



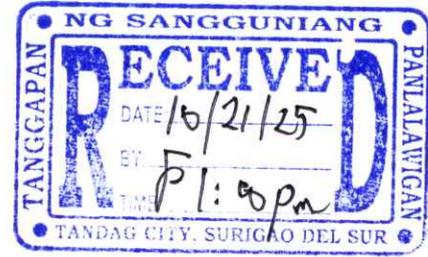
**SURIGAO DEL SUR II ELECTRIC COOPERATIVE, INC.
(SURSECO II)**

Balilihan, Mabua, Tandag City, Surigao del Sur 8300

*Refer to: Committee on Energy
and Power*

20 October 2025

TO : HON. JOHN PAUL C. PIMENTEL
Chairman - Committee on Energy & Power
Sangguniang Panlalawigan
Province of Surigao del Sur



SUBJECT : CLARIFICATORY EXPLANATION

Dear Sir,

This is to clarify the term “amount lost” as mentioned by Hon. Dumagan during the legislative session, referring to the figures presented in Column 4 of SURSECO II’s report. The said amount represents the under-recovery (positive amount) and over-recovery (negative amount) recorded from January 2022 to December 2024, resulting in a net accumulated amount of ₱33,308,024.56.

Particulars	Allowable Cost (PhP)	Actual Recovery/ Revenue (PhP)	(Over)/Under Recoveries (PhP)	
Generation Rate (GR)	2,951,715,224.89	2,922,184,505.91	29,530,718.97	Under recovery
Transmission Rate (TR)	273,032,602.85	271,956,206.51	1,076,396.34	Under recovery
System Loss Rate (SLR)	396,019,443.32	392,492,165.46	3,527,277.86	Under recovery
Lifeline Subsidy	10,949,512.02	12,327,388.86	(1,377,876.84)	Over recovery
Senior Citizen Subsidy	689,386.09	687,192.72	2,193.37	Under recovery
Local Franchise Tax	0.00	0.00	0.00	
Business Tax	991,870.66	1,004,924.59	(13,053.93)	Over recovery
Real Property Tax	13,825,995.15	13,263,626.37	562,368.78	Under recovery
NET RESULTS			33,308,024.56	

In Section 1 Article 4 of ERC Resolution No. 16, Series of 2009 (Please see attached Annex A for the copy of the Resolution) it was stated that:

“The DU shall calculate the over or under recoveries on the Generation Rate, Transmission Rate, System Loss Rate, Lifeline Subsidy Rate and Franchise and Business Taxes Rate brought about by the VARIANCE BETWEEN THE ALLOWABLE COST AND THE REVENUES BILLED USING THE APPLICABLE FORMULAE”.

For clarification, **UNDER-recovery** occurs when the *amount billed to the member-consumers* is smaller than the *total amount billed by and paid to generation companies (and other payables) for the same month*. On the other hand, **OVER-recovery** occurs when the amount *billed to the member-consumers* is bigger than the *total amount billed by and paid to generation companies and other payables for the same month*. Over and under recovery will happen when the billing of the current month will be paid on the following billing month. The difference lies on the number of days, rate from the generation, demand energy, actual sales, etc. The said difference in the amount was due to the formula used by SURSECO II as set forth by the ERC in the above Resolution.

Thus, the term “amount lost” does not pertain to an actual financial loss but rather to the difference between the recoverable costs and the amount billed to consumers during the said period.

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SURIGAO DEL SUR





In addition, please see attached **Annex B** for the requested ERC Resolution No. 20, Series of 2009, which serves as reference for the different DSM tariffs set by the ERC. Based on Section 2.5 Article 2 and Section 3.1 of Article 3 of the said resolution, SURSECO II is classified in Group B which has the following DSM tariff for Residential, Low Voltage, & High Voltage consumers:

4.5 Initial DSM Rate Caps

Using the foregoing methodology, the initial DSM rate caps calculated per group are as follows:

Table 6. Initial DSM Rate Caps Per EC Group

GROUP		Residential		PF/Wh	PF/CLV/MVA	PF/CLV/MVA
		PF/Wh	PF/meter/mo			
A	Distribution	1.0557		1.1577		302.51
	Supply	1.0282			42.82	42.82
	Metering	0.5792	5.0000		29.12	29.12
B	Distribution	0.8449		0.9259		267.90
	Supply	0.7732			40.15	40.15
	Metering	0.4569	5.0000		28.72	28.72

As to the legal basis of the abovementioned application, please see attached Annexes:

- Annex A - ERC Resolution 16, Series of 2009** “ A Resolution Adopting the Rules Governing the Automatic Cost Adjustment and True-up Mechanisms and Corresponding Confirmation Process for Distribution Utilities.”
- Annex B - ERC Resolution 20, Series of 2009** “A Resolution Adopting the Rules for Setting the Electric Cooperatives’ Wheeling Rates”
- Annex C - ERC Resolution 21, Series of 2010** “A Resolution Amending Section 4 of Article 4 and Section 1 of the Article 5 of the Rules Governing the Automatic Cost Adjustment and True-up Mechanisms and Corresponding Confirmation Process for Distribution Utilities.”
- Annex D - ERC Resolution 23, Series of 2010** “A Resolution Adopting the Discounts to Qualified Senior Citizen End-Users and Subsidizing End-Users on Electricity Consumption under Sections 4 and 5 of Republic Act No. 9994.”
- Annex E – ERC Resolution 10, Series of 2018** “A Resolution Clarifying the System Loss Calculation and Providing the Effectivity of the Rules for Setting the Distribution System Loss Cap.”
- Annex F – ERC Resolution 02, Series of 2021** “Rules on the Recovery of Pass-Through Taxes (RPT, LFT and BT) of Distribution Utilities.”
- Annex G - ERC Resolution 14, Series of 2022** “A Resolution Adopting the Revised Rules Governing the Automatic Cost Adjustment and True-Up Mechanisms and Corresponding Confirmation Process for Distribution Utilities.”

For further clarification, please email sursecodos@gmail.com. We hope this explanation clarifies the matter. Thank you.

Respectfully,


ROEL E. ABAD
General Manager



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



RESOLUTION NO. 16, Series of 2009

**A RESOLUTION ADOPTING THE RULES GOVERNING
THE AUTOMATIC COST ADJUSTMENT AND TRUE-UP MECHANISMS
AND
CORRESPONDING CONFIRMATION PROCESS FOR DISTRIBUTION
UTILITIES**

WHEREAS, pursuant to Section 43 (t) of Republic Act No. 9136, the Energy Regulatory Commission (ERC) is mandated to promulgate rules and regulations and perform such other regulatory functions as are appropriate and necessary in order to ensure the successful restructuring and modernization of the electric power industry;

WHEREAS, the ERC has adopted several automatic cost adjustment mechanisms in separate issuances and it is deemed ideal to consolidate, update, and rationalize the requirements under all these separate issuances;

WHEREAS, the ERC finds it necessary to establish a systematized confirmation process that conforms to the due process requirement of the law for the following automatic cost adjustment and true-up mechanisms:

1. Automatic Generation Rate and System Loss Adjustment Mechanism;
2. Transmission Rate Adjustment Mechanism;
3. Lifeline Rate Recovery Mechanism;
4. Local Franchise Tax Recovery Mechanism;
5. Local Business Tax Recovery Mechanism;
6. Guidelines for the Calculation of the Over or Under Recovery in the Implementation of Lifeline Rates by Distribution Utilities;
7. Guidelines for a True-Up Mechanism of the Over or Under Recovery in the Implementation of Inter-Class Cross Subsidy Removal by Distribution Utilities;
8. ERC Resolution No. 12, Series of 2005, "A Resolution Approving a New Policy on the Treatment of Prompt Payment Discount (PPD)";
9. Guidelines for the Calculation of the Over or Under Recovery in the Implementation of System Loss Rate by Distribution Utilities; and
10. Rules for the Calculation of the Over or Under Recovery in the Implementation of Transmission Rates.



WHEREAS, on November 22 and 25, 2008, the ERC conducted public consultations for the adoption of the proposed Rules Governing the Automatic Cost Adjustment and True-up Mechanisms and Corresponding Confirmation Process for Distribution Utilities;

NOW THEREFORE, the ERC, after considering the various views and comments submitted by all interested parties, hereby **RESOLVES**, as it is hereby **RESOLVED**, to **APPROVE** and **ADOPT**, the *Rules Governing the Automatic Cost Adjustment and True-up Mechanisms and Corresponding Confirmation Process for Distribution Utilities* herein attached as Annex "A" and made an integral part of this Resolution.

This Resolution shall take effect fifteen (15) days following its publication in a newspaper of general circulation in the country.

Pasig City, July 13, 2009.


ZENAIDA G. CRUZ-DUCUT
Chairperson


RAUF A. TAN
Commissioner


ALEJANDRO Z. BARIN
Commissioner


MARIA TERESA A.R. CASTAÑEDA
Commissioner


JOSE C. REYES
Commissioner

RULES GOVERNING THE AUTOMATIC COST ADJUSTMENT AND TRUE-UP MECHANISMS AND CORRESPONDING CONFIRMATION PROCESS FOR DISTRIBUTION UTILITIES

Pursuant to Section 43 (f) and (t) 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 Rules to establish a procedure for the automatic recovery or refund of pass through costs and the confirmation process that would govern the automatic cost adjustment and true-up mechanisms approved by the ERC.

ARTICLE 1

GENERAL PROVISIONS

Section 1. Objectives

These Rules shall have the following objectives:

- 1.1** To ensure appropriate recovery of various pass through costs in an efficient manner;
- 1.2** To put in place a fair and transparent process for the confirmation of the automatic cost adjustments implemented by the Distribution Utilities (DUs) and the true-up of other pass-through charges as approved by the ERC;
- 1.3** To ensure and maintain the quality, reliability, security and affordability of the supply of electric power; and
- 1.4** To protect the public interest as it is affected by the rates and services of the DUs.

Section 2. Scope

These Rules shall apply to all DUs, and shall govern the recovery of the following pass through costs:

- 2.1** Generation;
- 2.2** Transmission;
- 2.3** System Loss;

- 2.4 Lifeline Subsidy; and
- 2.5 Local Franchise and Business Taxes.

Section 3. Definition of Terms

Unless the context otherwise provides, the following words and terms used herein shall have the following meanings:

- 3.1 **“Act”** unless otherwise stated, shall refer to Republic Act No. 9136, otherwise known as the “Electric Power Industry Reform Act of 2001”.
- 3.2 **“Business Tax”** shall refer to the tax levied by the cities and municipalities pursuant to Sections 143 and 151 of the Local Government Code of 1991.
- 3.3 **“Captive Market”** shall refer to electricity end-users who do not have the choice of a Supplier of electricity, as may be determined by the ERC in accordance with the Act.
- 3.4 **“Commission”** shall refer to the Energy Regulatory Commission created under Section 38 of Republic Act No. 9136.
- 3.5 **“Company Use”** shall refer to the Energy used by the Distribution Utility in the proper operation of the Distribution System (e.g. substation service and Distribution Utility’s offices, warehouses, workshops and other essential electrical Loads).
- 3.6 **“Distribution Charges”** shall refer to the distribution, supply, metering and other related charges/adjustments.
- 3.7 **“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.
- 3.8 **“Electric Cooperative (EC)”** shall refer to a Distribution Utility organized and incorporated pursuant to Presidential Decree No. 269, as amended by Presidential Decree No. 1645 and Republic Act No. 6938, otherwise known as the Cooperative Code of the Philippines.
- 3.9 **“Franchise Tax”** shall refer to the tax levied by the province and cities on businesses enjoying a franchise pursuant to Sections 137 and 151 of Republic Act No. 7160, otherwise known as the Local Government Code of 1991.

- 3.10 "Generation Rate (GR)"** shall refer to the rate associated with the purchase of power from power supplier/s and distribution utility-owned generation facility as incorporated in the approved unbundled rates or as subsequently authorized by the Commission.
- 3.11 "Gross Sales or Receipts"** shall, as defined in Section 131(n) of the Local Government Code of 1991, include the total amount of money or its equivalent representing the contract price, compensation or service fee, including the amount charged or materials supplied with the services and deposits or advance payments actually or constructively received during the taxable quarter for the services performed or to be performed for another person excluding discounts if determinable at the time of sales, sales return, excise tax, and value-added tax (VAT).
- 3.12 "Ineligible Supply Contracts"** shall refer to power supply agreements entered into by the DUs with the IPPs or other DUs, which were not approved by the then Energy Regulatory Board or by the Commission.
- 3.13 "Lifeline Subsidy Rate (LSR)"** shall refer to the rate charged to non-lifeline customers to cover the lifeline discount provided to marginalized/low income captive market end-users.
- 3.14 "Marginalized End-Users"** shall refer to low-income captive, household electricity consumers who cannot afford to pay at full cost and have levels of electricity consumption below a threshold level as determined by the Commission.
- 3.15 "National Grid Corporation of the Philippines (NGCP)"** shall refer to the private consortium which had been awarded the concession to assume the power transmission functions of the National Transmission Corporation (TRANSCO).
- 3.16 "National Power Corporation (NPC)"** shall refer to the government corporation created under Republic Act No. 6395, as amended.
- 3.17 "National Transmission Corporation (TRANSCO)"** shall refer to Corporation organized pursuant to the Act which assumed the electrical transmission function of the NPC.
- 3.18 "Net Settlement Surplus (NSS)"** shall refer to the settlement surplus remaining after all market transactions have been accounted for, including the assignment of transmission line rentals to Network Service Providers. This remainder is assumed to be attributed to economic rentals arising from other binding constraints, and accounted for in accordance with clause 3.13.16 of the WESM Rules.

- 3.19 “Philippine Electricity Market Corporation (PEMC)”** shall refer to the entity responsible for the operations of the spot market, governed by the Philippine Electricity Market (PEM) Board in accordance with clause 1.4 of the WESM Rules.
- 3.20 “Pilferage Cost Recoveries (PCR)”** shall refer to costs recovered from illegal tapping, tampering of meter, use of jumper, and other means of illicit usage of electricity.
- 3.21 “Power Factor Discount (PFD)”** shall refer to the discount extended to DUs having maintained their power factor above the set threshold which maximizes the capacity of TRANSCO's facilities thereby resulting to real savings in power costs, improvement of voltage regulation and release in system capacity.
- 3.22 “Prompt Payment Discount (PPD)”** shall refer to the discount that DUs get from power supplier/s for paying their bills within the discount period.
- 3.23 “Power Supplier/s”** shall refer to an entity/ies selling power to a DU which may include the following: a) National Power Corporation (NPC); b) Independent Power Producers (IPPs), either through bilateral power supply contracts or through the Wholesale Electricity Spot Market; and c) Other DUs.
- 3.24 “Recovery Period”** shall generally refer to the period when the cost adjustments are implemented.
- 3.25 “System Loss”** shall refer to the difference between kilowatt-hour (kWh) purchased and/or generated and kWh sold plus company use.
- 3.26 “System Loss Cap”** shall refer to the level of System Loss recoverable from customers, as provided for under Republic Act No. 7832 or the Anti-electricity and Electric Transmission Lines/Materials Pilferage Act of 1994, until a different cap is determined, as established by the Commission in accordance with Section 43 (f) of the Act.
- 3.27 “System Loss Rate (SLR)”** shall refer to the rate determined in accordance with the formula set forth in Article II hereof. For DUs where different system loss charges were granted for each of their respective customer classes in the Unbundling Decisions, SLR shall be calculated based on an individual customer class level with the requisite reliable information to support individual System Loss Rates.
- 3.28 “Transmission Rate (TR)”** shall refer to the rate associated with the cost incurred in the transmission of electricity from the generators to the distribution utilities' system.

- 3.29 **“Wholesale Electricity Spot Market (WESM)”** shall refer to the market where trading of electricity is made, established pursuant to Section 30 of R.A. 9136.

ARTICLE 2

CALCULATION OF THE ADJUSTED RETAIL RATES

Section 1. Generation Rate. The Generation Rate (GR) of the DU shall be determined as follows:

- 1.1. For a DU sourcing 100% of its power requirement from NPC:
 - 1.1.1. For TOU customers, the GR shall be the NPC TOU rates plus adjustments on GRAM, ICERA and Franchise and Benefits to Host Communities as approved by the Commission;
 - 1.1.2. For customers under special programs of the DU, the GR shall be based on their contracts; and
 - 1.1.3. For other customers, the GR shall be computed using the formula provided under Section 2 hereof.
- 1.2. For a DU sourcing its power requirement from sources other than NPC:
 - 1.2.1. For TOU customers, the GR shall be the DU's TOU rates as approved by the Commission;
 - 1.2.2. For customers under special programs of the DU, the GR shall be based on their contracts;
 - 1.2.3. For customers of a Buying DU under a Sale for Resale Agreement, if the customers being supplied are not connected with the main distribution grid and the cost is different from those for other regular customers, the GR shall include the Generation, Transmission, System Loss, Distribution, Supply and Metering Charges of the Selling DU; and
 - 1.2.4. For other customers, the GR shall be computed using the formula provided under Section 2 hereof.

Section 2. Generation Rate Formula. The GR applicable to customers referred to in Sections 1.1.3 and 1.2.4 shall be calculated and billed each calendar month by the DU using the following formula:

FORMULA 1

$$GR = AGR + OGA$$

Where:

- GR* = Generation Rate expressed in Peso/kWh;
- AGR* = Adjusted Generation Rate calculated, as follows:
- $$AGR = \frac{TGC}{TPG_{GR}}$$

Where:

$$TGC = [(GC_i + GC_{ii} + \dots + GC_n) - 50\% (PPD_i + PPD_{ii} + \dots + PPD_n) - PCR]$$

Where:

GC_{i to n} = The Generation Costs in Pesos from source of power i through source of power n for the previous month coming from Transition Supply Contracts (excluding Mandated Rate Reduction and penalties), Power Supply Agreements, WESM purchases, and distribution utility-owned generation facility, as incorporated in the approved unbundled rates or as subsequently authorized by the Commission, less the following:

- a. Generation revenues from TOU customers;
- b. Cost of power distributed to customers under DU's special programs;
- c. Cost of power distributed to customers under a Sale for Resale Agreement, if the customers being supplied are not connected with the main distribution grid and the cost is different from those for other regular customers; and

- d. Net Settlement Surplus amount as determined in Article 5, Section 5.4 of the *Rules for the Distribution of Net Settlement Surplus*, if any.

$PPD_{i\ to\ n}$ = Prompt Payment Discounts availed by the DU from source of power i through source of power n for the previous month, net of the Prompt Payment Discounts passed on to the end customers, where discount passed on to customers can not be higher than the discount availed from the power supplier/s, relative to the previous month's generation cost;

PCR = Pilferage cost recoveries during the previous month; and

TPG_{GR} = Total kWh Purchased and Generated for the previous month net of kWh sold to customers under TOU, and kWh distributed to special programs and Sale for Resale Agreements, if the customers being supplied are not connected with the main distribution grid and the cost is different from those for other regular customers.

OGA = Other Generation Rate Adjustments, refer to adjustments deemed necessary by the Commission after prior verification and confirmation, and the GOUR determined using the formula provided in Article 4, Section 2 hereof. The OGA shall not be subject to any carrying charge.

In the case of ineligible supply contracts, generation costs from such contracts shall include the kilowatt-hours pertaining to ineligible contracts pegged at the DU's load weighted average NPC TOU rates or the actual rate as billed by the IPP, whichever is lower.

Section 3. Transmission Rate. The Transmission Rate (TR) shall be calculated and billed each calendar month by the DUs using the following formulae:

- 3.1. For Customer classes with TR expressed in Peso/kWh:

FORMULA 2.A

$$TR_N = \left(\frac{t_N}{TPG_{TR_N}} \right) + OTCA_N$$

Where:

TR_N = Transmission Rate expressed in Peso/kWh;

t_N = $PTC \times CP_N$;

Where:

PTC = Refers to the previous month's actual transmission cost, net of fifty percent (50%) of PFD availed;

Where:

PFD = Power Factor Discounts availed by the DU, net of the Power Factor Discounts given to customers and Third Parties for the month, *where:* Discount passed on to customers and Third Parties \leq discount availed from TRANSCO/NGCP for the month; and

CP_N = Actual or computed Coincident Peak Demand Allocation Factor for customer class N corresponding to the previous month's period or the CP demand allocation factor as reflected in the last approved unbundled rates of the DU.

TPG_{TR_N} = Total kWh Purchased and Generated for the previous month;

$OTCA_N$ = Other Transmission Cost Adjustments, refer to adjustments deemed necessary by the Commission after prior verification and confirmation, and the TOUR determined using the formula provided in Article 4, Section 3 hereof; and

N = Refers to a specific customer class (ex. $N=1,2,\dots$, where 1= Residential, 2= Commercial, etc.).

3.2. Customer classes with TR expressed in Peso/kW:

FORMULA 2.B

$$TR_N = \left(\frac{t_N}{D_N} \right) + OTCA_N$$

Where:

TR_N = Transmission rate expressed in Peso/kW;

t_N = $PTC \times CP_N$;

Where:

PTC = Refers to the previous month's actual transmission cost, net of fifty percent (50%) of PFD availed;

Where:

PFD = Power Factor Discounts availed by the DU, net of the Power Factor Discounts given to customers and

Third Parties for the month, where:
Discount passed on to customers and
Third Parties \leq discount availed from
TRANSCO/NGCP for the month; and

CP_N = Actual or computed Coincident Peak Demand Allocation Factor for customer class N corresponding to the previous month's period or the CP demand allocation factor as reflected in the last approved unbundled rates of the DU.

$OTCA_N$ = Other Transmission Cost Adjustments, refer to adjustments deemed necessary by the Commission after prior verification and confirmation, and the TOUR determined using the formula provided in Article 4, Section 3 hereof

D_N = kW billing demand for the previous month for customer class N;
and

N = Refers to a specific customer class (ex. $N=1,2,\dots$, where
1= Residential, 2= Commercial, etc.).

3.3 Customer classes with TR expressed in both Peso/kWh and
Peso/kW.

The component expressed in Peso/kWh shall remain constant.
The component expressed in Peso/kW shall be adjusted using the
following formula:

FORMULA 2.C

$$TR_N = \left(\frac{t_N - (S_{TR_N} \times TKR_N)}{D_N} \right) + OTCA_N$$

Where:

TR_N = Transmission rate expressed in Peso/kW;

t_N = $PTC \times CP_N$;

Where:

PTC = Refers to the previous month's actual transmission cost,
net of fifty percent (50%) of PFD availed, by the
corresponding kWh purchased;

Where:

PFD = Power Factor Discounts availed by the
DU, net of the Power Factor Discounts
given to customers and Third
Parties for the month, *where:* Discount
passed on to customers and Third
Parties \leq discount availed from
TRANSCO/NGCP for the month; and

CP_N = Actual or computed Coincident Peak Demand Allocation Factor for customer class N corresponding to the previous month's period or the CP demand allocation factor as reflected in the last approved unbundled rates of the DU.

