



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

GUIDELINES FOR THE AUTOMATIC ADJUSTMENT OF GENERATION RATES AND SYSTEM LOSS RATES BY DISTRIBUTION UTILITIES

Pursuant to Section 43 (f) of Republic Act No. 9136 or the Act, Rule 7 of its Implementing Rules and Regulations (IRR) and Section 10 of Republic Act No. 7832, the Energy Regulatory Commission (ERC) hereby adopts and promulgates these Guidelines to establish a process for the automatic adjustment of Generation Rates and System Loss Rates by Distribution Utilities.

ARTICLE I

GENERAL PROVISIONS

These Guidelines shall have the following objectives:

- a) To ensure and maintain the quality, reliability, security and affordability of the supply of electric power;
- b) 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;
- c) To ensure full recovery of all allowable Generation Costs and other costs associated with the System Loss Caps in an efficient and timely manner; and
- d) To protect the public interest as it is affected by the rates and services of Distribution Utilities.

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) **“Average Transmission Rate (ATR)”** shall mean the transmission costs approved per unbundling divided by the annualized kWh sales per unbundling.
- c) **“Deferred Accounting Adjustment (DAA)”** shall mean the component of the generation rate, calculated in accordance with the Generation Rate Adjustment Mechanism (GRAM), intended to recover the deferred accounting balance.
- d) **“Distribution Utility (DU)”** shall refer 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.
- e) **“Energy Regulatory Commission” or “ERC”** shall refer to the regulatory agency created by Section 38 of the Act.
- f) **“Generation Cost”** shall mean costs associated with the acquisition of purchased power. Generation costs include only those costs that are reasonable, prudently incurred, and are eligible for recovery in accordance with the current practice of the ERC.
- g) **“Generation Rate”** shall mean the cost of power generated and sold to the distribution utility by the National Power Corporation (NPC) as well as the Independent Power Producers (IPPs), which shall be passed on to the DU’s customers, as calculated in the formula prescribed in these Guidelines.
- h) **“Ineligible Supply Contracts”** shall mean power supply agreements entered into by the DUs with the IPPs, which were not approved by the then Energy Regulatory Board or by the ERC.

- i) **“Other Generation Rate Adjustments (OGA)”** shall refer to under(over)-recoveries in generation costs, recoveries from violation of contracts and other pilferages, as well as other adjustments deemed necessary by the ERC, subject to the provisions of these guidelines. The OGA shall not be subject to any carrying charge.
- j) **“Prompt Payment Discount (PPD)”** shall mean the three percent (3%) discount that electric distribution utilities get from NPC for paying their power bills on or before the tenth (10th) day of the month following the billing period.
- k) **“System Loss”** shall mean the difference between (kilowatt-hour) kWh purchased and/or generated and kWh sold by a Distribution Utility expressed as a percentage of kWh purchased and/or generated.
- l) **“System Loss Cap”** shall mean the level of System Loss recoverable from customers as established by the ERC in accordance with Section 43 (f) of the Act.
- m) **“System Loss Rate”** shall mean the rate determined in accordance with the formula set forth in Article IV hereof. Individual System Loss Rates may be calculated for different customer classes if the Distribution Utility maintains records on the individual customer class System Loss.

ARTICLE III

MONTHLY ADJUSTMENT OF THE GENERATION RATE

Section 1. Adjustment Formula – On the tenth (10) day of each calendar month, Distribution Utilities shall calculate new Generation Rates based on the following formula:

$$GR = AGC + OGA$$

Where:

GR = Generation Rate to be charged per kWh

AGC = Adjusted Generation Cost, automatically computed without need of prior ERC verification and confirmation, as follows:

$$= \frac{[(GC_i + GC_{ii} + \dots + GC_n) - (PPD * 50\%)]}{TP}$$

GC_{i to n} = The Generation Cost in Pesos from source of power 1 through source of power n for the previous month, excluding power sourced from self-generating facilities

PPD = Prompt Payment Discounts availed by the Distribution Utility, net of the Prompt Payment Discounts passed on to the end customers relative to the previous month's generation cost

TP = Total Purchases in kWh for the previous month

OGA = Other Generation Rate Adjustments, refer to adjustments deemed necessary by the Commission after prior verification and confirmation, which shall include, but shall not be limited to, under(over)-recoveries in generation costs and recoveries from violation of contracts and other pilferages. The OGA shall not be subject to any carrying charge.

