

**Draft Implementing Rules
for the
Recovery of Deferred Fuel and Independent Power Producer Costs:**

Deferred Energy Cost Recovery (DÉCOR)
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Section 1. Definitions.

- a) Unless the context otherwise provides, the following words and terms used herein shall have the following meanings:

Adjustment Date” shall mean the last day of the test period used by a utility for purposes of a deferred generation cost accounting application.

Base Rate” shall mean the initial components of the generation rate established by the Commission.

Carrying Charges” shall mean the amount included in the Deferred Generation Cost Account representing the financing costs associated with the deferred recovery or refund of cost computed at the rate of the 91-day Treasury Bill.

Commission” shall mean the Energy Regulatory Commission created under Republic Act No. 9136.

Deferred Accounting Adjustment” or **DAA**” shall mean the component of the generation rate, calculated in accordance with Section 7 hereof, intended to recover or refund the Deferred Accounting Balance.

“Deferred Accounting Balance” shall mean the amount contained in the deferred generation cost account, and represents the sum of:

1. The difference between the revenue received from the Generation Rate less the Base Rate and DAA and the recoverable costs incurred for fuel and IPP costs;
2. The revenue received from the DAA portion of the Generation Rate;
3. Any refunds from suppliers, including any interest earned thereon; and
4. Carrying Charges.

“Deferred Generation Cost Accounting” shall mean an accounting practice which provides for the monthly deferral of increased or decreased generation costs experienced during a specific period and the amortization of those costs during a subsequent period to the extent that no more or less than actual recoverable generation cost which is prudently incurred is recovered.

“Generation Costs” shall mean costs, other than those recovered through the base rate component, associated with the acquisition of purchased power, and the cost of fuel consumed in the generation of energy from the plants owned by the utility. Generation Costs include only those costs that are prudently incurred, reasonable, and are eligible for recovery in accordance with the current policies of the Commission.

“Generation Rate” shall mean the rate determined in accordance with the formula set forth in Section 6 hereof. Individual generation rates are calculated for each grid for National Power Corporation (NPC).

“National Power Corporation” or “NPC” shall refer to the government corporation created under Republic Act No. 6395, as amended.

“Recovery Period” shall mean a period established by the Commission beginning on the effective date of a new generation rate with the minimum period being three (3) years.

“Test Period” shall mean the period designated by the Commission to be used in the calculation of the generation rate.

“Utility” shall refer to NPC (Main and SPUG), private electric utilities and electric cooperatives under the jurisdiction of the Commission.

- b) Common accounting terms unless otherwise defined herein shall have the technical definitions ascribed under Generally Accepted Accounting Principles (GAAP)

Section 2. Scope.

The provisions of this Rule shall provide for the procedure to be followed for the recovery of Deferred Energy Cost incurred by NPC and any distribution utility that purchases energy from a source other than or in addition to NPC.

Section 3. Deferred Accounts.

Deferred accounts may be used only to carry out deferred generation cost accounting procedures and are not amendments to any other rules of the

Commission. The accounts must be consistent with the provisions of these Rules. The accounts shall be used to record generation costs, deferrals and recoveries on a monthly basis:

1. Purchased Power accounts;
2. Fuel accounts;
3. Deferred Generation Costs accounts;
4. Accrued Utility Revenue accounts;
5. Interest Income accounts; and
6. Interest Expense accounts.

Section 4. Deferred Accounts - Required Entries.

1. A debit entry or credit entry, if negative, to the deferred energy account equal to the cost of fuel and the net purchased power, less an amount equal to the revenue billed during the month under the generation rate reduced by the product of the base rate and the kWh sales for the month.
2. A credit equal to the amount of any cash refund, including interest if applicable, received from its fuel or purchased power suppliers.
3. A debit entry or credit entry, if negative, equal to the product of the previous month's ending balance multiplied by one-twelfth (1/12) of the carrying charge in accordance with Section 9.
4. Contra entries for the entries made in accordance with Subsection 1 hereof are made to the Accrued Utility Revenue accounts.

