GUIDELINES FOR THE ADJUSTMENT OF TRANSMISSION RATES BY DISTRIBUTION UTILITIES

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ERC CASE NO. 2005-06 RM

Pursuant to Section 43 (f) of Republic Act No. 9136 or the Act and Rule 7 of the Implementing Rules and Regulations (IRR) of the Act, the Energy Regulatory Commission (ERC) hereby adopts and promulgates these guidelines to establish a process for the adjustment of Transmission Rates 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 achieve greater operational and economic efficiency;

1.1.2 To ensure full recovery of all allowable transmission costs in an efficient and timely manner;

1.1.3 To protect the public interest as it is affected by the rates and services of Distribution Utilities; 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

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, 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 by Section 38 of the Act.

Net Transmission Cost - Refers to the total charges of TRANSCO including but not limited to transmission and sub-transmission costs, ancillary service, connection service and power cost delivery service billed to the Distribution Utility by TRANSCO net of any imbalance charges. Net Transmission costs include only those costs that are prudently incurred, actually paid for, verifiable, reasonable, and are eligible for recovery in accordance with the ERC regulation.

Other Transmission Cost Adjustments (OTCA) - Shall refer to over/(under) recoveries in transmission costs, recoveries from any billing corrections as well as other adjustments deemed necessary by the ERC, after prior verification and confirmation subject to the provisions of these guidelines. The OTCA shall not be subject to any

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carrying charge.

ARTICLE II
ANNUAL ADJUSTMENT OF THE TRANSMISSION RATE

2.1 Adjustment Formula

No later than sixty (60) days from the effectivity of these guidelines and on the tenth (10) day of the month following the month when TRANSCO shall have changed its rates after the determination of its Maximum Annual Revenue (MAR) in accordance with the Transmission Wheeling Rates Guidelines (TWRG), Distribution Utilities shall calculate new Transmission Rates for each of its customer classes based on the following formula:

2.1.1 Customer classes with Transmission Rates expressed in Peso/kWh:

$$TRn = \frac{tn + OTCA}{P}$$

Where:

TRn = Transmission Rate expressed in Peso/Kwh

tn = Current TRANSCO Transmission Rate x billing determinant for the previous twelve (12) months ending December 31 multiplied by the Coincident Peak (CP) demand allocation factor for customer classn corresponding to the same period, if available, or the CP demand allocation factor as reflected in the last approved unbundled rates of DUs

OTCA = Other Transmission Cost Adjustment

P = kWh purchased for the previous twelve (12) months ending December 31 for customer classn.

2.1.2 Customer classes with Transmission Rates expressed in Peso/kW:

$$TRn = \frac{(tn + OTCA)}{Dn}$$

Where:

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TRn = Transmission Rate expressed in Peso/Kw

tn = Current TRANSCO Transmission Rate x billing determinant for the previous twelve (12) months ending December 31 multiplied by the Coincident Peak (CP) demand allocation factor for customer classn corresponding to the same period, if available, or the CP demand allocation factor as reflected in the last approved unbundled rates of DUs

OTCA = Other Transmission Cost Adjustment

Dn = kW billing demand for the previous twelve (12) months ending December 31 for customer classn.

2.1.3 Customer classes with Transmission Rates expressed in both Peso/kWh and Peso/kW. The component expressed in Peso/kWh shall remain constant. On the other hand, the component expressed in Peso/kW shall be adjusted using the following formula:

$$TWRn = \frac{tn - [(TKRn * Sn) + OTCA]}{Dn}$$

Where:

TWRn = Transmission Rate component expressed in Peso/kW

tn = Current TRANSCO Transmission Rate x billing determinant for the previous twelve (12) months ending December 31 multiplied by the Coincident Peak (CP) demand allocation factor for customer classn corresponding to the same period, if available, or the CP demand allocation factor as reflected in the last approved unbundled rates of DUs

TKRn = Current Transmission Rate component expressed in Peso/kWh

Sn = kWh sales for the previous twelve (12) months ending December 31 for customer classn

OTCA = Other Transmission Cost Adjustment

Dn = kW billing demand for the previous twelve (12) months ending December 31 for customer classn.

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In the case of OTCA, the DUs shall calculate OTCA from the effectivity of these guidelines.

2.2 Billing of New Transmission Rates

The DUs shall bill their customers the Transmission Rates calculated in accordance with the immediately preceding Section of this Article effective on the month that a new Transmission Rate is calculated in accordance with the formula prescribed in these guidelines.

ARTICLE III
VERIFICATION PROCESS

3.1 Monthly Reporting Requirements

On or before the twentieth (20th) day of each month, the Distribution Utilities shall provide the ERC with all calculations and collections related to Article II for the prior month along with supporting documentations, which shall include, but not limited to the following:

- Photocopies of invoices from TRANSCO certified by the DU's Finance Manager;
- Photocopies of Official Receipts (ORs) of payment to TRANSCO certified by the DU's Finance Manager; and
- Other documents deemed relevant by the ERC.

Within fifteen (15) days upon receipt, the ERC shall issue Notice of Complete Submission (NCS) to inform the DUs of their complete submission. Otherwise, ERC shall notify the DUs of the deficiency in their submissions.

3.2 Post Verification

The ERC shall verify any over/(under) recovery of Transmission Costs monthly by comparing the actual allowable costs incurred for the month with the actual revenues for the same period generated by the Transmission Rates and the portion of the Systems Loss Rates attributable to Transmission Costs.

Should the ERC fail to verify the Transmission Rate (including the OTCA) within sixty (60) days from the submission of calculation with complete supporting documentations in accordance with the immediately preceding Article, the rates shall be deemed final and confirmed.

Within two (2) months prior to the implementation of the New Transmission Rates, pursuant to Article II, the ERC shall issue an Order establishing the OTCA to be included in the Transmission rates for the next period.

These adjustments shall be implemented in the succeeding twelve (12) month period to reflect any over or under recovery. The OTCA shall be expressed in Peso and shall be added/deducted to the Transmission Rate calculated in accordance with Article II for purposes of customer billing.

ARTICLE IV
FINES AND PENALTIES

4.1 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 V
EXCEPTION

5.1 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, rule or regulation. Should there be any valid reason for a DU not to comply with these guidelines, the concerned DU shall submit, within fifteen (15) days from the effectivity of these Guidelines, its proposed alternative mechanism/formula. It is only after the Commission's approval of said mechanism/formula will recovery/refund resulting therefrom will be allowed.

ARTICLE VI
SEPARABILITY

6.1 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 VII
EFFECTIVITY

7.1 These Guidelines shall take effect fifteen (15) days after publication in a newspaper of general circulation in the country.

Adopted: 28 Sept. 2005

(SGD.) RODOLFO B. ALBANO, JR.

Chairman

(SGD.) OLIVER B. BUTALID

(SGD.) JESUS N. ALCORDO

Commissioner

Commissioner

(SGD.) RAUF A. TAN

(SGD.) ALEJANDRO Z. BARIN

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