

## FAQ on RA 9136 and RA 7832

### What is the policy of the state related to the supply of electricity?

**Section 2 (b) of the EPIRA** provides that it is hereby declared the policy of the state to ensure the **QUALITY, RELIABILITY, SECURITY** and **AFFORDABILITY** of the supply of electric power.

### What is the mandate of the ERC in setting rates?

Section 43 (f) of the **EPIRA** provides that in the public interest, ERC shall establish and enforce a methodology for setting transmission and distribution wheeling rates and retail rates for the captive market of a distribution utility, taking into account all relevant considerations, including efficiency or inefficiency of the regulated entities. ***The rates must be such as to allow the recovery of just and reasonable costs and a reasonable return on rate base to enable the entity to operate viably. The ERC may adopt alternative forms of internationally accepted rate setting methodology as it may deem appropriate. The rate setting methodology so adopted and applied must ensure a REASONABLE PRICE of electricity.***

Section 41 of the EPIRA states that the ERC shall handle consumer complaints and **ensure the adequate promotion of consumer interests.**

### What is system loss?

**Distribution System Loss** is the total energy purchased or and/or generated minus the total energy sold. If the DU's total purchases is 1,000 kWh and is able to sell to its customer 900 kWh, the system loss is 100 kWh.

It is the electric energy **input** including those delivered to the Distribution System by the Transmission System, Embedded Generating Plants, other Distribution Systems, and User Systems with generating facilities minus the electric energy **output** (i.e. electric energy delivered to the users of the Distribution System) for a specified billing period.

### What are the classifications of distribution system loss?

System loss may either be **technical, non-technical** and **administrative**. Technical system loss is inherent in the physical delivery of electricity. It includes conductor loss, core loss in transformers, and potential/ current coils in metering equipment.

**Non-technical loss** is loss not related to the physical characteristics of the electrical system. It is caused primarily by human error, whether intentional or not. It thus includes the energy lost due to **pilferage, meter reading/billing errors**, and **meter tampering**.

**Administrative loss** accounts for the electric energy used by the distribution utility in the operation of the distribution system. This is likewise known as the "company use".

### Why is system loss charged to the consumers?

Republic Act No. 7832, otherwise known as the Anti-Electricity and Electric Transmission Lines/Materials Pilferage Act of 1994 authorizes the charging of system loss when it established a cap for **recoverable system loss rate**. At present, the cap is **14% for electric cooperatives and 9.5% for private utilities**. Any losses in excess of the cap will be shouldered by the Distribution Utilities and are not allowed to be passed on to the consumers.

System loss is part of the legitimate costs incurred by a DU in doing business. It is just and reasonable cost that is recoverable up to the cap established in the law.

### What is MERALCO's actual system loss?

Per our record, MERALCO's average actual system loss per year are as follows; **2004= 11.10%; 2005=10.21%; 2006=10.10%; and 2007=9.70%.**

Why is "company use" charged to the consumers?

The so called “company use” came into the picture when the Implementing Rules and Regulations of R.A. 7832 prescribed a formula for computing the recoverable generation charge to consumers with the **actual system loss but not to exceed the maximum recoverable rate of system loss in kWh plus actual company use but not to exceed 1% of total kWh purchased and generated**, as a component.

Anyone engaged in any business will eventually make use of electricity. Whatever expenses it incurs for its use of electricity is considered an operating cost, which it takes into account in pricing its goods in order to recover such cost. If DUs were not allowed to recover company use as part of system loss, their cost of using electricity will just have to be included in the computation of their revenue requirement, which in turn would just result to an increase in their distribution charges.

### **Why should “company use” be part of system loss?**

With company use being recovered as part of system loss, there is more transparency. Also, the DUs are limited to recover only their actual consumption or up to the 1% cap. If the cost of company use is embedded in the distribution charge as an operating expense, and assuming the DU is able to bring down its company use, it is able to recover more than its actual cost. If it will be part of operating expense, thus, also of a DUs revenue requirement, the same would result to higher rates for the consumers.

Finally, as part of system loss, company use is priced only based on generation charge unlike if it were to be paid by the DU and recovered as an operating expense in which case it is priced based on the retail rate, which is higher.

### **What is GRAM?**

**GRAM** stands for Generation Rate Adjustment Mechanism. It is a mechanism designed by the Commission to reflect changes in the volatile components of the generation charge in the rates of the consumers. More specifically, it addresses changes in the **fuel and purchased power cost of NPC**. Fuel includes bunker, diesel and coal. Thus, changes in the prices of these would be reflected as an adjustment through the GRAM.