S_{TR_N} = kWh sales for the previous month for customer class N;

TKR_N = Current TR component expressed in Peso/kWh for customer class N;

$OTCA_N$ = Other Transmission Cost Adjustments, refer to adjustments deemed necessary by the Commission after prior verification and confirmation, and the TOUR determined using the formula provided in Article 4, Section 3 hereof;

D_N = kW billing demand for the previous month for customer class N; and

N = Refers to a specific customer class (ex. $N=1,2,\dots$, where 1= Residential, 2= Commercial, etc.).

Section 4. System Loss Rate. The System Loss Rate (SLR) shall be calculated and billed each calendar month by the DUs using the following formula:

FORMULA 3

$$SLR = (TGR + ATR) U + OSLA$$

Where:

SLR = System Loss Rate expressed in Peso/kWh;

TGR = Total Generation Rate including customers under the DU's TOU program calculated as follows:

$$TGR = \frac{GTGC}{TPG_{SLR}}$$

Where:

$$GTGC = [(GC_i + GC_u + \dots + GC_n) - 50\%(PPD_i + PPD_u + \dots + PPD_n) - PCR]$$

Where:

$GC_{i\ to\ n}$ = The Generation Costs in Pesos from source of power i through source of power n for the previous month coming from Transition Supply Contracts (excluding Mandated Rate Reduction and penalties), Power Supply Agreements, WESM purchases, and distribution utility-owned generation facility, as incorporated in the approved unbundled rates or as subsequently authorized by the Commission, less the following:

- a. Cost of power distributed to customers under DU's special programs;
- b. Cost of power distributed to customers under a Sale for Resale Agreement, if the customers being supplied are not connected with the main distribution grid and the cost is different from those for other regular customers; and
- c. Net Settlement Surplus amount as determined in Article 5, Section 5.4 of the Rules for the Distribution of Net Settlement Surplus, if any;

$PPD_{i\ to\ n}$ = Prompt Payment Discounts availed by the Distribution Utility from source of power i through source of power n for the previous month, net of the Prompt Payment Discounts passed on to the end customers, where discount passed on to customers cannot be higher than the discount availed from the power supplier/s, relative to the previous month's generation cost; and

PCR = Pilferage cost recoveries during the previous month.

TPG_{SLR} = Total kWh Purchased and Generated for the previous month net kWh distributed to special programs and Sale for Resale Agreements, if such sales have different system loss charge rates from regular customers.

ATR = Average Transmission Rate expressed in Peso/kWh, computed as follows:

$$ATR = \frac{t_N}{TPG_{SLR}}$$

Where:

t_N = Total Transmission Cost for the previous month;

Where:

If SLR is a uniform charge to all customer classes:

t_N = PTC as defined in Article 2, Section 3 hereof;

If SLR varies per each customer class:

t_N = PTC x CP_N ;

Where:

PTC = As defined in Article 2, Section 3 hereof;

and

CP_N = As defined in Article 2, Section 3 hereof.

TPG_{SLR} = Total kWh Purchased and Generated for the previous month net of kWh distributed to special programs and Sale for Resale Agreements, if such sales have different system loss charge rates from regular customers.

U = Gross Up Factor = (% SL / (1- Actual % System Loss));

The %SL is based on:

- a) the Actual Systems Loss for the most recent 12-month period or the Systems Loss Cap, whichever is lower; plus

- b) the Actual Company Use for the most recent 12-month period or 1%, whichever is lower.

The Actual % System Loss, on the other hand, is based on:

- a) the Actual System Loss for the most recent 12-month period; plus
- b) the Actual Company Use for the most recent 12-month period.

The kWh Sales to be used in determining the System Loss shall be net of kWh distributed to special programs and Sale for Resale Agreements, if such sales have different system loss charge rates from regular customers.

If SLR varies per customer class, the DU shall compute the applicable Gross Up Factor per customer class.

Pursuant to ERC Resolution No. 17, Series of 2008, upon the Commission's approval of the DU's Operation and Maintenance Expenses, wherein the Company Use shall have been included, the same shall no longer form part of the %SL and Actual % SL as defined above; and

OSLA = Other System Loss Cost Adjustments, refer to adjustments deemed necessary by the Commission after prior verification and confirmation, and the SLOUR determined using the formula provided in Article 4, Section 4 hereof.

Section 5. Lifeline Subsidy Rate Formula. The Lifeline Subsidy Rate (LSR) shall be calculated and billed each calendar month by the DU using the following formula:

FORMULA 4

$$LSR = \left(\frac{TD}{S_{NL_{LSR}}} \right) + OLRA$$

Where:

LSR = Lifeline Subsidy Rate expressed in Peso/kWh

TD = Total Discount amount given to Lifeline customers in the previous month computed as follows:

$$\sum_{j=1 \dots n} [(S_{LSR} \times TRate) + [NCust \times Fixed / Cust]]D]$$

Where:

j = Lifeline level bracket 1 to lifeline bracket *n*;

S_{LSR} = Total kWh for the previous month of lifeline bracket *j*;

TRate = Total PhP/kWh rate subject to lifeline discount which include generation, transmission, system loss, distribution, supply, metering and loan condonation;

NCust = Total number of customers for the previous month for lifeline bracket *j*;

D = Discount rate for lifeline bracket *j*; and

Fixed/Cust = Fixed metering charge for residential customers.

S_{NL-LSR} = Total kWh of non-lifeline customers for the previous month; and

OLRA = Other Lifeline Rate Cost Adjustments, refer to adjustments deemed necessary by the Commission after prior verification and confirmation, and LSOUR determined using the formula provided in Article 4, Section 5 hereof.

Section 6. The Franchise and Business Taxes Rates shall be calculated using the following formulae:

- 6.1. For Franchise Taxes that a DU is required to pay the LGU/s that shall be included in its customers' bills, recovery shall be based on the tax rate multiplied against the total distribution charges in Peso (Distribution, Supply, Metering

and other charges/adjustments, i.e. subsidy on lifeline charge, lifeline subsidy discount and inter-class cross subsidy charge, excluding Reinvestment Fund collections in the case of an EC). For transparency, the EC shall reflect as a separate line item in its monthly billings to its customers the approved Reinvestment Fund rate/kWh and corresponding revenues.

- 6.2. For Business Taxes that a DU is required to pay the LGU/s that shall be included in its customers' bills, recovery shall be based on the following formula:

FORMULA 5.A

$$BT = \left(\frac{Bt_a}{S_{FBI}} \right) + OBTA$$

Where:

- BT* = Business Taxes Charge expressed in Peso/kWh representing business taxes that a DU is required to pay the LGU/s ;
- Bt_a* = Business Tax (**excluding penalty and surcharge**) other than those already considered in the distribution rates, paid for the preceding calendar year;
- S_{FBI}* = Actual kWh Sales for the preceding calendar year; and
- OBTA* = Other Business Taxes Cost Adjustments, refer to adjustments deemed necessary by the Commission after prior verification and confirmation, and the BTOUR determined using the formula provided in Article 4, Section 6.1 hereof.

The computation of local business taxes shall be based on the DU's total distribution charges, excluding the penalties and surcharges paid by the DU. For an EC, Reinvestment Fund shall be excluded from the total distribution charges. For transparency, the EC shall reflect as a separate line item in its monthly billings to its customers the approved Reinvestment Fund rate/kWh and corresponding revenues.

A DU that intends to include in its retail rates the franchise and business taxes imposed on it by the LGU/s where it operates must first submit to the ERC the certified true copies of the valid

tax ordinance/s subjecting it to such taxes. In the case of Business Taxes, submissions shall include tax receipts for the payments made for the preceding year, data on its kWh sales for the previous year, and other relevant data. The DU shall await the ERC's clearance before the inclusion and imposition of such taxes in its customers' retail rates.

- 6.3. For Franchise and Business Taxes that a DU had already paid to the concerned LGU/s prior to the implementation of recovery of current Franchise and Business Taxes shall be allowed recovery based on the following formula:

FORMULA 5.B

$$TRAC = \left(\frac{Lft_a + Bt_a}{S_{TRAC}} \right) + OFBA$$

Where:

- TRAC* = Tax Recovery Adjustment Charge expressed in Peso/kWh applied to the customer's monthly billing until such time the total franchise and business taxes paid to the local government shall have been fully recovered;
- Lft_a* = Local franchise tax (**excluding penalty and surcharge**) paid prior to the implementation of the approved franchise tax rate;
- Bt_a* = Business Tax (**excluding penalty and surcharges**) paid prior to the implementation of the approved business tax formula;
- S_{TRAC}* = Projected kWh sales for a particular proposed recovery period or as determined by ERC; and
- OFBA* = Other Franchise and Business Taxes Cost Adjustments, refer to adjustments deemed necessary by the Commission after prior verification and confirmation, and the TROUR determined using the formula provided in Article 4, Section 6.2 hereof.

Before including the TRAC in its customers' bill, the DU shall submit to the ERC its calculation thereof using the TRAC formula provided above, together with the following information and supporting documents:

- a. Proposed recovery period;
- b. Certified true copy of prior years Tax Assessments issued by the concerned LGU/s;
- c. Certified true copies of Local Tax Ordinance/s;
- d. Certified true copies of Official Receipts;
- e. Projected kilowatt-hours sales for the particular proposed recovery; and
- f. Other relevant documents as may be required by the ERC.

Upon receipt of the complete documents, the ERC shall verify and determine from the submissions the appropriate TRAC that the DU shall be allowed to impose on its customers.

The DU shall await the ERC's clearance before the inclusion and imposition of such taxes in its customers' retail rates and shall impose the TRAC allowed until such time that its franchise and business tax payments, as may be adjusted by the ERC during its prior verification, have been fully recovered.

ARTICLE 3

REPORTORIAL REQUIREMENTS

Section 1. Submission of Reportorial Requirements. Starting on the month following the inclusion in the customers' bills, the DU shall provide the ERC with all calculations and information relative to the adjustment mechanisms provided for herein through the prescribed Uniform Reportorial Requirements along with supporting documentations, which shall include, but not limited to, the following:

1.1 Basic Supporting Documents

- 1.1.1 Invoices from Power Supplier/s and National Transmission Corporation (TRANSCO)/National Grid Corporation of the Philippines (NGCP);
- 1.1.2 Debit/Credit Memos from Power Supplier/s and TRANSCO/NGCP, if any;
- 1.1.3 Official Receipts of payments to Power Supplier/s and TRANSCO/NGCP; and
- 1.1.4 Actual consumer bills per class (3 bills per class).

1.2 For Generation Rates and System Loss Rates

- 1.2.1 Sworn statement of DU if it has its own generation facility (one-time submission only, if applicable);
- 1.2.2 Monthly Generation Report for DU-Owned generation facility, if applicable; and
- 1.2.3 Sworn and notarized statement on PPD availed from power supplier/s, PPD extended to end-users and pilferage recoveries enjoyed by the DU.

1.3 For Transmission Rates

- 1.3.1 Sworn and notarized statement on PFD availed from TRANSCO/NGCP and PFD extended to end-users and Third Parties by the DU.

1.4 For Franchise Tax and Business Tax (FTBT) Rates

- 1.4.1 Actual consumer bills per class (3 bills per class) in the area where FTBT rate/s is/are levied; and
- 1.4.2 Summary of the tax imposition and collection for every locality within its franchise area relative to taxes computed in accordance with Article 2, Section 7 of these Rules.

1.5 For Tax Recovery Adjustment Charge (TRAC)

- 1.5.1 Actual collections from the implementation of TRAC; and
- 1.5.2 Actual consumer bills per class (3 bills per class) in the area where TRAC rate/s is/are levied; and

ARTICLE 4

CALCULATION OF THE OVER OR UNDER RECOVERY IN THE IMPLEMENTATION OF ADJUSTMENT MECHANISMS

Section 1. Calculation of Over/Under Recoveries. The DU shall calculate the over or under recoveries on the Generation Rate, Transmission Rate, System Loss Rate, Lifeline Subsidy Rate and Franchise and Business Taxes Rate brought about by the variance between the allowable cost and the revenues billed using the applicable formulae.

Section 2. Generation Rate Over/Under Recovery. The Generation Rate Over/Under Recovery (GOUR) applicable to customers being referred to in Article 2, Sub-sections 1.1.3 and 1.2.4 shall be calculated based on the following formula:

FORMULA 6

$$GOUR = \frac{[(AGC - GRR) + rGOUR]}{S_{GOUR\ Total}}$$

Where:

GOUR = Refers to under/over-recoveries in generation costs during the recovery period expressed in Peso/kWh;

AGC = Total Allowable Generation Cost, computed as follows:

$$AGC = \sum_{i=1}^n \left[\left(\frac{(GC_i + GC_u + \dots GC_n) - 50\%(PPD_i + PPD_u + \dots PPD_n) - PCR_{GOUR}}{TPG_{GOUR}} \right) S_{GOUR} \right]$$

Where:

$GC_{i\ to\ n}$ = The Generation Costs in Pesos from source of power i through source of power n for month 1 to m coming from Transition Supply Contracts (excluding Mandated Rate Reduction and penalties), Power Supply Agreements, WESM purchases, and distribution utility-owned generation facility, as incorporated in the approved unbundled rates or as subsequently authorized by the Commission, less the following:

- a. Generation revenues from TOU customers;
- b. Cost of power distributed to customers under DU's special programs;
- c. Cost of power distributed to customers under a Sale for Resale Agreement, if the customers being supplied are not connected with the main distribution grid and the cost is different from those for other regular customers; and
- d. Net Settlement Surplus amount as determined in Article 5, Section 5.4 of the Rules for the Distribution of Net Settlement Surplus, if any;

$PPD_{i\ to\ n}$ = Prompt Payment Discount availed by the DU, net of the Prompt Payment Discounts passed on to the end customers for month 1 to m , where discounts passed on to customers cannot be higher than the discount availed from the power supplier/s, relative to generation cost;

PCR_{GOUR} = Pilferage recoveries for month 1 to m ;

TPG_{GOUR} = Total kWh Purchased and Generated for month 1 to m net of kWh sold to customers under TOU, kWh distributed to special programs and Sale for Resale Agreements, if the customers being supplied are not connected with the main distribution grid and the cost is different from those for other regular customers; and

S_{GOUR} = Actual kWh Sales for month 1 to m net of kWh sold to customers under TOU, kWh distributed to special

programs and Sale for Resale Agreements, if the customers being supplied are not connected with the main distribution grid and the cost is different from those for other regular customers.

In the case of ineligible supply contracts, generation costs from such contracts shall include the kilowatt-hours pertaining to ineligible contracts but the costs shall be pegged at the DU's load weighted average NPC TOU rates or the actual rate as billed by the IPP, whichever is lower.

GRR = Total generation revenues billed to customers except those associated with TOU, special programs and Sale for Resale Agreements, if the area is not connected with the main distribution grid and the cost is different from those for other regular customers, computed as follows:

Where:

AGR_{GR} = As defined in Section 2, Article 2 hereof ;and

S_{GOUR} = Actual kWh Sales for month 1 to m, net of kWh sold to customers under TOU, and kWh distributed to special programs and Sale for Resale Agreements, if the customers being supplied are not connected with the main distribution grid and the cost is different from those for other regular customers.

$rGOUR$ = The total running balance of the refund/collect as a result of any prior confirmation/s; and

$S_{GOUR_{Total}}$ = Total actual kWh Sales for the recovery period net of kWh sold to customers under TOU, and kWh distributed to special programs and Sale for Resale Agreements, if the customers being supplied are not connected with the main distribution grid and the cost is different from those for other regular customers.

Section 3. Transmission Rate Over/Under Recovery. The Transmission Rate Over/Under Recovery (TOUR) shall be calculated per customer class based on the following formula:

3.1. For Customer classes with TR expressed in Peso/kWh:

FORMULA 7

$$TOUR_N = \frac{[(ATC_N - TRR_N) + rTOUR_N]}{S_{TOUR_N}}$$

3.2. Customer classes with TR expressed in Peso/kW and Customer classes with TR expressed in both Peso/kWh and Peso/kW.

FORMULA 8

$$TOUR_N = \frac{[(ATC_N - TRR_N) + rTOUR_N]}{BD_{TOUR_N}}$$

Where:

$TOUR_N$ = Refers to over/under recoveries in transmission cost during the recovery period expressed in Peso/kWh for class N;

ATC_N = Refers to the actual transmission cost during the recovery period computed as follows:

$$ATC_N = \sum_{1...m} \left[\left(\frac{TC - 50\% PFD}{TPG_{TOUR}} \right) S_{TOUR} \right] CP_N$$

Where:

TC = The actual transmission cost in Peso for month 1 to m;

PFD = Power Factor Discounts availed by the DU, net of the Power Factor Discounts given to customers and Third Parties for month 1 to m, where: Discount passed on to customers and Third Parties \leq discount availed from TRANSCO/NGCP for month 1 to m;

TPG_{TOUR} = Total Purchased and Generated in kWh for month 1 to m corresponding to the transmission cost;

S_{TOUR} = Actual kWh Sales for month 1 to m corresponding to the transmission cost;

CP_N = Actual or computed Coincident Peak Demand Allocation Factor for customer class N corresponding to the recovery period or the CP demand allocation factor as reflected in the last approved unbundled rates of the DU; and

N = Refers to a specific customer class (ex. $N=1,2,\dots$, where 1= Residential, 2= Commercial, etc.).

TRR_N = Transmission Cost Recoveries during the recovery period, to be computed as follows:

$$TRR_N = \sum_{l..m} [(TR_N \text{ in PhP/kWh} \times S_N) + (TR_N \text{ in PhP/kW} \times BD_N)]$$

Where:

TR_N = Transmission Rate in PhP/kWh and/or PhP/kW as applicable to customer class N as implemented by the DU for month 1 to m. If the transmission rate for customer N is expressed in PhP/kWh only, then the Transmission Charge in PhP/kW in the formula should be equal to zero (0) and vice-versa;

S_N = Total kWh sales for customer class N for month 1 to m;

BD_N = Total kW billing demand for customer class N for month 1 to m; and

N = Refers to a specific customer class (ex. $N=1,2,\dots$, where 1= Residential, 2= Commercial, etc.).

$rTOUR$ = The total running balance of the refund/collect as a result of prior confirmation/s.

S_{TOUR_x} = Total kWh Sales for the recovery period for customer class N.

BD_{TOUR_x} = Total kW billing demand the recovery period for customer class N.

Section 4. System Loss Rate Over/Under Recovery. The System Loss Rate Over/Under Recovery (SLOUR) shall be calculated based on the following formula:

FORMULA 9

$$SLOUR = \frac{[(ASLC - ASLR) + rSLOUR]}{TPG_{SLOUR}}$$

Where:

SLOUR = Refers to over/under recoveries in system loss during the recovery period expressed in Peso/kWh;

ASLC = Allowable System Loss Cost incurred during the recovery period computed as follows:

$$ASLC = \sum_{1..m} [(GTGC + TC - 50\%PFD)U]$$

Where:

GTGC = As defined in Section 4, Article 2 hereof;

TC = The actual transmission cost in Peso for month 1 to m;

PFD = Power Factor Discounts availed by the DU, net of the Power Factor Discounts given to customers and Third Parties for month 1 to m, where: Discount passed on to customers and Third Parties ≤ discount availed from TRANSCO/NGCP for month 1 to m; and

U = Gross Up Factor = % SL / (1- Actual % System Loss);

The %SL is based on:

- a) the Actual Systems Loss for month 1 to m or the Systems Loss Cap, whichever is lower; plus

- b) the Actual Company use for month 1 to m or 1%, whichever is lower.

The Actual % System Loss, on the other hand, is based on:

- a) the Actual System Loss for month 1 to m; plus
- b) the Actual Company Use for month 1 to m.

The kWh Sales to be used in determining the System Loss shall be net of kWh distributed to special programs and Sale for Resale Agreements, if such sales have different system loss charge rates from regular customers.

If SLR varies per customer class, the DU shall compute the applicable Gross Up Factor per customer class.

Pursuant to ERC Resolution No. 17, Series of 2008, upon the Commission's approval of the DU's Operation and Maintenance Expenses, wherein the Company Use shall have been included, the same shall no longer form part of the %SL and Actual % SL as defined above.

ASLR = Total actual system loss revenues for generation and transmission billed to customers except those associated with special programs and Sale for Resale Agreements, if such sales have different system loss charge rates from regular customers, computed as follows:

$$ASLR = \sum_{1...m} [SLR \times S_{SLOUR}]$$

Where:

SLR = As defined in Section 4, Article 2 hereof; and

S_{SLOUR} = Actual kWh Sales for month 1 to m, net of kWh distributed to special programs and Sale for Resale Agreements, if such sales have different system loss charge rates from regular customers;

$rSLOUR$ = The total running balance of the refund/collect as a result of prior confirmation/s; and

TPG_{SLOUR} = Total kWh Purchased and Generated for the recovery period net kWh distributed to customers under special programs and Sale for Resale Agreements, if such sales have different system loss charge rates from regular customers.

Section 5. Lifeline Subsidy Over/Under Recovery. The Lifeline Subsidy Over/Under Recovery (LSOUR) to be charged to non-lifeline customers shall be calculated based on the following:

FORMULA 10

$$LSOUR = \frac{LD}{S_{LSOUR_{NL-TOTAL}}}$$

Where:

$LSOUR$ = Refers to over/under recoveries on lifeline subsidy during the recovery period expressed in Peso/kWh;

LD = Difference between the Total Discounts given to lifeline customers and Total Subsidy collected from non-lifeline customers, computed as follows:

$$LD = \sum_{1 \rightarrow m} (TS - TD)$$

Where:

TS = Lifeline subsidy amount collected from non-lifeline customers for month 1 to m, computed as follows:

$$TS = S_{LSOUR_{NL}} \times LSR$$

Where:

$S_{LSOUR_{NL}}$ = total kWh consumption of non-lifeline customers for the month; and

LSR = lifeline subsidy rate per kWh collected from non-lifeline customers for the month.

