the rates and services of DUs; and
- 1.1.4 To ensure and maintain the quality, reliability, security and affordability of the supply of electric power.

**1.2 Scope**

- 1.2.1 These Rules shall apply to all Distribution Utilities.

**1.3 Definition of Terms**

**Act** unless otherwise stated, shall refer to Republic Act No. 9136, otherwise known as the “Electric Power Industry Reform Act of 2001;

**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;

<b>Energy Regulatory Commission or ERC</b>	shall refer to the regulatory agency created under Section 38 of the Act;
<b>Net Transmission Cost</b>	Refers to the total charges of TRANSCO including but not limited to transmission and sub-transmission costs, ancillary service, connection service and power cost delivery service billed to the Distribution Utility by TRANSCO <b>net of imbalance charges, cost associated with the avilment of the One-Day Power Sale (ODPS)</b> and value added tax associated with the transmission service. Net transmission costs include only those costs that are prudently incurred, actually paid for, verifiable, reasonable, and are eligible for recovery in accordance with the ERC Regulation.
<b>Transmission Rates</b>	for the purpose of these <b>rules</b> , shall refer to the charges associated with the transmission cost of the DU which has been determined by the ERC in the Unbundling Decision of the DU.

## ARTICLE II

### CALCULATION OF OVER OR UNDER RECOVERY IN TRANSMISSION

**2.1 The** Commission allows for the one-time determination of the over or under recovery on the DU's transmission charges and the portion of transmission in the system loss charge from the time the DUs implemented their unbundled rates up to the effectivity of the Guidelines for the Adjustment of the Transmission Rates (TRAM) by the Distribution Utilities. The transmission rates of the DUs prior to the effectivity of these rules were fixed annually for four (4) years which incorporated the removal of the intra-grid cross subsidies of the National Transmission Corporation (TRANSCO) as provided in the approved unbundled rates of the DUs.

**2.2 Adjustment Formula** – The calculation of the over or under recovery in the implementation of the transmission rates and corresponding transmission system loss rate to effect the refund or collect thereof from the time the DUs first implemented their unbundled rates up to April 2006 **or the month before DU was able to implement new transmission rates in accordance with the Guidelines for the Adjustment of Transmission Rates by DUs**, shall be based on the following formula per customer class:

Transmission  
Over or Under

$$\text{Recovery}_N \text{ (PhP/kWh)} = \frac{\text{Total Over or Under Recovery}_N}{\sum_{i=1\dots n} \text{kWh Sales}_{Ni}}$$

where:

Total Over or Under

$$\text{Recovery}_{Ni} \text{ (PhP)} = \sum_{i=1\dots n} [(\text{Allowable Transmission Cost}_{Ni} - \text{Transmission Recovery}_{Ni})]$$

Allowable Transmission

$$\text{Cost}_{Ni} = \text{Allowable Transmission Cost of Sales}_{Ni} + \text{Allowable Transmission Cost of Losses}_{Ni}$$

Allowable Transmission

$$\text{Cost of Sales}_{Ni} = \frac{(\text{Transmission Cost}_i - \text{PFD} \times 50\%) \times \text{Total kWh Sales}_i \times \text{CP}_N}{\text{Total Purchased kWh}_i}$$

Allowable Transmission

$$\text{Cost of Losses}_{Ni} = \frac{\frac{\text{Transmission Cost}_i}{\text{Total Purchased kWh}_i} \times \text{Total kWh of allowed SL}}{\text{Total kWh Sales}_i} \times \text{kWh Sales}_{Ni}$$

$i$  = 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 Transmission Rate Adjustment mechanism (TRAM)

$N$  = refers to a specific customer class (ex.  $N=1,2,\dots$ , where 1= Residential, 2= Commercial, etc.)

Transmission

$$\text{Recovery}_{Ni} = (\text{Transmission Charge in PhP/kWh} \times \text{kWh Sales}_{Ni}) + (\text{Transmission Charge in PhP/kW} \times \text{KW billing demand}_{Ni}) + (\text{System Loss Charge}_{Ni} \times \text{Transmission System Loss Ratio} \times \text{kWh Sales}_{Ni})$$

Transmission Cost $_i$  = the actual net transmission cost in PhP for the month  $i$