In the case of ineligible supply contracts, generation costs from such contracts shall not be included in the calculation of recoverable generation costs. In the event, however, that a DU inadvertently or willfully recovers the same, the ERC shall automatically order the refund thereof through the "OGA" without prejudice to the imposition of appropriate penalties.

Section 2. Billing of New Generation Rate – The Distribution Utilities shall bill their customers the Generation Rates calculated in accordance with the immediately preceding Section effective on the tenth (10) day of each month.

ARTICLE IV

MONTHLY ADJUSTMENT OF THE SYSTEM LOSS RATE

Section 1. Adjustment Formula - On the tenth (10) day of each calendar month, Distribution Utilities shall calculate new System Loss Rates based on the following formula:

$$SLR = (GR * U) + (ATR * U)$$

Where:

SLR = System Loss Rate

GR = Generation Rate calculated in accordance with Article III

ATR = Average Transmission Rate based on the most recent unbundling decision in Peso per kWh, computed as Transmission Costs per unbundling divided by the Annualized Sales in kWh per unbundling

U = Gross Up Factor = (% System Loss / [1- %System Loss])

The % System Loss is based on the actual System Loss or the System Loss cap whichever is lower plus actual company use or the company use cap of 1% whichever is lower. The actual System Loss and company use are based on the previous month figures to be submitted by the DU. Actual System Loss can be calculated on an individual customer class level if the Distribution Utility has the requisite information to support individual System Loss Rates.

Section 2. Billing of System Loss Rate – The Distribution Utilities shall bill their customers on the tenth (10) day of each month the System Loss Rates calculated in accordance with the immediately preceding Section.

ARTICLE V

VERIFICATION PROCESS

Section 1. Monthly Reporting Requirements – On or before the twentieth (20th) day of each month, the Distribution Utilities shall provide the ERC with all calculations related to Articles III and IV along with supporting documentations, which shall include, but not limited to, the following:

- Invoices from power suppliers;
- Sample bills to end-users;
- Official receipts of payment of power supplier invoices
- ERC Forms M-001 & M-002; and
- Other documents deemed relevant by the ERC.

Section 2. Post Verification – At least every six (6) months, the ERC shall verify the recovery of Generation Costs by comparing the actual allowable costs incurred for the period with the actual revenues for the same period generated by the Generation Rates and the portion of the Systems Loss Rates attributable to Generation Costs.

Should the ERC fail to verify the Generation Rate (including the OGA) and System Loss Rate within six (6) months from the submission of calculation and supporting documentations in accordance with the immediately preceding Section, the rates shall be deemed final and confirmed.

Upon completion of the semi-annual verification process, the ERC shall issue an Order establishing the adjustments to be included in the OGA resulting from said semi-annual verification. These adjustments shall be implemented in the succeeding six (6) month period to reflect any over or under recovery.

Section 3. Prior Verification of Other Generation Rate Adjustments (OGA). OGA other than those included in Article V, Section 2 shall be verified and confirmed by the ERC within forty five (45) days from date of its filing and only thereafter shall they be recoverable.

ARTICLE VI

FINAL FILING UNDER THE GENERATION RATE ADJUSTMENT MECHANISM

Section 1. Effectivity of the Generation Rate Adjustment Mechanism (GRAM) – Upon the effectivity of these Guidelines, the GRAM shall no longer be applicable to Distribution Utilities.

Section 2. Final filing under GRAM – Distribution Utilities that are using the GRAM to recover Generation Costs shall file their final GRAM applications within sixty (60) days from the effectivity of these Guidelines. The final GRAM filing shall include the period from their last approved GRAM filing to the effectivity of these Guidelines for purposes of calculating the final Deferred Accounting Adjustment (DAA).

ARTICLE VII

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 VIII

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 law or any other related 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, October 13, 2004.

RODOLFO B. ALBANO, JR.
Chairman

(On Official Travel)
OLIVER B. BUTALID
Commissioner

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Commissioner

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