TD = total discount amount given to lifeline customers for month 1 to m, computed as follows:

$$TD_i = \sum_{j=1}^n [(S_{LSOUR_{LL}} \times TRate) + (NCust_{LL} \times Fixed / Cust)] \times D]$$

Where:

j = Lifeline level bracket 1 to lifeline bracket n;

$S_{LSOUR_{LL}}$ = Total kWh consumption of lifeline customers for the month of lifeline bracket j;

$TRate$ = Total PhP/kWh rate subject to lifeline discount which include generation, transmission, system loss, distribution, supply, metering and loan condonation;

$NCust_{LL}$ = Total number of customers for the month for lifeline bracket j;

$Fixed/Cust$ = Fixed metering charge for residential customers; and

D = Discount rate for lifeline bracket j.

$S_{LSOUR_{SL_TOTAL}}$ = Total kWh consumption of non-lifeline customers for the recovery period.

Section 6. Franchise and Business Taxes Over/Under Recovery. The Franchise and Business Taxes Over/Under Recovery to be charged to customers shall be calculated based on the following formulae:

6.1. For BT Over/Under Recovery (BTOUR) to be charged to customers shall be calculated based on the following formula:

FORMULA 11

$$BTOUR = \left[\frac{(BTR_i + BTR_{ii} + \dots BTR_n) - (BTA_i + BTA_{ii} + \dots BTA_n)}{S_{BTOUR_{TotalActual}}} \right]$$

Where:

BTOUR = Refers to over/under recoveries business taxes during the recovery period expressed in Peso/kWh;

BTR_{i to n} = Business tax revenue for the recovery period i to n computed as follows:

$$BTR = (BT \times \sum_{i=1 \dots m} S_{BTOUR_{ACTUAL}})$$

Where:

BT = ERC Approved Annual Business Tax Rate; and

S_{BTOUR_{ACTUAL}} = Actual kWh Sales for month i to month m during the recovery period.

BTA_{i to n} = ERC verified business taxes paid by the DU for the recovery period I to n; and

S_{BTOUR_{TotalActual}} = Total actual kWh Sales for the recovery period.

6.2. For TRAC Over/Under Recovery (TROUR) to be charged to customers shall be calculated based on the following formula:

FORMULA 12

$$TROUR = \left(\frac{(TRAC \times \sum_{i=1 \dots m} S_{TROUR_{Actual}}) - FBTA}{S_{TROUR_{Actual}}} \right)$$

Where:

$TROUR$ = Refers to over/under recoveries franchise and business taxes during the recovery period expressed in Peso/kWh for class N;

$TRAC$ = Tax Recovery Adjustment Charge implemented by the DU;

$S_{TROUR_{Actual}}$ = Actual kWh Sales for month i to month m during the recovery period;

$FBTA$ = ERC verified Franchise and Business Tax payments paid by the DU; and

ARTICLE 5

FILING AND RESOLUTION OF THE APPLICATIONS

Section 1. Filing. The DUs shall file their respective consolidated applications within the period as prescribed hereunder:

Distribution Utilities	Period of Filing	Covered Adjustments
Luzon DUs	October 30, 2009	Adjustments implemented until the billing month of December 2008
Visayas DUs	October 30, 2010	Adjustments implemented until the billing month of December 2009
Mindanao DUs	October 30, 2011	Adjustments implemented until the billing month of December 2010

Thereafter, the DUs shall file their respective consolidated applications within the period as prescribed hereunder:

Distribution Utilities	Period of Filing	Covered Adjustments
Luzon DUs	October 30, 2012	Jan. 2009 – Dec. 2011
Visayas DUs	October 30, 2013	Jan. 2010 – Dec. 2012
Mindanao DUs	October 30, 2014	Jan. 2011 – Dec. 2013

Subsequently, the DUs shall file their respective consolidated applications every three (3) years following the sequence of period of filing prescribed above.

Section 2. True Up Mechanisms Approved by the ERC. The filing of calculations of over or under recoveries from adjustments implemented by the DUs referred to in the preceding Section shall include the Lifeline Rate Recovery Mechanism, Inter-class Cross Subsidy Recovery Mechanism, Recovery Mechanism of Under Recoveries in the Reinstatement of Prompt Payment Discounts, Recovery Mechanism in the Implementation of System Loss Rates, Recovery Mechanism in the Implementation of Transmission Rates and such other mechanisms that the ERC may adopt.

Section 3. Applicability of Rules Governing the True-Up Mechanisms. The specific rules for the calculation of over and under recoveries and such other pertinent provisions as provided in the following:

- 3.1 Guidelines for the Calculation of the Over or Under Recovery in the Implementation of Lifeline Rates by Distribution Utilities;
- 3.2 Guidelines for a True-Up Mechanism of the Over or Under Recovery in the Implementation of Inter-Class Cross Subsidy removal by Distribution Utilities;
- 3.3 ERC Resolution No. 12, Series of 2005, A Resolution Approving a New Policy on the Treatment of Prompt Payment Discount (PPD);

- 3.4 Guidelines for the Calculation of the Over or Under Recovery in the Implementation of System Loss Rate by Distribution Utilities; and
- 3.5 Rules for the Calculation of the Over or Under Recovery in the Implementation of Transmission Rates.

shall continue to be in force and shall be used in the verification of any over and under recoveries of the DUs and the determination and implementation of the rates for recovery or refund of such over or under recoveries as may be ordered by the ERC.

Section 4. Form of Application and Supporting Documents. The applications and supporting documents therewith shall adopt the templates to be prescribed by the ERC.

Section 5. Referral to External Auditors. At its discretion, the ERC may refer the application to an accredited external auditor for audit. The cost of hiring such accredited auditor as stipulated in the contract for the services of such accredited auditor approved by the ERC shall be borne by the concerned DU. Such cost shall be treated, upon proof of actual payment thereof as a recoverable expense and shall be considered in the calculation of over or under recoveries for the test period covered.

Section 6. Applicability of the ERC Rules of Practice and Procedure. - The ERC Rules of Practice and Procedure shall apply suppletorily to the verification process outlined in these Rules insofar as they are not inconsistent herewith.

ARTICLE 6

VIOLATION OF THE RULES

Section 1. Fines and Penalties – Violation of any provision of these Rules shall be subject to the imposition of fines and penalties in accordance with the Rules 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, as amended.

ARTICLE 7
FINAL PROVISIONS

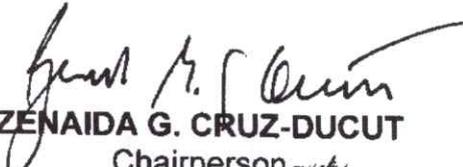
Section 1. Exception Clause – Where good cause appears, the Commission may allow an exemption from any provision of these Rules, if such is found to be in the public interest and is not contrary to law or any other related rules and regulations.

Section 2. Separability Clause – If for any reason, any part or section of these Rules 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. Repealing Clause – All previous Commission issuances not consistent with these Rules are hereby accordingly repealed or deemed modified.

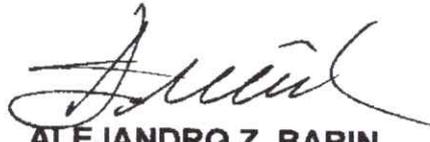
Section 4. Effectivity – These Rules shall take effect fifteen (15) days following its publication in a newspaper of general circulation.

Pasig City, July 13, 2009.

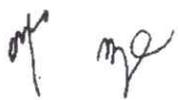

ZENAIDA G. CRUZ-DUCUT
Chairperson *quasi*


RAUF A. TAN
Commissioner


MARIA TERESA A.R. CASTAÑEDA
Commissioner


ALEJANDRO Z. BARIN
Commissioner


JOSE C. REYES
Commissioner



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



RESOLUTION NO. 20, Series of 2009

**A RESOLUTION ADOPTING THE RULES FOR SETTING THE
ELECTRIC COOPERATIVES' WHEELING RATES**

WHEREAS, Section 25 of Republic Act No. 9136, otherwise known as the Electric Power Industry Reform Act of 2001 (EPIRA) provides that the retail rates charged by Distribution Utilities (DUs) for the supply of their electricity in their captive market shall be subject to regulation by the Energy Regulatory Commission (Commission) based on the principle of full recovery of prudent and reasonable economic costs incurred or such other principles that will promote efficiency as may be determined by the Commission;

WHEREAS, Section 43 (f) of the EPIRA and its Implementing Rules and Regulations (IRR) authorize the Commission to adopt alternative forms of internationally-accepted rate-setting methodology it may deem appropriate;

WHEREAS, the current rates of ECs are no longer responsive since the costs of providing electric service to the consumers increased significantly from the time their rates were determined by the Commission based on 2000 test year;

WHEREAS, the ECs are cognizant of the inherent regulatory lag in the current cash flow rate-setting methodology adopted through a quasi-judicial process which is further exacerbated by the fact that if all the one hundred twenty (120) ECs file their respective rate applications with each application to be resolved in one (1) month, it will take the Commission one hundred twenty (120) months or ten (10) years, to resolve all the applications;

WHEREAS, the Commission has conducted studies to establish a new rate-setting methodology for ECs that will address their present problems and resolve the regulatory lag in the resolution of rate applications, particularly, the "Benchmarking Methodology";

WHEREAS, the results of said "Benchmarking Methodology" studies were subjected to several expository and public consultations which were held on various dates and venues. The ECs attended and actively participated in the said expository and public consultations and submitted data to the Commission reflecting their respective costs of service as part of the "Benchmarking Methodology" studies;

WHEREAS, the rates as determined in the said "Benchmarking Methodology" encourage the ECs to be financially self-sufficient, efficient and member- customer responsive;

WHEREAS, on May 3 and 4, 2007, the Commission conducted a series of expository hearings for all ECs in Luzon, Visayas and Mindanao on the proposed "Benchmarking Methodology" for ECs;

WHEREAS, on May 17, 2007, the Commission conducted a public consultation on the "Classification of ECs for Regulatory Purposes and the Proposed Efficiency Benchmarking Methodology";

WHEREAS, on various dates, the Commission conducted a series of Expository Public Consultations for all ECs in Luzon, Visayas and Mindanao on the classification of on-grid ECs and the determination of the functionalized benchmark Operation and Maintenance (O & M) rate, Capital Expenditure (CAPEX) rate, proposed customer segmentation, proposed benchmark rate design, new lifeline charges, performance indices, transition period and rate comparison;

WHEREAS, after considering all the comments and manifestations during the various public consultations, the Commission developed a new methodology for setting the ECs' wheeling rates embodied in a document denominated as "Rules for Setting the Electric Cooperatives' Wheeling Rates" (RSEC-WR);

WHEREAS, on April 4, 2009, the General Managers of all the on-grid Electric Cooperatives (ECs) in the Philippines adopted *Resolution No. 1, Series of 2009*, entitled "A Resolution Imploring Upon the Energy Regulatory Commission to Implement a New Rate-Setting Methodology for Setting the Electric Cooperatives' Wheeling Rates (RSEC-WR)";

WHEREAS, on April 21, 2009, the Commission issued a Notice of Proposed Rule-Making (Notice), wherein it treated the Resolution adopted by the General Managers of all the on-grid ECs as a petition to initiate rule-making by the ECs that are signatories thereto, docketed as ERC Case No. 2009-007 RM, entitled "*In the Matter of the Petition by the On-Grid Electric Cooperatives for the Adoption of the Rules for Setting the Electric Cooperatives' Wheeling Rates*". The Draft RSEC-WR adopted the Rule-Making proceedings under Rule 21 of the Commission's Rules of Practice and Procedure. All interested parties were directed to submit their respective comments on the Draft RSEC-WR until May 15, 2009 and said petition was set for public hearings on various dates and venues;

WHEREAS, on various dates, several ECs and interested parties submitted their respective comments on the Draft RSEC-WR;

WHEREAS, from May 17 to July 20, 2009, the Commission conducted public hearings on the instant petition at the respective localities of the ninety-six (96) on-grid ECs;

WHEREAS, on August 19, 2009, the Commission posted at its website and published in newspapers of general circulation in the Philippines the revised Draft RSEC-WR for solicitation of comments from interested parties;



WHEREAS, on various dates, several ECs and interested parties submitted their respective comments on the revised Draft RSEC-WR;

WHEREAS, in accordance with the aforesaid mandate and after a careful consideration of the various views and comments submitted by interested parties, the Commission adopts and promulgates the RSEC-WR;

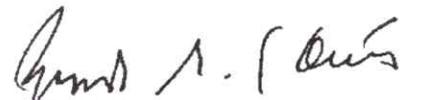
NOW, THEREFORE, be it **RESOLVED**, as the Commission hereby **RESOLVES** to **ADOPT** the "Rules for Setting the Electric Cooperatives' Wheeling Rates (RSEC-WR)", hereto attached as Annex "A" and made an integral part of this Resolution.

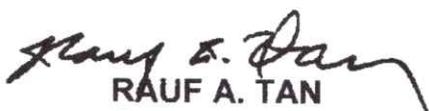
The Philippine Rural Electric Cooperatives Association, Inc. (PHILRECA) is hereby directed to publish the said RSEC-WR in a newspaper of general circulation in the Philippines.

This Resolution shall take effect after fifteen (15) days following the completion of its publication in a newspaper of general circulation in the Philippines.

Let copies of this Resolution be furnished the University of the Philippines Law Center-Office of the National Administrative Register (UPLC-ONAR), PHILRECA and all on-grid electric cooperatives (ECs).

Pasig City, September 23, 2009.


ZENAIDA G. CRUZ-DUCUT
Chairperson *gmsb*


RAUF A. TAN
Commissioner


ALEJANDRO Z. BARIN
Commissioner


MARIA TERESA A.R. CASTAÑEDA
Commissioner


JOSE C. REYES
Commissioner

**RULES FOR
SETTING THE
ELECTRIC
COOPERATIVES'
WHEELING RATES
(RSEC-WR)**

**Rules for Setting the
Electric Cooperatives' Wheeling Rates**

**Republic of the Philippines
Energy Regulatory Commission
San Miguel Avenue, Pasig City**

B A C K G R O U N D

At present, Electric Cooperatives (ECs) operate under a cash flow regulatory regime. This allows the ECs to generate revenues sufficient to cover payroll, operations and maintenance outlays, debt service including interest and allowance strictly for reinvestment purposes.

In this regard, the Energy Regulatory Commission (ERC) is authorized under Section 43 (f) of Republic Act No. 9136, otherwise known as the "*Electric Power Industry Reform Act of 2001*" (EPIRA) and Section 5 (a), Rule 15 of its Implementing Rules and Regulations (IRR) to establish a methodology for setting distribution wheeling rates. Further, Section 35 of the EPIRA provides that the Commission shall have sole jurisdiction in fixing the retail rates.

On the other hand, under Section 4 (o), Rule 3 of the EPIRA IRR, the Commission may issue such rules that are essential in the discharge of its functions as an independent quasi-judicial body. Under Section 1, Rule 21 (Rule-Making) of the Commission's *Rules of Practice and Procedure*, the process of adopting a new rule may be initiated by the Commission or interested persons.

By virtue of the above stated authorities, as early as 2006 the Commission embarked on a process to establish a new rate setting methodology for determining electric cooperatives' rates. From year 2006 to 2009, the Commission conducted several public consultations (expository and discussion of comments) with industry stakeholders on the details thereof.

The regulatory framework as embodied in these Rules seeks to develop a regulatory regime that encourages efficiency in the operations of the ECs and provides incentives for their good performance. From a regulatory perspective, the framework seeks to develop a regulatory regime that eases regulatory burden and can easily be implemented and monitored.



TABLE OF CONTENTS

		Page No.
ARTICLE 1	General Provisions	5
1.1	Purpose	5
1.2	Scope.....	5
1.3	Construction of the Rules	5
1.4	Provision of Information	5
1.5	Regulatory Framework	6
ARTICLE 2	Classification of Electric Cooperatives.....	6
2.1	Guiding Principles	6
2.2	Steps in Classifying the ECs	7
2.3	Variables Used in Classifying the ECs	8
2.4	Data Set Used in the Classification of the ECs	8
2.5	Final Electric Cooperatives' (ECs) Classification	9
ARTICLE 3	Development of Initial Tariff Cap	11
3.1	Structure	11
3.2	Lifeline Level and Discount	13
ARTICLE 4	Development of the Initial Distribution, Supply, and Metering (DSM) Rate Caps	13
4.1	Determine the Operating Revenue Requirement (ORR) ..	13
4.2	Functionalize the ORR into Distribution, Supply, & Metering Functions	14
4.3	Allocate the Functionalized ORR into Customer Classes	14
4.4	Determine the EC Groups' DSM Rate Caps.....	15
4.5	Initial DSM Rate Caps	16
4.6	Provision for Real Property Tax	16
ARTICLE 5	Members' Contribution for Capital Expenditure	18
5.1	Function of Members' Contribution for Capital Expenditures	18
5.2	Utilization of Members' Contribution for Capital Expenditures	18
5.3	Members' Contribution for Capital Expenditure Rate Cap per Group	19
5.4	Additional Members' Contribution for Capital Expenditure	20

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**Rules for Setting the
Electric Cooperatives' Wheeling Rates**

ARTICLE 6	Development of New Customer Classes	20
6.1	Current Customer Classes	20
6.2	Basis of the New Customer Classes	20
6.3	Other Considerations in Determining New Customer Classes	20
6.4	New Customer Classes	21
6.5	Policies on the Sale for Resale Customers	22
ARTICLE 7	Tariff Glide Path	22
ARTICLE 8	Transition and Regulatory Period	23
8.1	Commencement and Duration	23
8.2	Movement from Current Rates to Initial Tariff	23
8.3	ECs with Initial Tariff Lower Than Their Current Rates	23
8.4	Realignment of Customer Classes	23
ARTICLE 9	Reportorial Requirements	24
ARTICLE 10	Filing Requirements.....	24
ARTICLE 11	Final Provisions	29
11.1	Exception from the Provisions of the Rules	29
11.2	Costs of Suit	29
11.3	Effect of the Rates Determined Under these Rules on the EC's Existing Rates.....	30
11.4	Repealing/Separability Clause	30
11.5	Effectivity	30



ARTICLE 1

GENERAL PROVISIONS

1.1 Purpose

These Rules for Setting the Electric Cooperatives' Wheeling Rates (RSEC-WR) embody the new regulatory framework for the on-grid ECs. Said regulatory framework is designed to achieve the following:

- a. Develop a tariff setting methodology that would be more responsive to the needs of the ECs given the objectives of the EPIRA;
- b. Encourage reforms in the structure and operations of the ECs for greater efficiency and lower costs;
- c. Introduce incentives in the framework that will allow efficiency gains to be shared between the EC and the end-users; and
- d. Develop a regulatory framework that will ease regulatory burden and cut down regulatory lag for implementation.

1.2 Scope

These Rules shall apply to all on-grid ECs.

1.3 Construction of the Rules

These Rules shall be construed to promote the objective of securing a just, speedy and inexpensive disposition of the proceedings for setting the ECs' distribution wheeling rates.

1.4 Provision of Information

The results herein presented utilized information that was provided by the ECs. Additional information, calculations, and other data may be required by the Commission for purposes of these Rules.

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1.5 Regulatory Framework

The new regulatory framework for the on-grid ECs is envisioned as follows:

- a. The ECs shall be classified into groups;
- b. An Initial Tariff and a Tariff Glide Path shall be developed for each EC group for a Regulatory Period;
- c. The Initial Tariff and the Tariff Glide Path shall be the rate caps;
- d. The basic structure of Tariff Glide Path shall consist of an index, minus an efficiency factor, X, plus performance incentives;
- e. There shall be a transition from the current tariff to a rate up to the Initial Tariff which shall be proposed by each EC;
- f. Before the end of the Regulatory Period, the EC groupings and the Initial Tariff shall be reset for the next Regulatory Period; and
- g. All of the above shall be accomplished through public consultation and compliance with due process.

ARTICLE 2

CLASSIFICATION OF ELECTRIC COOPERATIVES

2.1 Guiding Principles

For purposes of these Rules, the classification of electric cooperatives is guided by the following principles:

- a. Rationality – as the classification will be used in setting the rates for ECs, it must be based on criteria that have demonstrable consequences on the costs (and consequently, the revenue requirements) of the ECs;
- b. Regulatory efficiency – the classification of the ECs is intended to reduce the time and effort required in regulating the sector. Thus, the classification is aimed at setting an “optimal” number of EC grouping from a regulatory perspective; and
- c. Simplicity – the classification scheme must be simple to understand and implement.

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2.2 Steps in Classifying the ECs

Three (3) main activities are undertaken to classify the ECs, to wit:

- a. Identification of the characteristics that impact on the operating distribution costs of an EC (as shown in Table 1 and 2 below);
- b. Classification of the ECs based on the significant characteristics using one-way and two-way tabulations; and
- c. Refinement of EC classifications to ensure independence of the groups formed, including combining sub-groupings if five (5) or less ECs comprise the sub-group.

TABLE 1. Significant Determinants of EC's Total Operating Distribution Cost

Variable	Definition	Direction of Relationship
Size	Sales volume in MWH	+
	Line length in circuit kilometer	+
	Number of customers	+
Customer density	Sales in MWH per circuit km of line	+
Customer consumption	MWH sales per customer	-
Customer structure	Percentage of Residential and BAPA sales in MWH to total sales in MWH	-

TABLE 2. Significant Determinants of EC's Operating Distribution Cost per kWh

Variable	Definition	Direction of Relationship
Size	Sales volume in MWH	-
	Line length in circuit kilometer	-
	Number of customers	-
Customer consumption	MWH sales per customer	-
Customer structure	Percentage of Residential and BAPA sales in MWH to total sales in MWH	-



Rules for Setting the Electric Cooperatives' Wheeling Rates

2.3 Variables Used in Classifying the ECs

Among the determinants considered by the Commission, the variables with the most impact on the EC's total operating distribution cost and operating distribution cost per kWh, as shown in Table 3 and 4 below, are a) **SIZE** (defined as number of customers); b) **CONSUMPTION** (defined as MWH sales per customer).

