NATIONAL ADMINISTRATIVE REGISTER · NOVEMBER 23, 2005

# GUIDELINES FOR THE CALCULATION OF THE OVER OR UNDER RECOVERY IN THE IMPLEMENTATION OF SYSTEM LOSS RATE BY DISTRIBUTION UTILITIES

*ERC RESOLUTION NO. 24, SERIES OF 2005, November 23, 2005*

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## ERC CASE NO. 2005-08 RM

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 guidelines to establish a process for the calculation of the over or under recovery in the System Loss Rates 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 system loss due to adjustments in the cost of generation and 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 Guidelines 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;

Energy Regulatory Commission or ERC shall refer to the regulatory agency created under Section 38 of the Act;

System Loss Rate for the purpose of these guidelines, shall refer to the charge associated with the system loss 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 THE SYSTEM LOSS



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2.1 The Commission allows for the one-time determination of the over or under recovery on the DU's system loss charge caused by adjustments in the generation and transmission cost from the time the DUs implemented their unbundled rates up to the effectivity of the Guidelines for the Automatic Adjustment of Generation Rates and System Loss Rates by Distribution Utilities. System loss rate in the calculation of Adjusted System Loss charge should be pegged at the same level 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 system loss rate to effect the refund or collect thereof from the time the DUs first implemented their unbundled rates up to the effectivity of the Automatic System Loss Rate Adjustment Mechanism in November 2004 shall be based on the following formula:

System Loss

Over or Under Recovery

(PhP/kWh) = Total Over or Under Recovery / ?kWh Salesi i=1...n

Total Over or Under

Recovery (PhP) = ?i [(Total Adjusted System Loss Chargei -

i =1...n Existing System Loss Charge) x kWh Salesi ]

Total Adjusted System

Loss Chargei = [(AGRi + ATRi ) x U)

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 automatic

system loss adjustment

AGR = the actual NPC generation rate in PhP/kWh for the month i if the DU

is sourcing 100% of its power from NPC; however, if the DU has source(s)

of power other than NPC, it should be the authorized Generation Rate

Adjustment Mechanism (GRAM) composite generation rate or the authorized

composite generation as provided in the unbundling decision of the DU

in the absence of an approved GRAM application for the month i


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ATR = the authorized Average Transmission Rate in PhP/kWh of the DU for the month i

U = Grossed-up System Loss Rate (in percent) incorporated in the

approved unbundled rates, which is calculated as:

System Loss Rate / (1 - System Loss Rate)

Note: System loss rate is inclusive of the allowed company own use

Existing System Loss Charge = the system loss charge in PhP/kWh incorporated in

the approved unbundled rate schedule of the DU

kWh Salesi = total kWh sales for the monthi.

2.3. Billing of the Over or Under Recovery in the System Loss Rate – The DU shall bill its customers the over or under recovery in the system loss rates calculated in accordance with Section 2.2 hereof without need of prior ERC approval commencing on the next billing period after this Guidelines become effective until such time that the total amount of over or under recovery has been refunded or collected.

ARTICLE III
VERIFICATION PROCESS

3.1 Reportorial Requirements – Within fifteen (15) days from the start of the billing of the over or under recovery of the system loss in Article II, Section 2.3 the DUs shall submit to the ERC, all calculations (using the format provided in Annex A hereof) along with supporting documents, including, but not limited to, the following:

3.1.1 Official receipts of payment of NPC Genco's invoices;
3.1.2 Monthly Financial and Statistical Report (MFSR) for ECs and M001 and M002 for PUs; and
3.1.3 Other documents deemed relevant by the ERC.

3.2 Verification – The ERC shall verify the over or under recovery on the System Loss Rate by comparing the adjusted System Loss Rate and the Existing System Loss Rate as provided in the Schedule of Unbundled Rates of the DUs, within twelve (12) months from submission of the documents required under Sec. 3.1 hereof. Should ERC fail to verify the over or under recovery in the System Loss 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 fixing the final adjustment to be included in the system loss rate resulting from said verification. This adjustment shall be implemented in the succeeding period prescribed by the ERC to reflect any over or under recovery. The calculation of the over or under recovery in the System Loss Rate should be expressed in PhP/kWh.

ARTICLE IV
FINES AND PENALTIES

Violation of any provision of these Guidelines shall be subject to the imposition of fines and penalties in


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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 Guidelines, 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 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.

ARTICLE VII
EFFECTIVITY

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

Adopted: 23 Nov. 2005.

**(SGD.) RODOLFO B. ALBANO, JR.**

Chairman

**(SGD.) OLIVER B. BUTALID**

**(SGD.) JESUS N. ALCORDO**

Commissioner

Commissioner

**(SGD.) RAUF A. TAN**

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