- PFD = Power Factor Discounts availed by the Distribution Utility, net of the Power Factor Discounts given to customers, where:  
Discount passed on to customers  $\leq$  discount availed from TRANSCO for the month i.
- Total Purchased kWh<sub>i</sub> = the total number of purchased energy as provided in the TRANSCO bill for the month i. (This should be net of the kWh that should be excluded from the transmission cost<sub>i</sub>, such as ODPS).
- Total kWh Sales<sub>i</sub> = Total kWh sales of the DU for the month i.
- CP<sub>N</sub> = Coincident Peak allocation factor for customer class N as reflected in the last approved unbundled rates of the DU
- Allowable System Loss Rate = the actual system loss rate or the system loss cap (i.e., 14% for the ECs and 9.5% for the PUs) whichever is lower plus actual company use or the company use cap of 1% whichever is lower
- Total kWh of Allowed SL<sub>i</sub> = the kWh corresponding to the allowed System Loss which can be calculated by multiplying the Purchased kWh<sub>i</sub> by the allowable % system loss rate
- Transmission Charge in PhP/kWh and PhP/kW = Transmission charge in PhP/kWh and/or PhP/kW as applicable to customer class N and provided in the Unbundling Decision of the DU. If the transmission charge for customer N is expressed in PhP/kWh only, then the Transmission Charge in PhP/ kW in the formula should be equal to zero (0).
- System Loss Charge<sub>Ni</sub> = System Loss Charge in PhP/kWh as applied to customer class N for the month i.

## Transmission System

Loss Ratio<sub>i</sub> = The transmission cost portion of the system loss charge for the month i, which is equivalent to  $ATR/(ATR+GR)$ , where ATR and GR are the Average Transmission Rate and Generation Rate, respectively also for the said month i.

KWh Sales<sub>Ni</sub> = Total kWh sales for customer class N for the month i

KW Sales<sub>Ni</sub> = Total kW billing demand for customer class N for the month i

**2.3. Billing of the Over or Under Recovery in Transmission Rates and the Corresponding Transmission System Loss Rate**– The DU shall bill its customers the over or under recovery in the transmission rates and the corresponding transmission system loss rates calculated in accordance with Section 2.2 hereof, **as prescribed in the Order to be issued by ERC pursuant to Section 3.2, Article III of these Rules.**

Any over or under recovery resulting in the prior verification will be incorporated in the existing transmission rates (in PhP/kWh) of the DU's customer bills.

## ARTICLE III

### VERIFICATION PROCESS

**3.1 Reportorial Requirements** – The DU shall submit to the ERC all calculations related to Article II, section 2.2 (using the format provided in Annex A hereof) not later than six (6) months from the effectivity of these **rules, together with supporting documents, which shall include, but not limited to the following:**

- 3.1.1 Invoices from TRANSCO;
- 3.1.2 Vouchers and Official receipts of payment of TRANSCO's invoices;
- 3.1.3 ERC Forms DU-M-01 & DU-M-02; and
- 3.1.4 Other documents deemed relevant by the ERC.

**3.2 Prior Verification** – Prior verification of the transmission rates and corresponding transmission system loss rates from the implementation of unbundled rates up to April 2006 **or the month before DU was able to implement new transmission rates in accordance with the Guidelines for the Adjustment of Transmission Rates by DUs**, shall be done by the ERC within six (6) months upon submission of complete documents as required under Section 3.1 hereof. Verification shall be done on the Transmission Rates and corresponding transmission system loss rates by comparing the Allowable Transmission Costs and Transmission Recoveries (based on transmission rates provided in the

Schedule of Unbundled Rates and the transmission portion of the actual system loss rate of the DU).

Should ERC failed to verify the over or under recovery in the Transmission Rate and the Transmission portion of the System Loss Rate within six (6) months from the issuance of a Notice of Complete Submission (NCS), the calculated rates of the DU shall be deemed final and confirmed.

Upon completion of the verification process, the ERC shall issue an Order establishing the adjustment (over or under recovery) to be included in the transmission rates resulting from said verification. This adjustment, if any, shall be implemented within the period to be prescribed by ERC.

The calculation of the over or under recovery in the Transmission Rate per customer class should be expressed in PHP/kWh.

#### **ARTICLE IV**

##### **FINES AND PENALTIES**

Violation of any provision of these [Rules](#) 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.

#### **ARTICLE V**

##### **EXCEPTION**

Where good cause appears, the ERC may allow an exception from any provision of these [Rules](#), if such exception is found to be in the public interest and is not contrary to any law, rules and regulations.

#### **ARTICLE VI**

##### **SEPARABILITY**

If for any reason, any part or section of these [Rules](#) 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.

**ARTICLE VII**

**EFFECTIVITY**

These **Rules** shall take effect on the fifteenth (15th) day following its publication in a newspaper of general circulation in the country.

Pasig City, August 22, 2006.

**RODOLFO B. ALBANO, JR.**  
Chairman

**RAUF A. TAN**  
Commissioner

**ALEJANDRO Z. BARIN**  
Commissioner

**MARIA TERESA A.R. CASTANEDA**  
Commissioner

**JOSE C. REYES**  
Commissioner