TABLE 3. Comparison of cost drivers on EC's Operating Distribution Cost

	Cost per kWh	Total Cost
number of customers	0.29	0.89
sales volume in MWH	0.62	0.85
distribution line length in ckm	0.09	0.48
structure density	0.32	0.14
	0.54	0.37
consumption	0.77	0.40

TABLE 4. Summary of Characteristics of Groupings

GROUP	No of ECs	Group Characteristics		mean kWh consumption per customers	mean number of customers
		Customer consumption (MWH per year)	No of customers		
A	11	<1	10 to 25 k	0.90	28,973.00
B	16	<1	25 to 50 k	0.63	61,025.67
C	5	<1	50 to 100 k	1.56	32,063.67
D	17	1 to 2	10 to 50 k	1.43	37,506.50
E	28	1 to 2	50 to 100 k	1.37	68,218.63
F	15	1 to 3	20 to 150 k	1.88	88,981.75
G	6	3 to 5	30 to 150 k	3.58	81,909.02

2.4 Data Set Used in the Classification of ECs

For classification purposes, the Commission considered the operating distribution costs (operations & maintenance expenses, customer expenses and general & administrative expenses) for the period covering the years 2001 to 2006. The average adjusted (for reinvestment fund and debt service) unbundled rates of the ECs were also utilized in the analysis.

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**Rules for Setting the
Electric Cooperatives' Wheeling Rates**

2.5 Final Electric Cooperatives' (EC) Classification

Using the above set variables, the ECs are classified into seven (7) groups as follows:

UTILITY
GROUP A
AURORA (AURELCO)
BILIRAN (BILECO)
CAMIGUIN (CAMELCO)
GUIMARAS (GUIMELCO)
IFUGAO (IFELCO)
KALINGA-APAYAO (KAELCO)
LEYTE III (LEYECO III)
MT. PROVINCE (MOPRECO)
QUEZON II (QUEZELCO II)
QUIRINO (QUIRELCO)
SIARGAO (SIARELCO)
GROUP B
ABRA (ABRECO)
ANTIQUE (ANTECO)
CAMARINES SUR I (CASURECO I)
CAMARINES SUR IV (CASURECO IV)
LANAO DEL NORTE (LANECO)
LEYTE I (LEYECO I/DORELCO)
LEYTE IV (LEYECO IV)
MISAMIS OCCIDENTAL I (MOELCI I)
EASTERN SAMAR (ESAMELCO)
NORTHERN SAMAR (NORSAMELCO)
SAMAR I (SAMELCO I)
SAMAR II (SAMELCO II)
SORSOGON I (SORECO I)
SOUTHERN LEYTE (SOLECO)
SURIGAO DEL SUR I (SURSECO I)
SURIGAO DEL SUR II (SURSECO II)

UTILITY
GROUP C
BOHOL II (BOHECO II)
CAGAYAN II (CAGELCO II)
CAMARINES SUR III (CASURECO III)
ISABELA II (ISELCO II)
SORSOGON II (SORECO II)
GROUP D
AGUSAN DEL SUR (ASELCO)
BUKIDNON II (BUSECO)
CEBU III (CEBECO III)
DAVAO ORIENTAL (DORECO)
FIRST LAGUNA (FLECO)
ILOILO III (ILECO III)
MAGUINDANAO (MAGELCO)
MISAMIS OCCIDENTAL II (MOELCI II)
MISAMIS ORIENTAL II (MORESCO II)
NEGROS ORIENTAL I (NORECO I)
NUEVA VIZCAYA (NUVELCO)
PAMPANGA RURAL (PRESCO)
PANGASINAN I (PANELCO I)
SULTAN KUDARAT (SUKELCO)
SURIGAO DEL NORTE (SURNECO)
ZAMBALES I (ZAMECO I)
ZAMBALES II (ZAMECO II)

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**Rules for Setting the
Electric Cooperatives' Wheeling Rates**

UTILITY
GROUP E
AKLAN (AKELCO)
BOHOL I (BOHECO I)
BUKIDNON I (FIBECO)
CAGAYAN I (CAGELCO I)
CAMARINES NORTE (CANORECO)
CAPIZ (CAPELCO)
CEBU I (CEBECO I)
CEBU II (CEBECO II)
DAVAO DEL SUR (DASURECO)
ILOILO I (ILECO I)
ILOILO II (ILECO II)
LA UNION (LUELCO)
LEYTE V (LEYECO V)
NEGROS OCCIDENTAL (NOCECO)
NEGROS ORIENTAL II (NORECO II)
NORTH COTABATO (COTELCO)
NUEVA ECIJA I (NEECO I)
NUEVA ECIJA II (NEECO II) Area I
NUEVA ECIJA II (NEECO II) Area II
PAMPANGA I (PELCO I)
PANGASINAN III (PANELCO III)
QUEZON I (QUEZELCO I)
TARLAC I (TARELCO I)
TARLAC II (TARELCO II)
V-M-C RURAL ELECTRIC SERVICE (VRESCO)
ZAMBOANGA DEL NORTE (ZANECO)
ZAMBOANGA DEL SUR I (ZAMSURECO I)
ZAMBOANGA DEL SUR II (ZAMSURECO II)

UTILITY
GROUP F
AGUSAN DEL NORTE (ANEKO)
ALBAY (ALECO)
BATANGAS I (BATELEC I)
BENGUET (BENECO)
CAMARINES SUR II (CASURECO II)
CENTRAL PANGASINAN (CENPELCO)
DAVAO DEL NORTE (DANECO)
ILOCOS NORTE (INEC)
ILOCOS SUR (ISECO)
ISABELA I (ISELCO I)
MISAMIS ORIENTAL I (MORESCO I)
PAMPANGA II (PELCO II)
PENINSULA (PENELCO)
SAN JOSE CITY (SAJELCO)
SO. COTABATO I (SOCOTECO I)
GROUP G
BATANGAS II (BATELEC II)
CENTRAL NEGROS (CENECO)
LEYTE II (LEYECO II)
PAMPANGA III (PELCO III)
SO. COTABATO II (SOCOTECO II)
ZAMBOANGA CITY (ZAMCELCO)

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ARTICLE 3

DEVELOPMENT OF THE INITIAL TARIFF CAP

3.1 Structure

The ECs' current tariff structure is composed of Distribution, Supply, and Metering Charges, which were determined by using its operation and maintenance expenses, capital expenditures and debt service. In the development of the Initial Tariff, the operating and the capital costs shall be unbundled. Thus, the Distribution, Supply and Metering Charges shall represent only operating costs. A separate charge, Members' Contribution for Capital Expenditures shall represent the EC's debt service as well as the capital expenditure requirements.

Current Tariff Structure	Revenue Requirements	Proposed Tariff Structure
Distribution Charge Supply Charge Metering Charge	Operations & Maintenance Expenses	Distribution Charge
		Supply Charge
	Capital Expenditures	Metering Charge
	Debt Service	Members' Contribution for Capital Expenditures

The Initial Tariff shall be the rate caps for all ECs in a group.

The Initial Tariff determined under Articles 4, 5 and 6 is summarized below:

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**Rules for Setting the
Electric Cooperatives' Wheeling Rates**

Table 5. Summary of Initial Tariff per EC Group

GROUP A								
PARTICULARS	Units	DISTRIBUTION	SUPPLY	METERING	CONTRIBUTION	TOTAL		
Residential	PhP/kWh	1.0557	1.0282	0.5792	0.5324	3.1955		
	PhP/cust/mo			5.00		5.0000		
Low Voltage	PhP/kWh	1.1577			0.5324	1.6901		
	PhP/cust/mo					42.82	29.12	71.9436
Higher Voltage	PhP/kW	302.51			0.5324	302.5110		
	PhP/kWh							0.5324
	PhP/cust/mo					42.82	29.12	71.9436
GROUP B								
PARTICULARS	Units	DISTRIBUTION	SUPPLY	METERING	CONTRIBUTION	TOTAL		
Residential	PhP/kWh	0.8449	0.7732	0.4569	0.4004	2.4755		
	PhP/cust/mo			5.00		5.0000		
Low Voltage	PhP/kWh	0.9259			0.4004	1.3263		
	PhP/cust/mo					40.15	28.72	68.8723
Higher Voltage	PhP/kW	267.90			0.4004	267.9036		
	PhP/kWh							0.4004
	PhP/cust/mo					40.15	28.72	68.8723
GROUP C								
PARTICULARS	Units	DISTRIBUTION	SUPPLY	METERING	CONTRIBUTION	TOTAL		
Residential	PhP/kWh	0.7004	0.7156	0.5236	0.3696	2.3091		
	PhP/cust/mo			5.00		5.0000		
Low Voltage	PhP/kWh	0.7493			0.3696	1.1189		
	PhP/cust/mo					34.05	29.91	63.9570
Higher Voltage	PhP/kW	213.96			0.3696	213.9604		
	PhP/kWh							0.3696
	PhP/cust/mo					34.05	29.91	63.9570
GROUP D								
PARTICULARS	Units	DISTRIBUTION	SUPPLY	METERING	CONTRIBUTION	TOTAL		
Residential	PhP/kWh	0.5143	0.5828	0.3669	0.2508	1.7149		
	PhP/cust/mo			5.00		5.0000		
Low Voltage	PhP/kWh	0.5134			0.2508	0.7642		
	PhP/cust/mo					41.61	31.19	72.8030
Higher Voltage	PhP/kW	190.03			0.2508	190.0268		
	PhP/kWh							0.2508
	PhP/cust/mo					41.61	31.19	72.8030
GROUP E								
PARTICULARS	Units	DISTRIBUTION	SUPPLY	METERING	CONTRIBUTION	TOTAL		
Residential	PhP/kWh	0.5782	0.6001	0.4326	0.2904	1.9013		
	PhP/cust/mo			5.00		5.0000		
Low Voltage	PhP/kWh	0.7595			0.2904	1.0499		
	PhP/cust/mo					42.92	35.94	78.8634
Higher Voltage	PhP/kW	219.68			0.2904	219.6807		
	PhP/kWh							0.2904
	PhP/cust/mo					42.92	35.94	78.8634
GROUP F								
PARTICULARS	Units	DISTRIBUTION	SUPPLY	METERING	CONTRIBUTION	TOTAL		
Residential	PhP/kWh	0.4613	0.5376	0.3205	0.2178	1.5371		
	PhP/cust/mo			5.00		5.0000		
Low Voltage	PhP/kWh	0.4441			0.2178	0.6619		
	PhP/cust/mo					46.60	32.78	79.3865
Higher Voltage	PhP/kW	167.56			0.2178	167.5632		
	PhP/kWh							0.2178
	PhP/cust/mo					46.60	32.78	79.3865
GROUP G								
PARTICULARS	Units	DISTRIBUTION	SUPPLY	METERING	CONTRIBUTION	TOTAL		
Residential	PhP/kWh	0.2748	0.4140	0.3460	0.1518	1.1865		
	PhP/cust/mo			5.00		5.0000		
Low Voltage	PhP/kWh	0.3748			0.1518	0.5266		
	PhP/cust/mo					59.73	54.92	114.6571
Higher Voltage	PhP/kW	118.55			0.1518	118.5538		
	PhP/kWh							0.1518
	PhP/cust/mo					59.73	54.92	114.6571

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

RESOLUTION NO. 21, Series of 2010

**A RESOLUTION AMENDING SECTION 4 OF ARTICLE 4 AND SECTION 1 OF
 ARTICLE 5 OF THE RULES GOVERNING THE AUTOMATIC COST ADJUSTMENT
 AND TRUE-UP MECHANISMS AND CORRESPONDING CONFIRMATION
 PROCESS FOR DISTRIBUTION UTILITIES**

WHEREAS, on July 13, 2009, the Energy Regulatory Commission (ERC) issued Resolution No. 16, Series of 2009, adopting and promulgating the "Rules Governing the Automatic Cost Adjustment and True-up Mechanisms and Corresponding Confirmation Process for Distribution Utilities";

WHEREAS, on October 12, 2009, the ERC issued Resolution No. 23, Series of 2009, adopting the template for the Distribution Utilities' (DUs) filing pursuant to the said Rules and extending until further notice the date of the Luzon DUs' filing of their respective consolidated applications for the over/under recoveries on their implementation of various automatic cost adjustment and true-up mechanisms;

WHEREAS, Section 4 of Article 4 of the said Rules provides for the determination of the actual system loss;

WHEREAS, inherent in the distribution sector of the electric industry is the mismatch between meter reading periods at the wholesale and retail levels due to unequal number of billing days, which results to the misalignment of kWh sales and purchased power;

WHEREAS, the ERC recognizes the need to address and resolve the said misalignment of kWh sales and purchased power which causes spikes and dips in the computed monthly system loss and adversely affects the actual system loss of the DUs during certain billing months;

WHEREAS, to accomplish this, it is necessary to amend the formula in Section 4 of Article 4 of the said Rules;

WHEREAS, the ERC likewise, recognizes the need to update the timelines in the said Rules to afford all DUs sufficient time to adequately prepare for their confirmation filings;



NOW THEREFORE, the ERC, after thorough and due deliberation, hereby RESOLVES, as it is hereby RESOLVED, to APPROVE and ADOPT the amendments to Section 4 of Article 4 and Section 1 of Article 5 of the said Rules, as follows:

“ ARTICLE 4

CALCULATION OF THE OVER OR UNDER RECOVERY IN THE IMPLEMENTATION OF ADJUSTMENT MECHANISMS

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Section 4. System Loss Rate Over/Under Recovery. The System Loss Rate Over/Under Recovery (SLOUR) shall be calculated based on the following formula:

FORMULA 9

$$SLOUR = \frac{[(ASLC - ASLR) + rSLOUR]}{S_{SLOUR}}$$

Where:

SLOUR = Refers to over/under recoveries in system loss during the recovery period expressed in Peso/kWh

ASLC = Allowable System Loss Cost incurred during the recovery period determined as follows:

$$ASLC = ASLC_{Y1} + ASLC_{Y2} + \dots + ASLC_{Yn}$$

Where:

$$ASLC_{Y1-n} = \left(\left[\frac{GTGC_Y}{TPG_Y} + \frac{TC_Y - 50\% PFD_Y}{TPG_Y} \right] U \right) S_Y$$

Where:

GTGC_Y = Sum of the generation costs (GTGC) for January to December of each year during the recovery period

Where:

GTGC = As defined in Section 4, Article 2 hereof

TC_Y = The actual transmission cost in Peso for January to December of each year during the recovery period

PFD_Y = Power Factor Discounts available by the DU, net of the Power Factor Discounts given to customers and Third Parties for January to December of each year during the recovery period, where: Discount passed on to customers and Third Parties ≤ discount available from

TRANSCO/NGCP for month 1 to m

TPG_y Total kWh Purchased and Generated for January to December of each year during the recovery period net of kWh distributed to customers under special programs and Sale for Resale Agreements, if such sales have different system loss charge rates from regular customers.

U = Gross Up Factor = $\% SL / (1 - \text{Actual } \% \text{ System Loss})$;

The $\% SL$ is based on:

- a) the Actual Systems Loss for January to December or the Systems Loss Cap, whichever is lower plus
- b) the Actual Company use for January to December or 1%, whichever is lower.

The Actual $\% System Loss$, on the other hand, is based on:

- a) the Actual System Loss for January to December plus
- b) the Actual Company Use for January to December.

The kWh Sales to be used in determining the System Loss shall be net of kWh distributed to special programs and Sale for Resale Agreements, if such sales have different system loss charge rates from regular customers.

If SLR varies per customer class, the DU shall compute the applicable Gross Up Factor per customer class.

Pursuant to ERC Resolution No. 17, Series of 2008, upon the Commission's approval of the DU's Operation and Maintenance Expenses, wherein the Company Use shall have been included, the same shall no longer form part of the $\% SL$ and Actual $\% SL$ as defined above.

S_y = The Total kWh Sales for January to December of each year during the recovery period.

$ASLR$ = Total actual system loss revenues for generation and transmission billed to customers for the recovery period except those associated with special programs and Sale for Resale Agreements, if such sales have different system loss charge rates from regular customers, computed as follows:



$$ASLR = \sum_{i=1}^m [SLR_i \times S]$$

Where:

SLR_i = Actual implemented systems loss rate for each month during the recovery period

S = Actual kWh Sales for the each month during the recovery period, net of kWh distributed to special programs and Sale for Resale Agreements, if such sales have different system loss charge rates from regular customers

$rSLOUR$ = The total running balance of the refund/collect as a result of prior confirmation/s

S_{SLOUR} = Total kWh Sales for the recovery period net kWh distributed to customers under special programs and Sale for Resale Agreements, if such sales have different system loss charge rates from regular customers

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ARTICLE 5

FILING AND RESOLUTION OF THE APPLICATIONS

Section 1. Filing. The DUs shall file their respective consolidated applications within the period as prescribed hereunder:

Distribution Utilities	Period of Filing	Covered Adjustments
Luzon DUs	March 31, 2011	Adjustments implemented until the billing month of December 2010
Visayas DUs	March 31, 2012	Adjustments implemented until the billing month of December 2011
Mindanao DUs	March 31, 2013	Adjustments implemented until the billing month of December 2012

Thereafter, the DUs shall file their respective consolidated applications within the period as prescribed hereunder:

Distribution Utilities	Period of Filing	Covered Adjustments
Luzon DUs	March 31, 2014	Jan. 2011 – Dec. 2013
Visayas DUs	March 31, 2015	Jan. 2012 – Dec. 2014
Mindanao DUs	March 31, 2016	Jan. 2013 – Dec. 2015

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Subsequently, the DUs shall file their respective consolidated applications every three (3) years following the sequence of period of filing prescribed above.

This Resolution shall take effect fifteen (15) days following its publication in a newspaper of general circulation in the country.

Let copies of this Resolution be furnished the University of the Philippines Law Center-Office of the National Administrative Register (UPLC-ONAR) and all Distribution Utilities.

Pasig City, October 18, 2010.


ZENAIDA G. CRUZ-DUCUT
Chairperson


RAUF A. TAN
Commissioner


ALEJANDRO Z. BARIN
Commissioner


MARIA TERESA A.R. CASTAÑEDA
Commissioner


JOSE C. REYES
Commissioner

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



23
RESOLUTION NO. _____, SERIES OF 2010

**A RESOLUTION ADOPTING THE RULES IMPLEMENTING
THE DISCOUNTS TO QUALIFIED SENIOR CITIZEN END-USERS
AND SUBSIDY FROM THE SUBSIDIZING END-USERS
ON ELECTRICITY CONSUMPTION UNDER SECTIONS 4 AND 5
OF REPUBLIC ACT NO. 9994**

WHEREAS, on February 15, 2010, Republic Act No. 9994 (R.A. No. 9994) entitled, "*An Act Granting Additional Benefits and Privileges to Senior Citizens Further Amending Republic Act No. 7432, As Amended, Otherwise Known as "An Act to Maximize the Contributions of Senior Citizens to Nation Building, Grant Benefits and Special Privileges and for Other Purposes"*" was enacted which further expanded the coverage of the benefits and privileges being enjoyed by senior citizen end-users to include the entitlement to discounts on their electricity consumptions;

WHEREAS, on June 18, 2010, the Department of Social Welfare and Development (DSWD) promulgated the Implementing Rules and Regulations (IRR) of R.A. No. 9994;

WHEREAS, under Sections 4 and 5 of R.A. No. 9994 and Article 12, Section 3 of its IRR, the Energy Regulatory Commission (ERC) is mandated to formulate the supplemental guidelines on the rate recovery mechanism in the implementation of the senior citizen discounts by electricity distribution utilities;

WHEREAS, on September 22, September 29 and October 6, 2010, the ERC conducted public consultations on the proposed "Rules Implementing the Senior Citizens Discounts and Subsidy on Electricity Consumption Under Sections 4 and 5 of Republic Act No. 9994";

NOW THEREFORE, the ERC, after considering the various views and comments submitted by all interested parties, hereby **RESOLVES**, as it is hereby **RESOLVED**, to **APPROVE** and **ADOPT**, the "*Rules Implementing the Senior Citizens Discounts to Qualified Senior Citizen End-Users and Subsidy from the Subsidizing End-Users on Electricity Consumption Under Sections 4*

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and 5 of Republic Act No. 9994", hereto attached as Annex "A" and made an integral part of this Resolution.

This Resolution shall take effect fifteen (15) days following its publication in a newspaper of general circulation in the country.

Let this Resolution be posted on the ERC website and filed with the University of the Philippines Law Center Office of the National Administrative Register (ONAR).

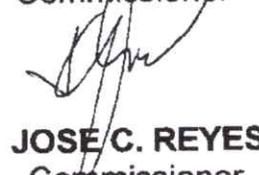
Pasig City, December 15, 2010.


ZENAIDA G. CRUZ-DUCUT
Chairperson

(On Official Travel)
RAUF A. TAN
Commissioner


MARIA TERESA A. R. CASTAÑEDA
Commissioner


ALEJANDRO Z. BARIN
Commissioner


JOSE C. REYES
Commissioner


/rs/acting/ps
12/03/10

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

**RULES IMPLEMENTING THE DISCOUNTS
TO QUALIFIED SENIOR CITIZEN END-USERS
AND SUBSIDY FROM THE SUBSIDIZING END-USERS
ON ELECTRICITY CONSUMPTION UNDER
SECTIONS 4 AND 5 OF REPUBLIC ACT NO. 9994**

Pursuant to Sections 4(c) and 5(d) of Republic Act No. 9994 (R.A. No. 9994) entitled, "An Act Granting Additional Benefits and Privileges to Senior Citizens, Further Amending the Republic Act No. 7432, As Amended", otherwise known as "An Act to Maximize the Contribution of Senior Citizens to Nation Building, Grant Benefits and Special Privileges and for Other Purposes", the Energy Regulatory Commission (ERC) hereby adopts and promulgates these rules to establish a process for a revenue neutral implementation of the Senior Citizen Discount and Subsidy Rates by electricity Distribution Utilities (DUs).

ARTICLE 1

GENERAL PROVISIONS

Section 1. Objectives

These Rules shall have the following objectives:

- 1.1.1 To ensure that the Senior Citizen Discounts shall be granted and applied to all qualified senior citizen end-users of all DUs from the subsidy to be paid by the non-senior citizen and non-qualified senior citizen end-users;
- 1.1.2 To provide for transparency in the giving of the Senior Citizen Discounts and in the calculation of the subsidy rates; and
- 1.1.3 To protect the public interest as it is affected by the rates and services of DUs.

Section 2. Scope

These Rules shall apply to all DUs.