5. Contra entries for the entries made in accordance with Subsection 3 hereof are made to the interest income and expense account.

Section 5. Deferred Generation Cost Accounting Applications.

1. A utility shall file a deferred generation cost accounting application setting forth its calculations of the generation rate. For NPC, said filing shall be for a particular grid. Filing are to be made not later than one year from its last filing or whenever there is a significant change of five percent (5%) or more in P/kWh in the cost of fuel and purchased power from its last filing, whichever comes first.

2. Applications by NPC shall be grid specific and are not required to be filed concurrently.

3. An application must be filed not later than thirty (30) days after the adjustment date.

4. The proposed generation rate must be based on the volumes and allowable costs for the test period designated by the Commission and calculated in accordance with Section 6 hereof.

5. NPC's generation rate remains in effect until the Commission authorizes a new rate.

Section 6. Calculation of Generation Rate:

The generation rate must be established in an application for deferred generation cost accounting relief and must be based on the following formula:

Let:

GR = Generation Rate for test period *i*

BR = Base Rate per Grid based on CY 2000 costs

FC = Fuel costs (if applicable) as approved by the ERC subject to heat rate cap.

PP = Purchased power costs as approved by the ERC.

DAA = Deferred accounting adjustment.

$$GR = BR + \left[\frac{FC \text{ period } i + PP \text{ period } i}{\text{kWh sales period } i} \right] + DAA$$

Section 7. Calculation of the Deferred Accounting Adjustment.

The Deferred Accounting Adjustment (DAA) must be established in an application for deferred generation cost accounting relief and must be based on the following formula:

Let:

DAA = The deferred accounting adjustment

DB = The balance in the deferred generation cost account as of the end of the test period

T = The total estimated sales for the Recovery Period

$$\text{DAA} = \frac{\text{DB}}{\text{T}}$$

Section 8. Accounting for Disallowed Costs.

Generation costs, which the Commission has determined are not recoverable from the customers of the utility and shall be removed from the deferred generation cost account. The utility shall have the burden of proving that all costs contained in the deferred generation cost account have been prudently incurred, are reasonable and eligible for recovery in accordance with the current policies of the Commission.

Section 9. Carrying Charges.

1. A carrying charge must be computed on the current debit or credit balance at the end of each month in the deferred generation cost account and must be respectively debited or credited to the interest income or expense account computed at the 91-day Treasury Bill rate as established by the Bangko Sentral ng Pilipinas (BSP). The rate of the carrying charge must be applied to the entire balance in the account.
2. The contra entries for the carrying charge must be made to interest income.

Section 10. Monthly Reports.

1. Not later than ten (10) days after the end of each month, the utility must submit to the Commission a report containing all transactions and calculations affecting the deferred accounts. The utility's monthly reports must include any other

information or data required by the Commission to expedite or facilitate the application and/or necessary to clear the balances of deferred accounts.

2. The utility shall submit in its monthly reports the monthly cost of all energy purchased, indicating the number of kilowatt-hours purchased and the cost for each supplier.

3. The utility shall submit in its monthly reports the monthly cost of all fuel consumed, indicating:

(a) The number of kilowatt-hours generated and the cost of fuel consumed.

(b) The allowable cost of fuel consumed based on the heat rate caps approved by the Commission; and

4. Other information as may be required by the Commission.

Section 11. Exception from Regulations.

Where good cause appears, the Commission may permit an exception from Sections 2 to 9, inclusive, if the exception is found to be in the public interest and is not contrary to law.

Section 12. Separability Clause.

Shall any provision herein be subsequently declared unconstitutional, the same shall not affect the validity and legality of the other provisions.

Section 13. Effectivity Clause.

These rules shall take effect on the fifteenth (15th) day following its publication in the Official Gazette or in at least two (2) newspapers of general circulation.