



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

## DRAFT FOR DISCUSSION ONLY

### **GUIDELINES FOR A “TRUE-UP” MECHANISM OF THE OVER OR UNDER RECOVERY IN THE IMPLEMENTATION OF INTER-CLASS CROSS SUBSIDY REMOVAL BY DISTRIBUTION UTILITIES**

ERC CASE NO. \_\_\_\_\_ RM

Pursuant to Section 74 of Republic Act No. 9136, Otherwise known as the Electric Power Industry Reform Act of 2001 (EPIRA), Rule 16, Section 4 and Rule 18, Section 3 of its Implementing Rules and Regulations (IRR), the Energy Regulatory Commission (ERC) hereby adopts and promulgates these guidelines to establish a “true-up” mechanism of the over/(under) recoveries in the implementation of inter-class cross subsidy removal by distribution utilities.

#### **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 move toward the true cost of service;
- 1.1.2 To ensure a revenue-neutral position for the DUs in the implementation of inter-class cross subsidy removal;
- 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**

These Guidelines shall apply to all Distribution Utilities.

### 1.3 Definition of Terms

<b>Act</b>	Republic Act No. 9136, otherwise known as the “Electric Power Industry Reform Act of 2001”;
<b>Distribution Utility (DU)</b>	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;
<b>Energy Regulatory Commission or ERC</b>	The regulatory agency created under Section 38 of the Act;
<b>Inter-Class Cross Subsidy</b>	An amount charged by the Distribution Utilities to industrial, commercial as well as other subsidizing customers in order to reduce electricity rates of other customers such as residential, hospitals, and streetlights.
<b>Inter-Class Cross Subsidy Adjustments (ICSA)</b>	Over or under recoveries (in Pesos) incurred from the implementation of the approved unbundled rates and during the phase-out period of the inter-class cross subsidy.
<b>Cross Subsidy Charge</b>	Refers to the Inter-class cross subsidy over/(under) recoveries in peso per kWh to be recovered from all electricity consumers through the Universal Charge during the period to be determined by the ERC. The cross subsidy charge cannot be passed-on without prior approval by ERC and shall not be subject to any carrying charge
<b>Universal Charge</b>	The charge, if any, imposed for the recovery of the Stranded debts, Stranded Contract Costs of NPC, Stranded Contract Costs of Eligible Contracts of Distribution Utilities and other purposes pursuant to Section 43 of the Act.

## ARTICLE II

### CALCULATION OF THE CROSS SUBSIDY CHARGE

#### 2.1 Adjustment Formula

Distribution Utilities (DUs) shall calculate the inter-class cross subsidy over/(under) recoveries in Peso per kWh for the period based on the following formula:

#### Cross Subsidy Charge Formula:

$$\text{Cross Subsidy Charge} = \frac{\text{ICSA}}{\text{S}}$$

Where:

Cross subsidy Charge = Refers to the Inter-class cross subsidy over/(under) recoveries in Peso per kWh to be included in the Universal Charge and to be applied to all customer class' monthly bill during the period determined by the ERC.

ICSA = Inter-class cross subsidy over/(under) recoveries in Pesos incurred from the implementation of its approved unbundled rates and during the phase-out period. These are the summation of inter-class cross subsidy charge per customer class multiplied by its actual kWh sales .

S = Projected kWh sales for the period.

2.2 No later than sixty (60) days from the end of the inter-class cross subsidy removal scheme, the Distribution Utilities (DUs) shall submit to ERC its calculation of the inter-class cross subsidy over/(under) recoveries incurred from the implementation of its approved unbundled rates and during the inter-class cross subsidy removal period.

### **2.3 Submission Requirements**

DUs shall submit to ERC no later than sixty (60) days from the end of inter-class cross subsidy removal a soft and hard copies of all calculations related to Articles II (2.1), using the format provided in Annex "A" hereof.

### **2.4 Verification of the Cross Subsidy Charge of DUs**

Verification of the cross subsidy charge shall be done by the ERC within ninety (90) days upon submission of complete documents as required hereof. Should ERC fail to verify the adjustment in the inter-class cross subsidy 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 establishing the adjustment resulting from said verification to be included in the Universal Charge as cross subsidy charge. This adjustment, if any, shall be implemented in the period to be prescribed by the ERC.

### **2.5 Billing of the Cross Subsidy Charge**

The Distribution Utilities (DUs) shall bill its customers/end-users the Cross Subsidy Charge from all electricity end-users as approved by ERC.

The Distribution Utilities (DUs) shall recover or refund the Cross Subsidy Charge from all electricity end users through the Universal Charge pursuant to Rule 18 on the universal charge.

## **ARTICLE III**

### **FINES AND PENALTIES**

- 3.1** 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 IV**

### **EXCEPTION CLAUSE**

- 4.1** 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.

## **ARTICLE V**

## **SEPARABILITY**

- 5.1** If for any reason any provision of these Guidelines is declared unconstitutional or invalid by final judgment of a competent court, the other parts or provisions hereof which were not affected thereby shall continue to be in full force and effect.

## **ARTICLE VI**

### **EFFECTIVITY**

- 6.1** These Guidelines shall take effect on the fifteenth (15th) day upon publication in a newspaper of general circulation in the country.

Pasig City, [place date here]

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

**OLIVER B. BUTALID**  
Commissioner

**JESUS N. ALCORDO**  
Commissioner

**RAUF A. TAN**  
Commissioner

**ALEJANDRO Z. BARIN**  
Commissioner