Section 3. Definition of Terms

- ACT** Unless otherwise stated, shall refer to Republic Act No. 9994;
- DEPARTMENT OF SOCIAL WELFARE AND DEVELOPMENT (DSWD)** Shall refer to the Department reorganized into its current name and structure first, in 1987, under Executive Orders No. 123 and 292 by then President Corazon C. Aquino; then, in 1998, under Executive Order No. 15 by then President Joseph Ejercito Estrada; and the latest, in 2003, under Executive Order No. 221 by then President Gloria Macapagal Arroyo. Its current mandate is to provide assistance to local government units, non-government organizations, other national government agencies, people's organizations, and other members of civil society in effectively implementing programs, projects and services that will alleviate poverty and empower disadvantaged individuals, families and communities for an improved quality of life;
- DISTRIBUTION UTILITY (DU)** Shall refer to any electric cooperative, private corporation, government-owned utility or owned and operated by an existing local government unit which has an exclusive franchise to operate a distribution system in accordance with Section 4(q) of Republic Act No. 9136;
- ENERGY REGULATORY COMMISSION (ERC)** Shall refer to the regulatory agency created under Section 38 of Republic Act No. 9136, otherwise known as the "Electric Power Industry Reform Act of 2001" (EPIRA);
- GROUP HOME** As provided under Article 5.18 of the Act's IRR, shall refer to a community-based alternative living arrangement to institutional care. It can be a transit home for a definite period for neglected older persons while the necessary services of locating relatives and care management is ongoing. It envisions responding to the needs of the senior citizens who have been abandoned, have no families to return to or to whose family reunification is not suitable, and are assessed to be needing group living experience. The program enables a minimum of six (6) and a maximum of ten (10) clients discharged from a residential care facility to live together and manage their group living activities with minimal supervision from the agency social worker;
- IMPLEMENTING RULES AND REGULATIONS (IRR)** Shall refer to the Implementing Rules and Regulations of Republic Act No. 9994, also known as the "Expanded Senior Citizens Act of 2010," An Act Granting Additional Benefits and Privileges to Senior Citizens, Further Amending Republic Act No. 7432 of 1992 As Amended by Republic Act No. 9257 of 2003;



RESIDENTIAL CARE FACILITY/INSTITUTION

As provided under Article 5.20 of the Act's IRR, shall refer to facility which provides twenty-four (24) hour residential care services operated primarily for the purpose of promoting the well-being of abandoned, neglected, unattached or homeless senior citizens. The facility may be run by government or non-stock, non-profit organization and is accredited by the DSWD to serve a minimum of ten (10) clients;

SENIOR CITIZEN OR ELDERLY

As provided under Section 2(a) of the Act, shall refer to any resident citizen of the Philippines at least sixty (60) years old; and under Article 5.1 of the Act's IRR, shall refer to any Filipino citizen who is a resident of the Philippines, and who is sixty (60) years old or above. It may apply to senior citizens with "dual citizenship" status provided they prove their Filipino citizenship and have at least six (6) months residency in the Philippines;

SENIOR CITIZENS CENTER

As provided under Article 5.16 of the Act's IRR, shall refer to the place established by Republic Act No. 7876 or the Senior Citizens Center Act, with recreational, educational, health and social programs and facilities designed for the full enjoyment and benefit of the senior citizens in the city or municipality accredited by the DSWD. It can be any available structure, a spacious room in a private or public building, a room attached to a community center, a barangay hall or chapel;

SENIOR CITIZEN END-USERS

Shall refer to residential senior citizen customers and senior citizen centers and residential care facilities/institutions or group homes that are accredited by the DSWD and qualified to avail of the senior citizen discount in accordance with Sections 4(c) and 5(d) of the Act and Article 12, Sections 1 and 2 of the Act's IRR;

SUBSIDIZING END-USERS

Shall refer to the non-senior citizen and non-qualified senior citizen end-users who shall bear the discounts and adjustments extended to qualified senior citizen end-users. All lifeline customers are excluded from the subsidizing end-users' base.

ARTICLE 2

SENIOR CITIZEN DISCOUNT APPLICATION REQUIREMENTS

Section 1. Qualifications for Availment of Residential Senior Citizens' Discount. To avail of the discount for the residential senior citizen customers, the following conditions must be observed:

- 2.1.1 The monthly residential consumption must not exceed one hundred (100) kWh of electricity. Residential senior citizen customers whose consumption shall exceed the 100 kWh limit during any month are not entitled to the senior citizen discount during the month when they exceeded the said limit.
- 2.1.2 The kilowatt-hour meter of the residing senior citizen must have been registered in his/her name for a period of not less than one (1) year.
- 2.1.3 The grant of senior citizen discount shall apply per household regardless of the number of senior citizens residing therein.
- 2.1.4 The senior citizen should apply for the senior citizen discount personally or through an authorized representative to the distribution utility and must submit the following documentary requirements:
 - a) Proof of age and citizenship –
 1. Birth certificate or any proof of birth; or
 2. Valid Senior Citizen's Identification Card issued by the Office of Senior Citizen's Affairs (OSCA) in the city or municipality where the elderly resides; or
 3. Philippine passport or any government identification card showing proof of age and citizenship, i.e., driver's license, voter's ID, SSS/GSIS, PRC card, postal ID.
 - b) Proof of residence –
 1. Barangay certificate; or
 2. Affidavit of two (2) disinterested persons duly notarized and has known the senior citizen for not less than one (1) year.
 - c) Proof of billing –
 1. Copy of electric bill issued in the name of the senior citizen.
 - d) Proof of authority (if through a representative) –
 1. Valid identification card of the representative; and
 2. Authorization letter duly signed or thumb-marked by the senior citizen end-user which shall be valid only for a period of one (1) year from date of issuance

Section 2. Qualifications for Availment of Senior Citizens Centers and Residential Care Facilities/Institutions or Group Homes' Discount. To avail of the discount for Senior Citizens Centers and Residential Care Facilities/Institutions or Group Homes, the following conditions must be complied:

- 2.2.1 The senior citizens centers and residential care facilities/institutions or group homes operators must submit photocopy of the approved Department of Social Welfare and Development's (DSWD) accreditation.
- 2.2.2 The senior citizens centers and residential care facilities/institutions or group homes must have been in operation for at least six (6) months and must have a separate meter for said utilities/services.

Section 3. Change of Name in Meter Ownership. A consumer may apply for a transfer of electric service contract in order to avail of the senior citizen discount provided that all the above-cited conditions under Sections 1 and 2 hereof, whichever is applicable, are met and the necessary documentary requirements are submitted to effect the transfer of electric service together with any of the following applicable document:

- 2.3.1 For residential unit that is being rented and the electric service contract is registered in the name of the owner, tenant must submit copy of agreement that the owner is willing to transfer the electric service contract in the name of tenant who is a senior citizen.
- 2.3.2 For senior citizen centers and residential care facilities/institutions or group homes where the electric service contract is originally registered in the name of another entity, the operator of the senior citizen centers and residential care facilities/institutions or group homes must submit document or any proof showing that the entity has agreed to transfer said electric service contract to the name of the senior citizen center, residential care facility/institution or group home.

Section 4. Change of Membership. In the case of electric cooperatives, a residential member-consumer may change membership in order to avail of the senior citizen discount provided it complies with the policies and guidelines of the electric cooperative.

Section 5. Residential Senior Citizen with Multiple Accounts. For residential senior citizen customers with multiple electric service contracts with the DU registered in one name, said customer can only avail of the senior citizen discount for the place where he/she actually resides.

Section 6. Actions on Application for Senior Citizen Discount. DUs must evaluate and process applications for senior citizen discounts within fifteen (15) calendar days upon receipt of complete documents. Within the same period, the DU must inform the applicant through a letter of its decision on the application. For approved applications, the senior citizen discount shall apply the next billing period after the approval. For disapproved applications, DU must state the reason/s for disapproval.

Applications for approval of discounts shall only be accepted and processed by the DU after the residential senior citizen customer has established the one (1) year residency period and the senior citizen centers and residential care facilities/institutions or group homes has established the six (6) months operation requirement.

Section 7. Renewal of Applications for the Senior Citizen Discounts. Senior citizen end-users availing of the senior citizen discount shall renew annually their applications with the DU to ensure that they are still eligible for the said benefits and/or are still existent at the time of renewal.



ARTICLE 3

CONSUMER BILL COMPONENTS SUBJECT TO THE DISCOUNT

Section 1. Included Consumer Bill Components. The senior citizen discount shall be applied on the basic generation, transmission, system loss, distribution, supply, metering, lifeline discount and loan condonation (for electric cooperatives, if applicable) charges on the consumer bill of senior citizen end-users.

Section 2. Excluded Consumer Bill Components. All the other bill charges such as interclass cross subsidy, franchise taxes, universal charges, members' contribution on capital expenditures (MCC) [for electric cooperatives] and all confirmed over/under recoveries in all the other adjustment mechanisms mandated by the ERC are not subject to the senior citizen discount.

Any future consumer bill components that may be approved by the Commission, except those related to distribution, supply and metering charges, shall likewise be excluded from the application of the senior citizen discount.

ARTICLE 4

CALCULATIONS OF DISCOUNTS TO BE GRANTED TO SENIOR CITIZEN END-USERS

All DUs shall calculate the senior citizen discount each calendar month based on the following applicable formulae:

Section 1. Residential Senior Citizen Customer Discount Formula. The amount of discount to be granted to each and every qualified residential senior citizen customer shall be computed and billed each calendar month as follows:

$$SrD_{SrRest} = \left(\left[\{TRate \times kWh_{SrRest}\} + Fixed\ MetRate/Cust/Mo_{SrRest} + Fixed\ SuppRate/Cust/Mo_{SrRest} \right] \times [100\% - Ll_{j=1..n}] \right) \times D_{SrRest}$$

where:

SrD_{SrRest} = amount of Senior Citizen Discount to be granted to the specific qualified residential senior citizen customer during the billing month

$TRate$ = total PhP/kWh rate as defined under Article 2, Section 5 of the "Rules Governing the Automatic Cost Adjustment and True-Up Mechanisms and Corresponding Confirmation Process for Distribution Utilities" adopted by the ERC under Resolution No. 16, Series of 2009



NOTE: prior years' adjustments such as the confirmed over/under recoveries in all the other adjustment mechanisms mandated by the ERC and the members' contribution on capital expenditures (MCC) [for electric cooperatives] are excluded in the computation of the TRate

Fixed MetRate /Cust/Mo_{SrResl} = fixed metering charge for qualified residential senior citizen customers

Fixed SuppRate /Cust/Mo_{SrResl} = fixed supply charge for qualified residential senior citizen customers

kWhS_{SrResl} = the billing month's kWh consumption of the specific qualified residential senior citizen customer

LL_{j=1..n} = Lifeline level discount percentage for lifeline level bracket 1 to lifeline level bracket n applicable to the billing month's kWh consumption of the specific qualified lifeline residential senior citizen customer

Note: For DUs where the maximum lifeline level is below the mandated 100 kWh subject to senior citizen discount, the excess kWh consumption shall have an equivalent zero percent (0%) for this variable since the same are not subject to lifeline discount but only to senior citizen discount.

D_{SrResl} = applicable discount rate for qualified residential senior citizen customers as mandated under Section 4(c) of the Act and Article 12, Section 1 of the Act's IRR

Section 2. Senior Citizen Centers and Residential Care Facilities/Institutions or Group Homes Discount Formula. The amount of discount to be granted to each and every qualified senior citizen center, residential care facility/institution or group home shall be computed and billed each calendar month as follows:

$$SrD_{SrInst} = ([TRate_{SrInst} \times kWhS_{SrInst}] + [FixedMetRate/Cust/Mo_{SrInst} + FixedSuppRate/Cust/Mo_{SrInst}] + [(TransRate_{SrInst} + DistRate_{SrInst}) \times kWhS_{SrInst}]) \times D_{SrInst}$$

where:

SrD_{SrInst} = amount of Senior Citizen Discount to be granted to the specific qualified senior citizen center or residential care facility/institution or group home during the billing month

TRate_{SrInst} = total PhP/kWh rate applicable to the discount to be granted to the specific qualified senior citizen center or residential care facility/institution or group home based on the customer classification where it belongs. A DU which shall have two or more institutions belonging to different customer classifications, each institution shall have different TRates. This shall include generation, transmission (the PhP/kWh component under a mixed rate structure), system loss, distribution (the PhP/kWh component under a mixed rate structure), supply, metering and loan condonation (for electric cooperatives, if applicable)

NOTE: prior years' adjustments such as the confirmed

over/under recoveries in all the other adjustment mechanisms mandated by the ERC and the members' contribution on capital expenditures (MCC) [for electric cooperatives] are excluded in the computation of the TRate

- $kWhS_{SrInst}$** = the billing month's kWh consumption of the specific qualified senior citizen center or residential care facility/institution or group home
- $Fixed\ MetRate / Cust / Mo_{SrInst}$** = fixed metering charge applicable to the specific qualified senior citizen center or residential care facility/institution or group home based on the customer classification where it belongs
- $Fixed\ SuppRate / Cust / Mo_{SrInst}$** = fixed supply charge applicable to the specific qualified senior citizen center or residential care facility/institution or group home based on the customer classification where it belongs
- $TransRate_{SrInst}$** = transmission demand charge (PhP/kW) applicable to the specific qualified senior citizen center or residential care facility/institution or group home based on the customer classification where it belongs
- $DistRate_{SrInst}$** = distribution demand charge (PhP/kW) applicable to the qualified senior citizen center and residential care facility/institution or group home based on the customer classification where it belongs
- kWS_{SrInst}** = the billing month's kW consumption of the specific qualified senior citizen center or residential care facility/institution or group home
- D_{SrInst}** = applicable discount rate for all qualified senior citizen centers and residential care facilities/institutions or group homes as mandated under Section 5(d) of the Act and Article 12, Section 2 of the Act's IRR

Note: Any part of or variable in the formula that is not applicable shall have the value of zero (0).

ARTICLE 5

CALCULATION OF SUBSIDY TO BE CHARGED TO SUBSIDIZING END-USERS

Section 1. Senior Citizen Subsidy Rate Formula. All Distribution Utilities (DUs) shall calculate and bill the Senior Citizen Subsidy Rate (SrSR) to all subsidizing end-users each calendar month based on the following formula:

$$SrSR_{SEU} = \left(\frac{TD_{Sr}}{kWhS_{SEU}} \right) + OSrRA$$

where:

$SrSR_{SEU}$ = Senior Citizen Subsidy Rate expressed in Peso/kWh for the month to be charged to all subsidizing end-users

TD_{Sr} = total amount of discount granted to all Senior Citizen End-Users during the previous month which shall be computed as follows:

$$TD_{Sr} = (TD_{SrRest} + TD_{SrInst})$$

where:

TD_{SrRest} = The total amount of discounts granted to all qualified residential senior citizen customers during the previous month in accordance with Section 4(c) of the Act and Article 12, Section 1 of the Act's IRR

The computation is as follows:

$$TD_{SrRest} = \sum_{j=1}^{100} ([kWh_{SrRest} \times TRate] + [NCust_{SrRest} \times \{ \text{Fixed SuppRate/Cust}/M_{O_{SrRest}} + \text{Fixed MetRate}/Cust/M_{O_{SrRest}} \}] \times [100\% - Ll_{j=1..n}]) \times D_{SrRest}$$

where:

kWh_{SrRest} = total kWh sales per kWh consumption of all qualified individual senior citizens during the previous month

$TRate$ = total PhP/kWh rate as defined under Article 2, Section 5 of the "Rules Governing the Automatic Cost Adjustment and True-Up Mechanisms and Corresponding Confirmation Process for Distribution Utilities" adopted by the ERC under Resolution No. 16, Series of 2009

NOTE: prior years' adjustments such as confirmed over/under recoveries in all the other adjustment mechanisms mandated by the ERC and the members' contribution on capital expenditures (MCC) [for electric cooperatives] are excluded in the computation of the $TRate$.

$NCust_{SrRest}$ = total number of customers per kWh consumption of qualified residential senior citizen who were granted the senior citizen discount during the previous month.

$\text{Fixed MetRate}/Cust/M_{O_{SrRest}}$ = fixed metering charge for all qualified residential senior citizen customers

D_{SrRest} = applicable discount rate for all qualified residential senior citizen

customers as mandated under Section 4(c) of the Act and Article 12, Section 1 of the Act's IRR

TD_{SrInst} = total amount of discount granted to all qualified senior citizen centers and residential care facilities/institutions or group homes during the previous month in accordance with Section 5(d) of the Act and Article 12, Section 2 of the Act's IRR, with separate computation for each customer class where the qualified senior citizen centers and residential care facilities/institutions or group homes belong.

The computation is as follows:

$$TD_{SrInst} = \sum TD_{SrInst\ L,n}$$

where:

$$TD_{SrInst\ L,n} = ([kWh_{SrInst\ L,n} \times TRate_{SrInst\ L,n}] + [NCust_{SrInst\ L,n} \times \{Fixed\ MetRate/Cust/Mo_{SrInst\ L,n} + Fixed\ SuppRate/Cust/Mo_{SrInst\ L,n}\}] + [kWS_{SrInst\ L,n} \times \{TransRate_{SrInst\ L,n} + DistRate_{SrInst\ L,n}\}]) \times D_{SrInst}$$

where:

$kWh_{SrInst\ L,n}$ = total kWh sales per customer classification of all qualified senior citizen centers and residential care facilities/institutions or group homes during the previous month

$TRate_{SrInst\ L,n}$ = total PhP/kWh rate per customer classification subject to the discount granted to all qualified senior citizen centers and residential care facilities/institutions or group homes which include generation, transmission, system loss, distribution, supply, metering and loan condonation (for electric cooperatives)

NOTE: prior years' adjustments such as the confirmed over/under recoveries in all the other adjustment mechanisms mandated by the ERC and the members' contribution on capital expenditures (MCC) [for electric cooperatives] are excluded in the computation of the TRate.

$NCust_{SrInst\ L,n}$ = total number of customers per customer classification of qualified senior citizen centers and residential care facilities/institutions or group homes who were granted

- the senior citizen discount during the previous month
- $Fixed\ MetRate / Cust / Mo_{SrInst\ i,n}$ = fixed metering charge per customer classification of all qualified senior citizen centers and residential care facilities/institutions or group homes
- $Fixed\ SuppRate / Cust / Mo_{SrInst\ i,n}$ = fixed supply charge per customer classification of all qualified senior citizen centers and residential care facilities/institutions or group homes
- $kWS_{SrInst\ i,n}$ = total kW sales per customer classification of all qualified senior citizen centers and residential care facilities/institutions or group homes during the previous month
- $TransRate_{SrInst\ i,n}$ = transmission demand charge (PhP/kW) per customer classification of all qualified senior citizen centers and residential care facilities/institutions or group homes
- $DistRate_{SrInst\ i,n}$ = distribution demand charge (PhP/kW) per customer classification of all qualified senior citizen centers and residential care facilities/institutions or group homes
- $D_{SrInst\ i,n}$ = applicable discount rate for all qualified senior citizen centers and residential care facilities/institutions or group homes as mandated under Section 5(d) of the Act and Article 12, Section 2 of the Act's IRR

$kWhS_{SEU}$ = total kWh Sales to all subsidizing end-users during the previous month

$OSrRA$ = Other Senior Citizen Rate Adjustment, shall refer to adjustments deemed necessary by the Commission after prior verification and confirmation, and $SrDSOUR$ determined using the formula provided in Article 5, Section 2 hereof.

Note: Any part of or variable in the formula that is not applicable shall have the value of zero (0).

During the initial or first implementation of the granting of the discounts to qualified senior citizen end-users, the DU shall determine the subsidy rate to be charged to subsidizing end-users. Provided, however, the amount of such subsidy shall in no case exceed the amount of discounts extended to qualified senior citizen end-users.

3



Section 2. Monthly Calculation and Billing of the Senior Citizen Subsidy Rate. The Senior Citizen Subsidy Rate shall be calculated and billed each calendar month using the formula in Article 4, Section 1 hereof. For transparency, the DUs shall reflect as a separate line item in its monthly billings to its customer the Senior Citizen Subsidy Rate. The DUs shall bill their customers the monthly computed Senior Citizen Subsidy Rate without the need of prior ERC approval. However, the resulting under or over recovery relative to the granting of the discount and the collection of the subsidy, if any, shall be subject to periodic verification in accordance with Article 6 hereof.

ARTICLE 6

REPORTORIAL REQUIREMENTS

Section 1. Submission of Reportorial Requirements. Starting on the month following the inclusion in the customers' bills, the DU shall provide the ERC on or before the 30th day of the following month with all the calculations and information relative to the subject mechanism provided for herein through the prescribed Uniform Reportorial Requirements (URR) adopted by the ERC under Resolution No. 17, Series of 2009 along with supporting documentations, which shall include, but not limited to, the following:

- 6.1.1 Bill duplicates of the actual consumer bills of the following senior citizen end-users (3 bills each):
 - a) Non-lifeline residential senior citizen customers
 - b) Lifeline residential senior citizen customers for each level from lifeline level bracket 1 to lifeline level bracket n
 - c) Senior citizen centers and residential care facilities/institutions or group homes
- 6.1.2 Amount of discount for each kWh consumption of lifeline and non-lifeline residential senior citizen customers (see Annex "A-1")
- 6.1.3 Amount of discount for senior citizen centers and residential care facilities/institutions or group homes itemized per customer classification, if applicable (see Annex "A-2")
- 6.1.4 Computation of subsidy to be charged to all subsidizing end-users (see Annex "A-3")

An offshoot to the promulgation of these Rules is the necessity of introducing amendments to the URR to accommodate the data or information required herein.

Section 2. Post Implementation Evaluation Requirements. After three (3) years upon the implementation of the senior citizen discounts and subsidy by DUs, a Post Implementation Evaluation Report shall be submitted by the DUs which shall provide for a feedback mechanism on the impact of the mandated 100 kWh electricity consumption level across all DUs and the effect of the

imposition of additional subsidy (aside from lifeline subsidy, universal charges, franchise and business taxes, value added tax, etc.) on the subsidizing end-users. The report to be generated shall be furnished to the DSWD and to the appropriate committees of both houses of Congress for them to understand the ramifications of the implementation of the senior citizen discount on electricity consumption.

ARTICLE 7

CALCULATION OF THE OVER OR UNDER RECOVERY IN THE IMPLEMENTATION OF THE SENIOR CITIZEN DISCOUNTS AND SUBSIDY RATES

There shall be a periodic calculation of the over or under recoveries in the granting of the senior citizen discounts and the collection of subsidies by the DUs which shall be subject to post verification by the ERC.

Section 1. Calculation of Over/Under Recoveries. The DU shall calculate the over or under recoveries in the Senior Citizen Discounts and Subsidy Rates brought about by the variance between the allowable cost and the revenues billed using the formula under Section 2 hereof.

