

[ERC, October 13, 2004]

**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.

$$GR = AGC + OGA$$

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 $n</SUP>$ = 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