### **What is ICERA?**

**ICERA** stands for Incremental Currency Exchange Rate Adjustment. It is a mechanism designed by the Commission to reflect the fluctuations in the currency exchange rate as it affects foreign currency denominated components of the rates to the consumers. Particularly, ICERA addresses the foreign debt service component and foreign currency denominated Operations and Maintenance expense of **NPC and Distribution Utilities**.

### **What is AGRA?**

**AGRA** stands for Automatic Generation Rate Adjustment. It is a mechanism designed by the Commission to reflect changes in the volatile components of the generation charge in the rates of the consumers. More specifically, it addresses changes in the **fuel and purchased power cost of distribution utilities**.

The recoverable generation cost is computed by **summing up the generation charges from all DU suppliers (NPC and IPPs) minus any discounts** (prompt payment) that the DU gets from its suppliers **divided by the total kilowatt-hours purchases**.

### **What is TOU?**

**The Time of Use (TOU)** is a pricing scheme that approximates the true cost of producing electricity at different times of the day. It takes into consideration that as demand increases during the day, the cost of producing electricity also increases. At present, the NPC-TOU is designed to reflect true cost of producing electricity during peak and off peak hours and during wet and dry seasons.

### **What are the benefits of TOU?**

The benefits of the TOU rates is two-fold. First, its implementation is consistent with the demand side management program that promotes efficient utilization of NPC's existing and cheaper capacities. Second, it will redound to savings on the part of customers that are able to shift load from peak to off peak periods.

### **What is an IPP?**

An IPP or an **Independent Power Producer** is a private company engaged in producing and selling electricity to distribution utilities.

**How does an IPP affect the price of electricity?**

Distribution utilities sometimes have mix source of power. Their supply of electricity may come from NPC and other IPPs. The contracts for such supply of electricity with the IPPs are required to be approved by the Commission for purposes of determining the rates that the DUs may pass on to their consumers.

**What is the so called “MEOT” or Take or Pay Provision?**

In the contracts between DUs and IPPs, invariably, there are take or pay provisions, which assure the IPP that it will recover its investment in putting up the plant and in making available capacity of such plant to serve the energy requirements of the DU.

Take or pay provisions are common to contracts which involve intensive capital investments, the putting up of a power plant is one of them.

**What is a Lifeline Subsidy Rate and what is its legal basis?**

Section 4 (h) of RA 9136 defines Lifeline Rate as the subsidized rate given to marginalized/low income captive market end-users who cannot afford to pay at full cost. The marginalized end-users refer to low-income, captive, household electricity consumers who have levels of electricity consumption below a threshold level to be determined by ERC.

Pursuant to Sec. 73 of RA 9136, “ a socialized pricing mechanism called a lifeline rate for marginalized end-users shall be set by the ERC.”

**What is the process of determining the level of Lifeline Consumption?**

In determining the minimum lifeline level of consumption to be provided to the marginalized end-users, the Commission calculated the probable load requirement of typical low-income end-user by considering 2 lighting facilities at 20 watts each and 50-watt radio that are being used for a reasonable number of hours.

In setting the maximum level of lifeline consumption to be provided to the marginalized end-users, the Commission may adjust the minimum level of consumption and/or the level of lifeline discount so as to maximize the benefit to low-income end-users while keeping the costs associated with such subsidy between Php 0.05 to Php 0.10 per kWh.

Typical household profile:

Appliance and Usage	Monthly Consumption (kWh)
Incandescent bulb, 50 watts, 3 pieces (4 hours/night)	18.0
Flat Iron, 600 watts, (4 hours once a week)	9.6
Electric Fan, 14", 60 watts (7 hours/day)	12.6
Tape recorder (cassette) or TV set (16". B&W), 40 watts (8 hours/day)	9.6
<b>TOTAL</b>	<b>49.8</b>

**What is PBR?**

PBR is a new rate-setting methodology. It employs a performance incentive scheme that encourages cost-cutting and economy of operations through the optimal use of assets as well as efficiency in service delivery that can lower electricity rates in the long term. It provides incentives for distributors to achieve efficiencies in the provision of services by allowing them to retain any savings in the cost of service provision for a period. Its objectives are to attain increased efficiency, improve dependable quality of service, reduce costs, and maintain reasonable rates.