Section 2. Senior Citizen Discounts and Subsidy Over/Under Recovery Formula. The Senior Citizen Over/Under Recovery (SrSOUR) to be charged/refunded to all subsidizing end-users shall be calculated based on the following:

$$SrDSOUR = \frac{SrDiff_{S-D}}{kWhS_{SrDSOUR_{SEU}}}$$

where:

SrDSOUR = refers to the over/under recoveries on senior citizen discounts and subsidy during the recovery period subject for verification expressed in PhP/kWh

SrDiff_{S-D} = Summation of the difference between the total subsidy collected from all subsidizing end-users and the total discounts granted to senior citizen end-users for each and every recovery month within the period covered by the verification process, computed as follows:

$$SrDiff_{S-D} = \sum_{i=1}^n (TS_{SEU_i} - TD_{Sr_i})$$

where:

TS_{SEU_i} = total amount of subsidy collected from all subsidizing end-users for the recovery month, computed as follows:

$$TS_{SEU_i} = SrSR_{SEU_i} \times kWhS_{SEU_i}$$

where:

$SrSR_{SEU_i}$ = Senior Citizen Subsidy Rate expressed in Peso/kWh implemented or collected from all subsidizing end-users for the recovery month

$kWhS_{SEU_i}$ = total kWh Sales to all subsidizing end-users for the recovery month

TD_{Sr_i} = total amount of discounts implemented or granted to all qualified senior citizen end-users for the recovery month, computed as follows:

$$TD_{Sr_i} = \sum TD_{SrResl_i} + \sum TD_{SrInst_i}$$

where:

$\sum TD_{SrResl_i}$ = total amount of discount implemented or granted to all qualified residential senior citizens customer for the recovery month

$\sum TD_{SrInst_i}$ = total amount of discount implemented or granted to all qualified senior citizen centers and residential care facilities/institutions or group homes for the recovery month

$kWhS_{SrDSOUR_{SEU}}$ = aggregate kWh Sales to all subsidizing end-users for all the recovery months within the period covered by the verification process

Note: Any part of or variable in the formula that is not applicable shall have the value of zero (0).

Section 3. Post Verification. The ERC shall verify the over or under recovery in the Senior Citizen Discount and Subsidy Rates once every three (3) years to coincide and in accordance with the time frames as set forth under Article 5 of the "Rules Governing the Automatic Cost Adjustment and True Up Mechanisms and Corresponding Confirmation Process for Distribution Utilities" adopted by the ERC under Resolution No. 16, Series of 2009. In effect, these Rules shall constitute an addendum to the aforementioned Rules. The actual subsidy collected for the period and the actual discount granted for the same period shall be compared to ensure revenue neutrality to the DU.

The ERC shall issue an Order for any adjustment to be included in the Senior Citizen Subsidy Rate as a result of the verification of the over or under recovery in the implementation of the senior citizen discounts and subsidy rates. It shall likewise include the prescribed period within which said adjustment shall be implemented.



ARTICLE 8

FINES AND PENALTIES

Section 1. Fines and Penalties. Violation of any provision of these Rules shall be subject to the imposition of fines and penalties in accordance with Resolution No. 3, Series of 2009 entitled "Resolution Amending the Guidelines to Govern the Imposition of Administrative Sanctions in the Form of Fines and Penalties Under Section 46 of Republic Act No. 9136" promulgated by the ERC on February 23, 2009, without prejudice to the imposition of the appropriate fines and penalties provided for violations of the Act and its IRR under Section 7 of the Act and Article 24 of its IRR, as follows:

- 8.1.1 For the first violation, a fine of not less than Fifty thousand Pesos (PhP50,000.00) but not exceeding One Hundred Thousand Pesos (PhP100,000.00) and imprisonment of not less than two (2) years but not more than six (6) years;
- 8.1.2 For any subsequent violation, a fine not less than One Hundred Thousand Pesos (PhP100,000.00) but not exceeding Two hundred Thousand Pesos (PhP200,000.00) and imprisonment of not less than two (2) years but not more than six (6) years;
- 8.1.3 Any person who abuses the privileges granted herein (Act and IRR) shall be punished with a fine of not less than Fifty Thousand Pesos (PhP50,000.00) but not more than One Hundred Thousand Pesos (hP100,000.00) and imprisonment of not less than six (6) months;
- 8.1.4 If the offender is an alien or a foreigner, he/she shall be deported immediately after service of sentence without further deportation proceedings;
- 8.1.5 If the offender is a corporation, partnership, organization or any similar entity, the official/s thereof charged with the management of the business affairs or directly involved thereof shall be liable therefor;
- 8.1.6 Upon filing of an appropriate complaint, and after due notice and hearing, the proper authorities may also cause the cancellation or revocation of the business permit, permit to operate, franchise and other similar privileges granted to any business entity that fails to abide by the provisions of the Act and the IRR.

ARTICLE 9

FINAL PROVISIONS

Section 1. Exception Clause. Where good cause appears, the ERC may allow an exception from any provisions of these Rules, if such exception is found to be in the public interest and is not contrary to any law, rules and regulations.



Section 2. Separability Clause. If for any reason, any provision of these Rules 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.

Section 3. Effectivity. These Rules shall take effect fifteen (15) days following its publication in two (2) newspapers of general circulation in the country. These Rules are hereby ordered to be posted on the ERC website and filed with the University of the Philippines Law Center Office of the National Administrative Register (ONAR).

Pasig City, December 15, 2010.

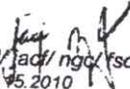

ZENAIDA G. CRUZ-DUCUT
Chairperson

(On Official Travel)
RAUF A. TAN
Commissioner


MARIA TERESA A.R. CASTAÑEDA
Commissioner


ALEJANDRO Z. BARIN
Commissioner


JOSE C. REYES
Commissioner


rsl/act/ngc/rscj
12.15.2010

REPUBLIC OF THE PHILIPPINES
ENERGY REGULATORY COMMISSION
San Miguel Avenue, Pasig City



RESOLUTION NO. 10, Series of 2018

A RESOLUTION CLARIFYING THE SYSTEM LOSS CALCULATION AND PROVIDING THE EFFECTIVITY OF THE RULES FOR SETTING THE DISTRIBUTION SYSTEM LOSS CAP

WHEREAS, Section 43 (f) of Republic Act No. 9136, otherwise known as the Electric Power Industry Reform Act of 2001 (EPIRA) provided that the cap on the recoverable rate of system loss prescribed in Section 10 of Republic Act No. 7832 is amended and shall be replaced by caps which shall be determined by the Energy Regulatory Commission (ERC) based on load density, sales mix, cost of service, delivery voltage and other technical considerations it may promulgate;

WHEREAS, on September 2016, the Commission, after public bidding, engaged the services of a consultant, PowerSolv Inc. to conduct a study on system loss for purposes of establishing new caps based on the abovementioned parameters;

WHEREAS, said engagement required PowerSolv Inc. to: 1) come up with a new distribution system loss caps (technical and non-technical losses) including incentive scheme for system loss reduction based on the criteria provided in the EPIRA; 2) review and enhance, if necessary, the existing models/methodology for segregating the technical and non-technical losses; and 3) prepare the draft rules for the determination of caps for recoverable levels of distribution system losses;

WHEREAS, PowerSolv Inc. was instructed that the methodology should consider characteristics that include load density, sales mix, cost of service, delivery voltage and any other technical considerations, as provided in the EPIRA, necessary for establishing different caps for different customer classes for different Distribution Utilities (DUs);

WHEREAS, Public Consultations on the draft rules were conducted in Manila on May 29-30, 2017 for the Luzon Stakeholders; in Cebu City for Visayas Stakeholders on June 01, 2017 and in Manila and Davao for Mindanao Stakeholders on August 09, 2017, and August 31, 2017, respectively;

10/18

WHEREAS, on July 05, 2017 and July 06, 2017 a Focus Group Discussion (FGD) was conducted at the Distribution Management Committee (DMC) conference area for Electric Cooperatives and Private Distribution Utilities, respectively;

WHEREAS, after said public consultations and FGDs, PowerSolv Inc. submitted its proposed *Rules for Setting the Distribution System Loss Cap and Establishing Performance Incentive Scheme for Distribution Efficiency (Rules)*;

WHEREAS, the proposed Rules were presented to the Senate Committee on Energy and the Committee on Energy of the House of Representatives on separate committee hearings;

WHEREAS, the Commission in its 05 December 2017 Regular Commission Meeting resolved to approve the *Rules for Setting the Distribution System Loss Cap and Establishing Performance Incentive Scheme for Distribution Efficiency*, hereto attached as Annex "A" and made an integral part of this Resolution;

WHEREAS, the new Rules grouped the Distribution Utilities into four (4) clusters based on similar technical considerations as discussed in the "Methodology on the Determination of System Loss Caps", hereto attached as Annex "B" and made an integral part of this Resolution;

WHEREAS, on February 20, 2018, the Commission sent letters with attached electronic copy of ERC Resolution No. 20, Series of 2017, complete with Annexes, to all Distribution Utilities (DUs);

WHEREAS, pending the publication of the Rules, some electric cooperatives through the Association of Mindanao Rural Electric Cooperatives, Inc. (AMRECO) requested that the issue on 1) negative system loss experienced by certain ECs; and 2) Site Specific Loss Adjustment (SSLA) be likewise addressed by the Commission;

WHEREAS, after due consideration and evaluation of the abovementioned issues, the Commission deems it proper to clarify that for purposes of system loss calculation: 1) the DU shall consider all energy inputs metered at its proper connection points or its asset boundaries per ERC Resolution No. 23, Series of 2016; and 2) the Site Specific Loss Adjustment (SSLA) beyond the asset boundary per ERC Resolution No. 23, Series of 2016 shall not form part of the computation but shall be considered in the generation rate calculation, while SSLA within the said asset boundary shall form part of the subtransmission loss;

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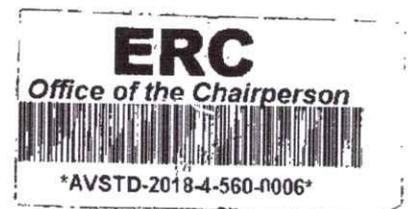
NOW, THEREFORE, the ERC, after thorough and due deliberation, hereby **RESOLVES**, as it is hereby **RESOLVED**, to **CLARIFY** the *System Loss Calculation and Providing the Effectivity of the Rules for Setting the Distribution System Loss Cap*.

The Rules shall take effect immediately after its publication in a newspaper of general circulation in the Philippines or in the Official Gazette. The prescribed system loss cap shall be effective on the next billing cycle of the DU's customers.

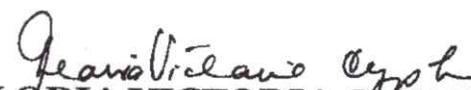
Let copies of this Resolution be furnished the University of the Philippines Law Center-Office of the National Administrative Register (UPLC-ONAR), the Senate Committee on Energy, the House of Representatives Committee on Energy, the Department of Energy (DOE), and all Distribution Utilities.

Pasig City, 23 April 2018.


AGNES VST DEVANADERA
Chairperson and CEO



(ON-LEAVE)
ALFREDO J. NON
Commissioner


GLORIA VICTORIA C. YAP-TARUC
Commissioner


JOSEFINA PATRICIA A. MAGPALE-ASIRIT
Commissioner

(ON-LEAVE)
GERONIMO D. STA. ANA
Commissioner


ROS-SCMD/REM/LLG/KAAR/FED





Republic of the Philippines
ENERGY REGULATORY COMMISSION
Pasig City

RESOLUTION NO. 02, SERIES OF 2021

A RESOLUTION ON THE RECOVERY OF PASS-THROUGH TAXES (REAL PROPERTY, LOCAL FRANCHISE, AND BUSINESS TAXES) OF THE DISTRIBUTION UTILITIES

WHEREAS, 05 August 2015, the Supreme Court issued a Decision in G. R. No. 166102 entitled, "Manila Electric Company (MERALCO) vs. The City Assessor and City Treasurer of Lucena City", wherein it ruled that MERALCO's transformers, electric posts, transmission lines, insulators, and electric meters are no longer exempted from real property tax and may qualify as a "machinery" subject to real property tax under the Local Government Code (LGC).

WHEREAS, in light of the said Supreme Court ruling, on 30 January 2017, a *Petition for Rule-Making* docketed as ERC Case No. 2017-001 RM was filed by the Private Electric Power Operators Association (PEPOA) before the Commission proposing that Real Property Tax (RPT) be allowed as a pass-through cost to the end-users (PEPOA Petition).

WHEREAS, on 07 June 2017, the Commission issued an *Order with Notice of Proposed Rule-Making* setting the said PEPOA *Petition* for public consultations in Luzon, Visayas and Mindanao on 07 August 2017, 09 August 2017, and 11 August 2017, respectively.

WHEREAS, the series of public consultations for the PEPOA *Petition* were conducted as scheduled.

WHEREAS, on 31 October 2018, another *Petition for Rule Making* docketed as ERC Case No. 2018-006 RM was filed by the Philippine Rural Electric Cooperative Association, Inc. (PHILRECA) before the Commission proposing for rules to allow the pass-through of RPT to the end-users. (PHILRECA Petition).

WHEREAS, on 18 February 2019, the Commission issued an *Order with Notice of Proposed Rule-Making* setting the PHILRECA *Petition* for public consultations in Luzon, Visayas and Mindanao on 14 March 2019, 04 April 2019, and 22 March 2019, respectively.

A RESOLUTION ON THE RECOVERY OF PASS-THROUGH TAXES (REAL PROPERTY, LOCAL FRANCHISE, AND BUSINESS TAXES) OF THE DISTRIBUTION UTILITIES

WHEREAS, the public consultation for Luzon stakeholders for the PHILRECA *Petition* was re-scheduled on 28 June 2019.

WHEREAS, on 02 October 2019, the Commission issued another *Order* dated 23 September 2019 setting the PHILRECA *Petition* for another public consultation on 05 November 2019 in order to address the following issues: a) the issue on arrears; and b) the consolidation of the PHILRECA *Petition* and the PEPOA *Petition*.

WHEREAS, on various dates, the Commission received written comments on the two (2) above-mentioned issues from the following stakeholders: (1) Manila Electric Company (MERALCO); (2) PEPOA; and (3) PHILRECA.

WHEREAS, the Commission noted that the subject matters of both *Petitions* were focused on the recovery of real property taxes alone and thereby resolved to initiate rule-making *motu proprio* to consolidate the rules on recovery of all other pass-through taxes;

WHEREAS, on 05 November 2020, the Commission approved for posting in its official website (www.erc.gov.ph) the first draft of the proposed “*Consolidated Rules on the Recovery of Pass Through Taxes (Real Property, Local Franchise, and Business Taxes) of Distribution Utilities*” (Draft Consolidated Rules) docketed as ERC Case No. 2020-004 RM.

WHEREAS, in its Notice dated 05 November 2020, the Commission directed all interested parties to submit their comments on the Draft Consolidated Rules on or before 25 November 2020.

WHEREAS, on various dates, the Commission received various comments to the said Draft Consolidated Rules from the following stakeholders: (1) PHILRECA; (2) PEPOA; (3) MERALCO; (4) Olongapo Electric Distribution Company (OEDC); (5) South Cotabato I Electric Cooperative, Inc. (SOCOTECO I); (6) Cebu I Electric Cooperative, Inc. (CEBECO I); (7) Zamboanga del Norte Electric Cooperative, Inc. (ZANECO); and (8) Batangas II Electric Cooperative, Inc. (BATELEC II).

WHEREAS, after careful evaluation of all the comments and submission of the stakeholders in the two (2) *Petitions* and in the

A RESOLUTION ON THE RECOVERY OF PASS-THROUGH TAXES (REAL PROPERTY, LOCAL FRANCHISE, AND BUSINESS TAXES) OF THE DISTRIBUTION UTILITIES

Commission initiated rule-making case, the Commission, in a meeting held on 17 December 2020, approved to issue a new rule for the recovery of pass-through taxes including real property tax, local franchise tax, and business tax.

NOW THEREFORE, BE IT RESOLVED, as it is hereby resolved, that the Commission adopts and issues the **RESOLUTION ON THE RECOVERY OF PASS-THROUGH TAXES (REAL PROPERTY, LOCAL FRANCHISE, AND BUSINESS TAXES) OF THE DISTRIBUTION UTILITIES**, hereto attached as Annex "A" and made an integral part of this Resolution.

This Resolution shall take effect immediately following its publication in newspaper of general circulation in the country or in the Official Gazette.

Let copies of this Resolution be furnished the University of the Philippines Law Center – Office of the National Administrative Register (UPLC-ONAR) and all industry stakeholders, as well as published in the ERC Website and such other online platform available to the Commission.

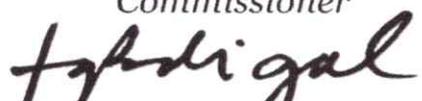
Pasig City, 17 December 2020.




AGNES VST DEVANADERA
Chairperson and CEO

(On Leave)
ALEXIS M. LUMBATAN
Commissioner

(On Leave)
CATHERINE P. MACEDA
Commissioner


FLORESINDA G. BALDO-DIGAL
Commissioner


MARKO ROMULO L. FUENTES
Commissioner


LS: BJVG/ MCCG


ROS: JFSC/AJMO/LLG

**RULES ON THE RECOVERY OF PASS-THROUGH TAXES
(REAL PROPERTY, LOCAL FRANCHISE, AND BUSINESS
TAXES) OF DISTRIBUTION UTILITIES**

ARTICLE I

GENERAL PROVISIONS

1.1 Objectives

These Rules shall have the following objectives:

- a. To provide guidance to Distribution Utilities (DUs) through an orderly procedure for recovery of Real Property, Local Franchise, and Business Taxes;
- b. To allow the full recovery of all just and reasonable components of the taxes levied by Local Government Units (LGUs) against the DUs to enable the latter to operate viably;
- c. To ensure transparency and efficiency in the implementation of appropriate recovery of tax charges; and
- d. To put in place a fair and transparent process for the confirmation of the cost adjustments implemented by the DUs and the true-up of the Real Property, Local Franchise and Business Taxes pass-through charges as approved by the Commission.

1.2 Guiding Principles

DUs shall be allowed recovery of all just and reasonable costs pertaining to current taxes that are levied by LGUs within the DU’s franchise area, subject to the post-validation and confirmation mechanism of the Commission.

The Supreme Court, in the case of *Manila Electric Company (MERALCO) vs. The City Assessor and City Treasurer of Lucena City*, G.R. No. 166102, dated 15 August 2015, confirmed that machineries owned by DUs are subject to Real Property Taxes (RPT). Pursuant to the said Decision of the Supreme Court, machineries are not exempted from the RPT. This confirms the DUs’ liability to pay RPT not only for land and buildings but for machineries as well.

In view of the above-cited Supreme Court Decision, the DUs fall under the following scenarios:

1.2.1. Privately-owned DUs (PDUs)

For PDUs under the Performance Based Regulation, these rules shall apply to RPT related to Machineries only, and only until the next regulatory reset when the RPT has been excluded from the Annual Revenue Requirement (ARR). Upon the finalization of the

Regulatory Reset Process for the next Regulatory Period, PDUs shall already exclude the RPT in the financial Building Blocks of the ARR for each Regulatory Year in such Subsequent Regulatory Period, and the Rules provided herein shall apply to all RPT charges.

1.2.2. Electric Cooperatives (ECs)

The RPT for on-grid ECs are recovered as paid, and the rate of recovery is computed based on the period it has paid subject to the provisions of the Rules for Setting Electric Cooperatives Wheeling Rates (PSEC-WR).

The Current RPT Charge for ECs shall refer to the RPT that ECs have paid for the LGUs for the current period covered by the current rate of additional contribution for RPT reflected as a separate line item in the bill.

1.3 Scope and Applicability

These Rules shall apply to all DUs where Real Property, Local Franchise, and Business Taxes are levied within their franchise areas and shall govern the recovery of the pass-through costs.

Only real property, franchise and business taxes that are assessed by the LGUs for the Year 2021 and thereafter, and subsequently paid for by the DUs shall be allowed to be passed on to consumers, subject to the provisions of these Rules.

Tax arrearages, including interests, penalties and other charges imposed on DUs resulting from their delayed payment of the said taxes, shall not be allowed to be passed on to consumers and shall be borne solely by the concerned DUs, unless expressly allowed herein.

Tax arrearages shall include taxes assessed for one particular year but paid by the concerned DU in the succeeding year, unless the LGU has allowed the payment thereof in installments in which some or all of the amortizations are paid in the succeeding calendar year. In such instances, the amount of taxes allowed by the LGUs to be paid in the succeeding year shall be allowed to be passed on, provided that the requirements provided under these Rules are complied with.

These Rules shall likewise govern the applications for the recovery of any allowable real property, local franchise and business tax. Applications of this nature filed under Resolution No. 16, Series of 2009 shall no longer be accepted by the ERC.

Subject to the requirements provided in these Rules, the real property, local franchise and business taxes paid by the DUs for a particular calendar year may be passed on to consumer only within the year it was paid. Other taxes allowed to be passed on to their consumers but paid beyond the period mentioned in the preceding statement shall be recovered through the confirmation mechanisms under Article V of these Rules.

The resulting pass-through charges shall be reflected as a separate line item in their customers' electricity bills.

1.4 Definition of Terms

- a. **“Annual Revenue Requirement” or “ARR”** shall refer to the allowed annual revenue requirement for a utility which fully compensates the utility for efficient distribution expenses such as operating and maintenance expenses, return of capital, return on capital and other taxes;
- b. **“Business Tax” or “BT”** shall refer to the tax levied by the municipalities and cities as contemplated under Section 143 and 151, respectively, of the Local Government Code of 1991;
- c. **“Compliance Filing”** shall refer to Rule 20, Paragraph G, Section 3 of the ERC Resolution No. 38, Series of 2006;¹
- d. **“Current Taxes”** shall refer to the Real Property, Local Franchise and Business Taxes that are covered by these rules, which are levied by the LGU for the present year starting 2021 ;
- e. **“Distribution Utility” or “DU”** shall refer to any electric cooperative, private corporation, government-owned utility or existing LGU which has an exclusive franchise to operate a distribution system in accordance with its franchise and Republic Act 9136;
- f. **“DSM Charges”** shall refer to the distribution utility's unbundled rates to cover the operating expenses compose of its payroll and operations and maintenance expenses;
- g. **“Electric Cooperative” or “EC”** shall refer to a distribution utility organized and incorporated pursuant to Presidential Decree No. 269, as amended by Presidential Decree No, 1645 and Republic Act No. 6938. Otherwise known as the Cooperative Code of the Philippines; wherein,
 - i. **On-Grid ECs** shall refer to the ECs connected to the Grid operating under the RSEC-WR.
 - ii. **Off-Grid ECs** shall refer to the island ECs that are not connected to the Grid;
- h. **“Levying LGU”** shall refer to the local government unit authorize to levy tax, fee, charge or other imposition unless otherwise provided under the Local Government Code of the Philippines;

¹ “A Resolution Promulgating the Energy Regulatory Commission's Rules of Practice and Procedure.”, and any applicable amendments thereof

- i. **“Local Franchise Tax” or “LFT”** shall refer to the tax levied by the province and cities on business enjoying a franchise as defined under to Sections 137 and 151 of Republic Act No. 7160, otherwise known as the Local Government Code of 1991;
- j. **“Machineries”** shall refer to machines, equipment, mechanical contrivances, instruments, appliances or apparatus which may or may not be attached, permanently or temporarily, to the real property. It includes the physical facilities for production, the installations and appurtenant service facilities, those which are mobile, self-powered or self-propelled, and those not permanently attached to the real property which are actually, directly, and exclusively used to meet the needs of the particular industry, business or activity and which by their very nature and purpose are designed for, or necessary to its manufacturing, mining, logging, commercial, industrial or agricultural purposes, as defined under Section 199 of the Local Government Code of 1991. For DUs, this includes assets such as, transformers, electric posts, transmission lines, insulators, and electric meters;
- k. **“Privately-owned DUs” or “PDUs”** shall refer to private corporation which has an exclusive franchise to operate a distribution system in accordance with its franchise;
- l. **“Real Property Taxes” or “RPT”** refers to Local Taxes imposed by Provinces, Cities and Municipalities within the DU’s franchise area pursuant to Sections 197-283 of the LGC;
- m. **“Recoverable Cost”** shall refer to the cost of any tax imposed to the utility that has been paid or incurred and allowed to be passed on by the utility;
- n. **“Recovery Period”** shall generally refer to the period when the cost adjustments are implemented;
- o. **“Statement of Account”** shall refer to an account statement sent to a customer or client which contains the detailed report of the contents of an account. It shows billings to and payments from the customer or client during a specific time period; and
- p. **“Tax Assessment”** shall refer to the act or process of determining the value of a property, or proportion thereof, subject to tax, including the discovery, listing and appraisal of properties.

ARTICLE II
REAL PROPERTY TAX

2.1. Current RPT

Current RPTs that are paid by the DUs are deemed part of their operating costs and shall be allowed to be recovered from the end users as the Current RPT Charge subject to the limitations in these Rules.

While the RPT is a common expenditure for all DUs, the rate thereof varies depending on the LGU.

The Current RPT Charge to be recovered by the DUs shall be determined and limited to the real property taxes assessed by the LGUs for the present year and paid for by the DUs, as evidenced by the following:

- a. a certified true copy of the local Tax Ordinance and/or any applicable Provincial Tax Ordinance/Resolution;
- b. a certified true copy of the tax declaration/s duly issued to the DU;
- c. a certified true copy of the tax assessment;
- d. a certified true copy of the statement of account;
- e. a certified true copy of the official receipt of payment / LGU Assessor's or Treasurer's office issuance of a certificate of full payment;
- f. projected kilowatt-hours sales for the particular proposed recovery period; and
- g. such other documents as may be required by the Commission.

Upon complete submission of the foregoing documents, the DU is hereby authorized to recover from its consumers the allowable Current RPT as pass-through charges pursuant to these Rules. Such pass-through charges shall be reflected as a separate line item in the electric bill, and subject to post-verification and confirmation by the Commission as provided under Article V of these Rules, where the corresponding over/under recovery shall be considered in the DUs filing of their respective applications through Compliance Filing (CF).

The recovery period shall be equivalent to the number of months for which the DU has paid the said Current RPT. To illustrate, for DUs that made a one-time payment for the entire amount due for the year, the same shall be recoverable from their consumers for a period of twelve months. On the other hand, for those who paid on a quarterly basis, the recovery period shall be three (3) months of the quarter covered by the said payment. To illustrate, if a DU paid the current RPT for the first quarter of

the year 2021, the DU may recover the said Current RPT for three (3) months or until March 2021.

Notwithstanding the immediately preceding paragraph, the said RPT charges shall only be allowed recovery for the current year and any remaining uncollected amount shall be included as part of the DUs' under-recovery in its compliance filing. To illustrate, the paid RPT for the year 2021 shall only be allowed as a pass-through in 2021. The uncollected portion of the allowable RPT charges shall then be recovered as part of the DU's compliance filing.

Within thirty (30) days from the last billing cycle in which the RPT adjustment was collected and fully recovered, a report on the said recovery, in accordance with the prescribed format provided in Appendix "A" hereof, shall be submitted to the Commission complete with supporting documents regarding its implementation.

Monthly collections and revenue shall be included in the DUs submission to the Commission under the Uniform Reportorial Requirements (URR).

2.2. Current RPT Pass-Through Computation

The Current RPT Charge shall be calculated using the following formula:

$$RPT\ Charge = \frac{RPT_c}{S_c}$$

Where:

- | | | |
|------------------|---|---|
| RPT Charge | = | The Current RPT Charge expressed in PhP/kWh representing the RPT paid for the present year to the LGUs located within the franchise area of the DU |
| RPT _c | = | The total RPT paid for present year to all the LGUs imposing the tax within the specific municipality(ies) and/or city(ies) of the franchise area of the DU |
| S _c | = | Projected Total kWh Sales for the recovery period of the Current RPT |

For PDUs under the Performance Based Regulation, these rules shall apply to Current RPT related to Machineries only, and only until the next regulatory reset. Upon the finalization of the Regulatory Reset Process for the next Regulatory Period, privately-owned DUs shall already exclude the RPT in the financial Building Blocks of the ARR for each Regulatory Year in such Subsequent Regulatory Period, and the Rules provided herein shall apply to all RPT charges that will be imposed by the LGUs.

For ECs, these Rules shall be applied prospectively on all its Current RPT Charges that will be imposed by the LGUs.

ARTICLE III

LOCAL FRANCHISE AND BUSINESS TAXES

3.1 Local Franchise Tax Pass-Through Computation

A DU is obligated to pay Local Franchise Taxes (LFT) to their respective LGU/s. This shall be reflected in its customer's electric bill, and its recovery shall be based on the tax rate multiplied against the total gross revenue ² in Peso (Distribution, Supply, Metering and other charges/adjustments, i.e. subsidy on lifeline charge, lifeline subsidy discount and inter-class cross subsidy charge, excluding Reinvestment Fund collections in the case of an EC).

3.2 Business Tax Pass-Through Computation

Business Taxes (BT) paid by DUs may be recovered from its customers. The recovery of the said taxes shall be reflected in its customer's electric bill, with the amount to be recovered based on the following formula:

$$BT = \left(\frac{Bt_a}{S_{FBT}} \right) + OBTA$$

Where:

BT = Business Taxes Charge expressed in Peso/kWh representing business taxes that a DU paid to the specific LGU/s

Bt_a = Business Tax (excluding penalty and surcharge) other than those already considered in the distribution rates, paid for the current calendar year

S_{FBT} = Projected Total kWh Sales for the recovery period

$OBTA$ = Other Business Taxes Cost Adjustment, refer to adjustments as approved by the Commission after prior verification and confirmation.

In calculating the local business taxes, it shall be based on the DU's total distribution charges, excluding the penalties and surcharges paid. The DU shall reflect the computed rate, in PhP/kWh and corresponding revenues in a separate line item in the customers' monthly billing.

² The Department of Finance (DOF) Local Circular No. 1-07 dated June 28, 2007 has prescribed the guidelines on how the ECs may be levied by the LGUs on their gross receipts, which is net of the Generation, Transmission, Reinvestment Fund and Universal Charges.

3.3 Supporting Documents for Local Franchise and Business Taxes Adjustment; Recovery Period as a Pass-Through Charge

The LFT and BT to be recovered by the DUs shall be determined and limited to the taxes assessed by the LGUs for the present year and paid for by the DUs, as evidenced by the following:

- a. Certified true copies of the Local Ordinances of the Province, Cities and each of the Municipalities wherein franchise/business tax are levied;
- b. Tax receipts for the payments made;
- c. Summary of Franchise/Business tax computation;
- d. Actual distribution revenues;
- e. Breakdown of gross sales/receipts; and
- f. Other relevant documents as may be required by the Commission.

Upon complete submission of the foregoing documents, the DU is authorized to recover the allowable LFT/BT under these Rules. Such pass-through charges shall be reflected as a separate line item in the electric bill, subject to post-verification and confirmation by the Commission as provided under Article V of these Rules, where the corresponding over/under recovery shall be considered in the DUs filing of their respective applications through Compliance Filing (CF).

The recovery period shall be equivalent to the number of months for which the DU has paid the said LFT/BT. To illustrate, for DUs that made a one-time payment for the entire amount due for the year, the same shall be recoverable from their consumers for a period of twelve months. On the other hand, for those who paid on a quarterly basis, the recovery period shall be three (3) months of the quarter covered by the said payment. To illustrate, if a DU paid the LFT/BT for the first quarter of the year 2021, the DU may recover the said LFT/BT for three (3) months or until March 2021.

Notwithstanding the immediately preceding paragraph, the said LFT/BT charges shall only be allowed recovery for the current year and any remaining uncollected amount shall be included as part of the DUs' under-recovery in its compliance filing. To illustrate, the paid BT for the year 2021 shall only be allowed as a pass-through in 2021. The uncollected portion of the allowable BT charges shall then be recovered as part of the DU's compliance filing.

Within thirty (30) days from the last billing cycle in which the LFT/BT adjustment was collected and fully recovered, a report, in accordance with the prescribed format in the Appendix "A" for the BT and Appendix "B" for the LFT, shall be submitted to the Commission, complete with supporting documents regarding its implementation.

Likewise, the monthly collections and revenue shall be included in the DUs submission to the Commission under the Uniform Reportorial Requirements (URR).

ARTICLE IV

TRUE UP MECHANISM

This Article shall establish a procedure for the recovery or refund of pass-through costs and the confirmation process that would govern the cost adjustment and true-up mechanisms approved by the ERC.

4.1. Calculation of Over/Under Recoveries

The DU shall calculate the over or under recoveries on the RPT, LFT and BT Rate brought about by the variance between the allowable cost and the revenues billed using the applicable formulae provided herein.

4.2 RPT Over/Under Recovery

Consistent with ERC Resolution No. 16, series of 2009³, a provision for true up mechanism is allowed every three (3) years that coincides with the DU's confirmation filing. The RPT over/under recovery charged to customers shall be based on the following formula:

$$RPT_{OUR} = \frac{(RPTR_i + RPTR_{ii} + \dots RPTR_n) - (RPTA_i + RPTA_{ii} + \dots RPTA_n)}{S_{RPTOUR_{Total Actual}}}$$

Where:

RPT_{OUR} = Refers to over/under recoveries real property taxes during the recovery period expressed in Peso/kWh

$RPTR_{i to n}$ = Real Property tax revenue for the recovery period i to n computed as follows:

$$RPTR = RPT Charge \times \sum S_{RPTOUR Actual}$$

Where:

RPT Charge = The Current RPT Charge expressed in PhP/kWh as determined in Section 2.2 above

³ "A Resolution Adopting the Rules Governing the Automatic Cost Adjustment and True-Up Mechanisms and Corresponding Confirmation Process for Distribution Utilities."

$S_{RPTOURActual}$ = kWh sales for month i to month n during the recovery period

$RPTA_{i\ to\ n}$ = ERC verified real property taxes paid by the DU for the recovery period i to n

$S_{RPTOURActual}$ = Actual Total kWh sales for the recovery period.

4.3 Local Franchise and Business Taxes Over/Under Recovery

The Local Franchise and Business Taxes Over/Under Recovery to be charged to customers shall be calculated based on the following formulae:

4.3.1 Business Tax Over/Under Recovery

For BT Over/Under Recovery (BTOUR) to be charged to customers shall be calculated based on the following formula:

$$BT_{OUR} = \frac{(BTR_i + BTR_{ii} + \dots BTR_n) - (BTA_i + BTA_{ii} + \dots BTA_n)}{S_{BTOUR_{Total\ Actual}}}$$

Where:

BT_{OUR} = Refers to over/under recoveries business taxes during the recovery period expressed in PhP/kWh

$BTR_{i\ to\ n}$ = Business tax revenue for the recovery period i to n computed as follows:

$$BTR = (BT \times \sum_{i=1, \dots, m} S_{BTOUR_{ACTUAL}})$$

Where:

BT = ERC Other Business Tax Rate

$S_{BTOUR_{Actual}}$ = kWh Sales for the Month i to Month m during the recovery period

$BTA_{i\ to\ n}$ = ERC verified business taxes paid by the DU for the recovery period i to n

$S_{BTOUR_{TOTAL\ ACTUAL}}$ = Actual kWh Sales for the recovery period

4.3.2 Local Franchise Tax Over/Under Recovery

For LFT Over/Under Recovery (LFTOUR) to be charged to customers shall be calculated based on the following formula:

$$\frac{LFT_{OUR}}{= \frac{(LFTR_i + LFTR_{ii} + \dots LFTR_n) - (LFTA_i + LFTA_{ii} + LFTA_n)}{S_{LFTOUR_{Total Actual}}}}$$

Where:

LFT_{OUR} = Refers to over/under recoveries in local franchise taxes during the recovery period expressed in PhP/kWh

$LFTR_{i to n}$ = Local Franchise Tax revenue for the recovery period i to n

$LFTA_{i to n}$ = ERC verified local franchise taxes paid by the DU for the recovery period i to n

$S_{LFTOUR_{Total Actual}}$ = Actual Total kWh sales for the recovery period

ARTICLE V

FILING AND RESOLUTION OF THE APPLICATIONS

5.1 Filing

The DUs shall file their respective initial consolidated applications through Compliance Filing (CF) within the corresponding periods as prescribed hereunder:

DISTRIBUTION UTILITIES	PERIOD OF FILING	COVERED ADJUSTMENTS
Luzon DUs	31 March 2023	January 2021 - December 2022
Visayas DUs	31 March 2024	January 2021 - December 2023
Mindanao DUs	31 March 2025	January 2021 - December 2024

Subsequently, the DUs shall file their respective consolidated applications every three (3) years following the sequence of period of filing prescribed under ERC Resolution 21, Series of 2010⁴.

5.2 Form of Application and Supporting Document

The Applications and supporting documents therewith shall adopt the prescribed templates (Appendix “A” or Appendix “B”) by the ERC.

⁴ A Resolution Amending Section 4 Article 4 and Section 1 of Article 5 of the Rules Governing the Automatic Cost Adjustment and True-up Mechanisms and Corresponding Confirmation Process for Distribution Utilities.

5.3 ERC Post Audit

At any given time, the DUs implementation of recovery of Real Property Taxes, Local Franchises Taxes and Business Taxes may be subjected to any post audit by the Commission to examine the implemented rates based on the recovery period.

ARTICLE VI

MISCELLANEOUS PROVISIONS

6.1 Separability

If for any reason any provision of these Rules 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.

6.2 Fines and Penalties

Violation of any provisions 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 9136 otherwise known as the Electricity Power Industry Reform Act (EPIRA).

6.3 Exception Clause

Where good cause appears, the ERC may allow an exception from any provisions of these Rules if such exception is found to be in the public interest and is not contrary to law or any other related rules and regulations.

6.4 Repealing Clause

These rules supersede the current rules on recovery of real property tax provided in the *Rules for Setting the Electric Cooperatives' Wheeling Rates (RSEC-WR)* and *Rules for Setting Distribution Wheeling Rates (RDWR)* and its Position Paper.

Similarly, these rules amend and modify the provisions of ERC *Resolution No. 16, Series of 2009*, relative to the recovery of any local franchise tax and business tax, including the filing of applications for recovery hereof.

All previous Commission issuances not consistent with these Rules are hereby repealed or modified accordingly.

6.5 Effectivity

These Rules shall take effect immediately following its publication in newspaper of general circulation in the country or in the Official Gazette.

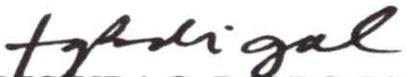
Pasig City, 17 December 2020.




AGNES VST DEVANADERA
Chairperson and CEO

(On Leave)
ALEXIS M. LUMBATAN
Commissioner

(On Leave)
CATHERINE P. MACEDA
Commissioner


FLORESINDA G. BALDO-DIGAL
Commissioner


MARKO ROMEO L. FUENTES
Commissioner


LS: MCCG


ROS: jfsc / ajmo / llg

Appendix "A"

Name of DU: _____
 ERC Case No.: _____
 Decision Date : _____
 Total Amount to be Collected : _____
 Rate per kWh (PhP/kWh) : _____
 Implementation Date : _____
 Name of
 LGU/City/Municipality : _____

Collection Due to Real Property Tax (RPT)/ Business Tax

**Amount to be Collected _____
 For the Period Covering _____**

Month	kWh Sold	Amount Collected (PhP)	Balance (PhP)
Beginning Balance			0.00
January			
February			
March			
April			
May			
June			
July			
August			
September			
October			
November			
December			
TOTAL			0.00
Ending Balance			0.00

Note: This Report should be submitted on or before the 30th day of the month from the implementation of refund/collection, and every month thereafter until the total amount has been fully refunded/collected.

Prepared by:

Certified True and Correct:

Name & Designation

Name & Designation

Appendix "B"

Name of DU : _____
 ERC Case No. : _____
 Decision Date : _____
 Tax Rate in Percentage (%) : _____
 Implementation Date : _____
 Name of LGU/City/Municipality : _____

Collection Due to Local Franchise Tax (LFT)

**Amount Collected _____
 For the Year _____**

Month	LFT Revenue (PhP)
January	
February	
March	
April	
May	
June	
July	
August	
September	
October	
November	
December	
TOTAL	0.00

Note: This Report should be submitted on or before the 30th day of the month from the implementation of refund/collection, and every month thereafter until the total amount has been fully refunded/collected.

Prepared by:

Certified True and Correct:

Name & Designation

Name & Designation



Republic of the Philippines
ENERGY REGULATORY COMMISSION
Pasig City

RESOLUTION NO. 14, Series of 2022

**A RESOLUTION ADOPTING THE REVISED RULES
GOVERNING THE AUTOMATIC COST ADJUSTMENT AND
TRUE-UP MECHANISMS AND CORRESPONDING
CONFIRMATION PROCESS FOR DISTRIBUTION UTILITIES**

WHEREAS, Resolution No. 16, Series of 2009, entitled "*A Resolution Adopting the Rules Governing the Automatic Cost Adjustment and True-Up Mechanisms and Corresponding Confirmation Process for Distribution Utilities*" was adopted consolidating, updating and rationalizing the requirements for automatic cost adjustment mechanisms, and establishing a systematic confirmation process that conforms with the due process requirement for the automatic cost and true-up mechanisms, including the reportorial requirement;

WHEREAS, Resolution No. 21, Series of 2010, entitled "*A Resolution Amending Section 4 of Article 4 and Section 1 of Article 5 of the Rules Governing the Automatic Cost Adjustment and True-Up Mechanisms and Corresponding Confirmation Process for Distribution Utilities*" was adopted prescribing a new formula in the determination of the actual system loss as well as the period of filing of the Distribution Utilities' consolidated applications for confirmation of over/under recoveries on the implementation of various automatic cost adjustment and true-up mechanisms;

WHEREAS, Resolution No. 23, Series of 2010, entitled "*A Resolution Adopting the Rules Implementing the Discounts to Qualified Senior Citizen End-Users and Subsidy from the Subsidizing End-Users on Electricity Consumption Under Sections 4 and 5 of Republic Act No. 9994*" was adopted to establish a process of revenue neutral implementation of the Senior Citizen Discount and Subsidy Rates by Distribution Utilities;

WHEREAS, to conform with the subsequent issuances after the adoption of Resolution No. 17, Series of 2009, the Commission issued Resolution No. 24, Series of 2011, entitled "*A Resolution Adopting the Revised Uniform Reportorial Requirement (URR) By All Distribution*

Utilities,” prescribing the Revised URR Excel Model to be adopted by Distribution Utilities starting January 2012;

WHEREAS, in order to ensure appropriate recovery of the various pass-through costs in an efficient manner and to establish a fair, timely and transparent process for: (a) calculating the automatic cost adjustments implemented by Distribution Utilities; (b) monitoring the accuracy of these adjustments and ensuring prompt reversal of discrepancies; and (c) confirmation of the automatic cost adjustments implemented by Distribution Utilities and the true-up of other pass-through charges as approved by the ERC, the latter recognized the need to introduce amendments and/or changes in the existing guidelines;

WHEREAS, on 05 June 2018, the Commission approved for posting on its website www.erc.gov.ph, the first draft of the proposed “*Revised Rules Governing the Automatic Cost Adjustment and True-Up Mechanisms and Corresponding Confirmation Process for Distribution Utilities*” wherein electric power industry stakeholders were invited to submit their comments thereon until 26 June 2018;

WHEREAS, the Commission conducted public consultations in Luzon, Visayas and Mindanao on 31 August 2018, 03 September 2018 and 04 September 2018, respectively, for the adoption of the Revised Draft of the “*Revised Rules Governing the Automatic Cost Adjustment and True-Up Mechanisms and Corresponding Confirmation Process for Distribution Utilities;*”

WHEREAS, after consolidating all the comments of the stakeholders to the initial draft Rules and public consultations conducted, focus group discussions in Luzon, Visayas and Mindanao were held on 22 October 2018 to 26 October 2018;

WHEREAS, on 27 November 2018, the Commission approved the posting of the Second Draft of the “*Revised Rules Governing the Automatic Cost Adjustment and True-Up Mechanisms and Corresponding Confirmation Process for Distribution Utilities*” wherein electric power industry participants were again invited to submit their comments thereon until 10 December 2018;

WHEREAS, on 07 September 2022, the Commission approved the posting of the Third Draft of the “*Revised Rules Governing the Automatic Cost Adjustment and True-Up Mechanisms and Corresponding Confirmation Process for Distribution Utilities*” with its corresponding Revised URR spreadsheet template wherein electric power industry

participants were again invited to submit their comments thereon until 19 September 2022;

WHEREAS, the Commission took note of all the submissions and considered all comments from the different electric power industry participants and stakeholders in the finalizations of the proposed rule;

NOW THEREFORE, the Commission hereby **RESOLVES** to **APPROVE** and **ADOPT** the “*Revised Rules Governing the Automatic Cost Adjustment and True-Up Mechanisms and Corresponding Confirmation Process for Distribution Utilities*,” with its corresponding “*Revised Uniform Reportorial Requirement (URR) Spreadsheet Template*,” hereto attached as Annexes A and B, respectively.

This Resolution shall take effect fifteen (15) days following its publication in a newspaper of general circulation in the country.

Let copies of this Resolution be furnished to all parties concerned, the University of the Philippines Law Center – Office of the National Administrative Register (UPLC-ONAR) and all industry stakeholders, as well as published in the Commission’s website and such other online platform available to the Commission.

Pasig City, 19 December 2022.

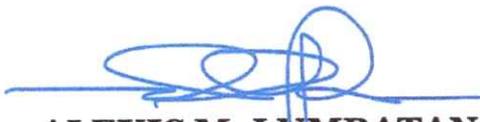
ERC

Office of the Chairperson and CEO



MCD-2022-12-570-0003


MONALISA C. DIMALANTA
Chairperson and CEO


ALEXIS M. LUMBATAN
Commissioner


CATHERINE P. MACEDA
Commissioner


FLORESINDA G. BALDO-DIGAL
Commissioner


MARKO ROMEO L. FUENTES
Commissioner

**REVISED RULES GOVERNING THE AUTOMATIC COST
ADJUSTMENT AND TRUE-UP MECHANISMS AND
CORRESPONDING CONFIRMATION PROCESS FOR
DISTRIBUTION UTILITIES**

Pursuant to Section 43 (f) and (t) of Republic Act No. 9136, 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 Rules to establish a procedure for the automatic recovery or refund of pass-through costs and the confirmation process that would govern the automatic cost adjustment and true-up mechanisms approved by the ERC.

ARTICLE 1

GENERAL PROVISIONS

Section 1. Objectives

These Rules shall have the following objectives:

- 1.1** To ensure appropriate recovery of various pass-through costs in an efficient manner;
- 1.2** To put in place a fair, timely, and transparent process for:
 - 1.2.1** Calculating the automatic cost adjustments implemented by the Distribution Utilities (DUs);
 - 1.2.2** Monitoring the accuracy of these adjustments and ensuring prompt reversal of discrepancies; and
 - 1.2.3** Confirmation of the automatic cost adjustments implemented by the Distribution Utilities (DUs) and the true-up of other pass-through charges as approved by the Commission;
- 1.3** To ensure and maintain the quality, reliability, security, and affordability of the supply of electric power; and
- 1.4** To protect the public interest as it is affected by the rates and services of the DUs.

Section 2. Scope

These Rules shall apply to all DUs, and shall govern the recovery of the following pass-through costs:

- 2.1** Generation;
- 2.2** Transmission;

- 2.3 System Loss;
- 2.4 Lifeline Subsidy;
- 2.5 Senior Citizen Subsidy; and
- 2.6 Other Pass-through Costs as may be approved by the Commission, following the filing of applications by the DUs specifying a proposed adjustment mechanism.

In relation to item 2.6 above, the proposed adjustment mechanism to be filed by the DU may be guided by Articles 2 to 5 below, subject to the Commission's approval or modification, if applicable.

Section 3. Definition of Terms

Unless the context otherwise provides, the following words and terms used herein shall have the following meanings:

- 3.1 **“Act”** unless otherwise stated, shall refer to Republic Act No. 9136, otherwise known as the “Electric Power Industry Reform Act of 2001.”
- 3.2 **“Buying DU”** shall refer to any distribution utility that buys power from another DU (the Selling DU) for resale to its customers.
- 3.3 **“Captive Market”** shall refer to electricity end-users who do not have the choice of a Supplier of electricity, as may be determined by the Commission in accordance with the Act.
- 3.4 **“Commission”** shall refer to the Energy Regulatory Commission created under Section 38 of Republic Act No. 9136.
- 3.5 **“Contestable Customer (CC)”** shall refer to an electricity end-user who has a choice of a supplier of electricity as determined by the Commission in accordance with the Act and the Rules for Contestability.
- 3.6 **“Distributed Energy Resources (DER)”** shall refer to Power sources connected to distribution system or electrical system of End-Users, that could be aggregated to meet a demand.
- 3.7 **“Distribution Feeder Loss”** shall refer to the sum of Feeder Technical Loss and Non-Technical Loss as defined in ERC Resolution No. 10, Series of 2018,¹ and any amendments thereto.

¹ “A Resolution Clarifying the System Loss Calculation and Providing the Effectivity of the Rules for Setting the Distribution System Loss Cap” and any amendments thereto.

- 3.8 “Distribution System Loss (DSL)”** is the electric Energy Input minus the electric Energy Output for a specified billing period or set of billing periods as defined in ERC Resolution No. 10, Series of 2018.²
- 3.9 “Distribution System Loss Cap”** shall refer to the level of System Loss recoverable from customers, as provided for under ERC Resolution No. 10, Series of 2018.³
- 3.10 “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.
- 3.11 “Electric Cooperative (EC)”** shall refer to a Distribution Utility organized and incorporated pursuant to Presidential Decree No. 269, as amended by Presidential Decree No. 1645 and Republic Act No. 6938, otherwise known as the Cooperative Code of the Philippines.
- 3.12 “Embedded Generator”** shall refer to generating units that are indirectly connected to the Grid through the distribution system that supplies power to the host DU or the grid.
- 3.13 “End-User”** shall refer to any person or entity requiring the supply and delivery of electricity for its own use.
- 3.14 “Energy Input”** is the energy delivered to the distribution system by the transmission system, embedded generators, other distribution systems, and user systems with generating facilities, as defined in ERC Resolution No. 10, Series of 2018.⁴
- 3.15 “Energy Output”** is the energy delivered to the users of the distribution system, including the energy for distribution utility use, as defined in ERC Resolution No. 10, Series of 2018.⁵
- 3.16 “Export Energy”** shall refer to the energy exported or delivered by the Qualified End-User from the Grid/Distribution System.
- 3.17 “Generation Rate (GR)”** shall refer to the rate associated with the purchase of power from power supplier/s and distribution utility-owned generation facility as incorporated in the approved unbundled rates or as subsequently authorized by the Commission.
- 3.18 “Generator Wheeling”** shall refer to generators that are connected to the distribution network but do not have a supply contract with a distribution utility.

² *Supra*, note 1.

³ *Ibid.*

⁴ *Ibid.*

⁵ *Ibid.*

- 3.19 “Generation Rate Adjustment Mechanism (GRAM)”** shall refer to the adjustment to rates for the change in NPC’s fuel and power purchase costs.
- 3.20 “Green Energy Option Program (GEOP) End-user”** shall refer to any person or entity requiring the supply and delivery of electricity sourcing 100% of its electricity requirements from RE Resources for its own use.
- 3.21 “Incremental Currency Exchange Rate Adjustment (ICERA)”** shall refer to the adjustment to rates for the effect of changes in exchange rates on NPC’s costs.
- 3.22 “Individual Generation Supply Agreements”** shall refer to generation supply agreements between DU end-users and generators entered into prior to the introduction of contestability.
- 3.23 “Ineligible Supply Contracts”** shall refer to power supply agreements entered into by the DUs with the Independent Power Producers (IPP) or other DUs, which were not approved by the then Energy Regulatory Board or by the Commission.
- 3.24 “Lifeline Subsidy Rate (LSR)”** shall refer to the rate charged to non-lifeline customers to cover the lifeline discount provided to marginalized/low income captive market end-users, as defined in Rule 3 of the Implementing Rules and Regulations of R.A. No. 11552.
- 3.25 “Marginalized End-Users”** shall refer to captive, household electricity consumers whose household income fall below the poverty threshold of the province or of the district, whichever is applicable under Rule 8, Section 1 of the IRR of R.A. No. 11552, and whose level of electricity consumption fall at or below the consumption threshold determined and approved by the ERC, in accordance with Rule 3 of the Implementing Rules and Regulations of R.A. No. 11552.
- 3.26 “National Grid Corporation of the Philippines (NGCP)”** shall refer to the private consortium which had been awarded the concession to assume the power transmission functions of the National Transmission Corporation (TransCo).
- 3.27 “National Power Corporation (NPC)”** shall refer to the government corporation created under Republic Act No. 6395, as amended.
- 3.28 “National Transmission Corporation (TransCo)”** shall refer to the Corporation organized pursuant to the Act which assumed the electrical transmission function of the NPC.
- 3.29 “Net-Metering”** shall refer to a system, appropriate for distributed generation, in which a distribution grid user has two-

way connection to the grid and is only charged for his net electricity consumption and is credited for any overall contribution, as defined in Section 4(gg) of R.A. No. 9513.

- 3.30 “Non-Network Revenue”** is the total of Allowable Generation Cost, Allowable Transmission Cost, Allowable System Loss Cost, Lifeline Discount, and Senior Citizen Discount, as determined in the URR template.
- 3.31 “Pilferage Cost Recoveries (PCR)”** shall refer to costs recovered from illegal tapping, tampering of meter, use of jumper, and other means of illicit usage of electricity.
- 3.32 “Power Factor Discount (PFD)”** shall refer to the discount extended to DUs having maintained their power factor above the set threshold which maximizes the capacity of TransCo’s facilities thereby resulting to real savings in power costs, improvement of voltage regulation and release in system capacity.
- 3.33 “Prompt Payment Discount (PPD)”** shall refer to the discount given to DUs by power supplier/s for paying their bills within the discount period.
- 3.34 “Power Supplier/s”** shall refer to an entity/ies selling power to a DU which may include the following: a) National Power Corporation (NPC); b) Independent Power Producers (IPPs), either through bilateral power supply contracts or through the Wholesale Electricity Spot Market; and c) Other DUs.
- 3.35 “Qualified End-Users (QE)”** shall refer to entities that generate electric power from an eligible on-site renewable energy generating facility, such as, but not limited to, house or office building with photovoltaic system that can be connected to the grid, for the purpose of entering into a Net-Metering agreement, as defined in Section 7 of the Implementing Rules and Regulations of R.A. No. 9513.
- 3.36 “Recovery Period”** shall generally refer to the period when the cost adjustments are implemented.
- 3.37 “Restricted Fund”** shall refer to a separate account into which the DU shall place funds equal to the aggregate over-recovery and can only be drawn down by an amount equal to the reduction in the over-recovery.
- 3.38 “Sale for Resale Agreements”** refer to arrangements or agreements, entered into by, between or among DUs, involving the purchase of power by one DU (Buying DU), from another DU or other Dus (Selling Dus) for resale to the Buying DU’s customer or end-users.

- 3.39 “Selling DU”** shall refer to any distribution utility that sells power to another DU (the Buying DU) for resale to the Buying DU’s customers.
- 3.40 “Senior Citizen Subsidy Rate (SCSR)”** shall refer to the rate charged to subsidizing end-users to cover the discount provided to qualified captive market end-users who are senior citizens and qualified senior citizen centers and residential care facilities/institutions or group homes customers, in accordance with Section 5(d) of the Republic Act 999 and Article 12, Section 2 of its IRR.
- 3.41 “Special Programs”** are programs where a Government direction mandates that the DU supply a specified customer/s or customer class at non-standard prices or terms and conditions.
- 3.42 “Sub-Transmission and Substation Loss”** shall refer to the sum of Sub-Transmission System and Substation Technical Losses and Non-Technical Loss as defined in ERC Resolution No. 10. Series of 2018.
- 3.43 “System Loss Rate (SLR)”** shall refer to the rate determined in accordance with the formula set forth in Article II hereof. For DUs where different system loss charges were granted for each of their respective customer classes in the Unbundling Decisions, SLR shall be calculated based on an individual customer class level with the requisite reliable information to support individual System Loss Rates.
- 3.44 “Time of Use Rates or TOU rates”** refer to the approved hourly generation rates to be charge to TOU customers as defined in ERC Resolution No. 05, Series of 2009.⁶
- 3.45 “Triennial Review”** shall refer to the process under which the DUs file the calculations of over and under recoveries for a three-year period and the Commission reviews those calculations and determines any adjustments that shall be applied to future prices to offset the accumulated over or under recovery.
- 3.46 “Transmission Rate (TR)”** shall refer to the rate associated with the cost incurred in the transmission of electricity from the generators to the distribution utilities’ system.
- 3.47 “Wholesale Electricity Spot Market (WESM)”** shall refer to the market where trading of electricity is made, established pursuant to Section 30 of R.A. No. 9136.

⁶ “A Resolution Adopting the Rules to Govern the Implementation of the Time of Use (TOU) Retail Rates of Distribution Utilities (DUs) Purchasing their Power Requirements from Various Sources” and any amendments thereto.

ARTICLE 2

CALCULATION OF THE ADJUSTED RETAIL RATES

Section 1. Generation Rate. The Generation Rate (GR) of the DU shall be determined as follows:

1.1. For a DU sourcing 100% of its power requirement from NPC:

1.1.1. For TOU customers, the GR shall be the NPC TOU rates plus adjustments on GRAM, ICERA and Franchise and Benefits to Host Communities as approved by the Commission;

1.1.2. For customers under special programs of the DU, the GR shall be based on their contracts; and

1.1.3. For other customers, the GR shall be computed using the formula provided under Section 2 hereof.

1.2. For a DU sourcing at least some of its power requirements from sources other than NPC:

1.2.1. For TOU customers, the GR shall be the DU's TOU rates as approved by the Commission based on the DUs purchases from NPC and/or other sources;

1.2.2. For customers under special programs of the DU, the GR shall be based on their contracts;

1.2.3. For customers of a Buying DU under a Sale for Resale Agreement, if the customers being supplied are not connected with the main distribution grid and the cost is different from those for other regular customers, the GR shall include the Generation, Transmission, System Loss, Distribution, Supply and Metering Charges of the Selling DU, and other pass-through charges as may be approved by the Commission pursuant to ERC Resolution No. 02, Series of 2009, or any subsequent rules as may be approved by the Commission;⁷ and

1.2.4. For other customers, the GR shall be computed using the formula provided under Section 2 hereof.

Section 2. Generation Rate Formula. The GR applicable to customers referred to in Sections 1.1.3 and 1.2.4 shall be calculated and billed each calendar month by the DU using the following formula:

⁷ "A Resolution Adopting the Rules for Recovery of Costs Associated with the Sale for Resale Agreements By, Between or Among Distribution Utilities," and any amendments thereto.

FORMULA 1

$$GR = AGR + OGA$$

Where:

- GR* = Generation Rate expressed in Peso/kWh;
- AGR* = Adjusted Generation Rate calculated, as follows:

$$AGR = \frac{TGC}{kWh_{GR}}$$

Where:

TGC refers to Total Generation Cost defined as:

$$TGC = [(GC_i + GC_{ii} + \dots + GC_n) - 50\% (PPD_i + PPD_{ii} + \dots + PPD_n) - PCR]$$

Where:

GC_{i to n} = The Generation Costs in Pesos from source of power i through source of power n for the previous month coming from Transition Supply Contracts (excluding Mandated Rate Reduction and penalties), Power Supply Agreements, WESM purchases, Net-Metering and Distributed Energy Resources Export Energy, and distribution utility-owned generation facility, as incorporated in the approved unbundled rates or as subsequently authorized by the Commission, exclusive of the following:

- a. Cost of power allocated to contestable customers in accordance with Section 10 of ERC Resolution No. 16, Series of 2012⁸ and to GEOP end-users in accordance with Section 14 of ERC Resolution No. 08, Series of 2021;⁹
- b. Cost of power distributed to customers under DU's special programs;
- c. Cost of power distributed to customers under a Sale for Resale Agreement, if the customers being supplied are not connected with the main distribution grid and the cost is different from those for other regular customers; and
- d. Losses due to trading of the contracts to the WESM in accordance with ERC Resolution No. 16, Series of 2016;¹⁰

Note: Payments for de-loading of certain loads during periods of constraint are not part of generation costs and are recovered separately through OGA.

⁸ "A Resolution Adopting the Transitory Rules for the Implementation of Open Access and Retail Competition," and any amendment thereto.

⁹ "A Resolution Adopting the Rules for the Green Energy Option Program," and any amendment thereto.

¹⁰ "A Resolution Instituting the Policy in the Computation of Generation Charges Relative to Wholesale Electricity Spot Market (WESM) Traded Participated in by Distribution Utilities (DUs)," and any amendment thereto.

$PPD_{i \text{ to } n}$ = Prompt Payment Discounts and any other discounts availed by the DU from source of power i through source of power n for the previous month, net of discounts extended to the end-users, where discount extended to end-users cannot be higher than the discount availed from the power supplier/s, relative to the previous month's generation cost;

PCR = Pilferage cost recoveries during the previous month; and

kWh_{GR} = Energy input (for the previous month, in total kWh) excluding Site Specific Loss Adjustment (SSLA), as clarified in ERC Resolution No. 10, Series of 2018,¹¹ net of kWh exported to the Transmission system, kWh delivered to customers with individual generation supply agreements, kWh sold to contestable customers and GEOP end-users, and kWh distributed to special programs and Sale for Resale Agreements, if the customers being supplied are not connected with the main distribution grid and the cost is different from those for other regular customers.

OGA = Other Generation Cost Adjustments, refers to generation rate adjustments approved by the Commission (including recovery of payment of de-loading compensation of ILP participants) and adjustments determined using the formula provided in Article 4, Section 2 and Article 5, Section 3 hereof.

In the case of ineligible supply contracts, the generation costs from such contracts shall include the kilowatt-hours pertaining to ineligible contracts pegged at the DU's load weighted average NPC TOU rates, or in case DU is not sourcing from NPC, NPC's TOU rates¹² as posted in their website, or the actual rate as billed by the IPP or Selling DU under a Sale for Resale Agreement, whichever is lower. Provided that this is without prejudice to the imposition of appropriate penalties by the Commission based on the EPIRA and its rules and regulations.

In the case of embedded generators without supply contracts with the DU, energy deliveries, which form part of the Energy Input, shall not be compensated by the DU and shall not form part of the generation costs.

Section 3. Transmission Rate. The Transmission Rate (TR) shall be calculated and billed each calendar month by the DUs using the following formulae:

¹¹ *Supra*, note 1.

¹² ERC Approved Rates.

3.1. For Customer classes with TR expressed in Peso/kWh:

FORMULA 2.A

$$TR_N = \left(\frac{t_N}{kWh_{TR_N}} \right) + OTCA_N$$

Where:

TR_N = Transmission Rate expressed in Peso/kWh;

t_N = $PTC \times CP_N$;

Where:

PTC = Refers to the previous month's actual transmission cost, net of fifty percent (50%) of PFD availed;

Where:

PFD = Power Factor Discounts and any other discounts availed by the DU, net of the Power Factor Discounts given to end-users and Third Parties for the month, *where*: Discount passed on to end-users and Third Parties \leq discount availed from TransCo/NGCP for the month.

CP_N = Actual Coincident Peak Demand or the computed Coincident Peak Demand Allocation Factor for customer class N corresponding to the previous month's period.

kWh_{TR_N} = Energy input (for the previous month in total kWh) excluding Site Specific Loss Adjustment (SSLA), as clarified in ERC Resolution No. 10, Series of 2018,¹³ corresponding to customer class N, net of kWh exported to the transmission system, and kWh distributed to special programs and Sale for Resale Agreements, if the customers being supplied are not connected with the main distribution grid and the cost is different from those for other regular customers;

Where:

$kWh_{TR_N} = kWh_{TR} \times S_N$;

(This space is intentionally left blank.)

¹³ *Supra*, note 1.

Where:

kWh_{TR} = Energy input (for the previous month in total kWh) excluding Site Specific Loss Adjustment (SSLA), as clarified in ERC Resolution No. 10, Series of 2018,¹⁴ net of kWh exported to the transmission system, and kWh distributed to special programs and Sale for Resale Agreements, if the customers being supplied are not connected with the main distribution grid and the cost is different from those for other regular customers; and

S_N = Actual kWh Sales Allocation Factor for customer class N corresponding to the previous month's period.

$OTCA_N$ = Other Transmission Cost Adjustments, refer to transmission rate adjustments approved by the Commission and adjustments determined using the formula provided in Article 4, Section 3 and Article 5, Section 3 hereof; and

N = Refers to a specific customer class (ex. $N=1,2,\dots$, where 1= Residential, 2= Commercial, etc.).

3.2. Customer classes with TR expressed in Peso/kW:

FORMULA 2.B

$$TR_N = \left(\frac{t_N}{D_N} \right) + OTCA_N$$

Where:

TR_N = Transmission rate expressed in Peso/kW ;

t_N = $PTC \times CP_N$;

Where:

PTC = Refers to the previous month's actual transmission cost, net of fifty percent (50%) of PFD availed;

Where:

PFD = Power Factor Discounts and any other discounts availed by the DU, net of the Power Factor Discounts given to end-users and Third Parties for the month, *where:* Discount passed on to end-users and Third Parties \leq discount availed from TransCo/NGCP for the month; and

¹⁴ *Ibid.*

CP_N = Actual Coincident Peak Demand or the computed Coincident Peak Demand Allocation Factor for customer class N corresponding to the previous month's period.

$OTCA_N$ = Other Transmission Cost Adjustments, refer to transmission rate adjustments approved by the Commission and adjustments determined using the formula provided in Article 4, Section 3 and Article 5, Section 3 hereof;

D_N = kW billing demand for the previous month for customer class N multiplied by $(1+u)$; and

u = Loss Factor = Actual % system loss / (1- Actual % system loss)

Actual % system loss is the actual loss for the most recent 12-month period.

N = Refers to a specific customer class (ex. $N=1,2,\dots$, where 1= Residential, 2= Commercial, etc.).

3.3 Customer classes with TR expressed in both Peso/kWh and Peso/kW.

The component expressed in Peso/kWh (TKR_N) shall remain constant.

The component expressed in Peso/kW shall be adjusted using the following formula:

FORMULA 2.C

$$TR_N = \left(\frac{t_N - (S_{TR_N} \times TKR_N)}{D_N} \right) + OTCA_N$$

Where:

TR_N = Transmission rate expressed in Peso/kW;

t_N = $PTC \times CP_N$;

Where:

PTC = Refers to the previous month's actual transmission cost, net of fifty percent (50%) of PFD availed, by the corresponding kWh purchased;

Where:

PFD = Power Factor Discounts and any other discounts availed by the DU, net of the Power Factor Discounts given to end-users and Third Parties for the month, *where*: Discount passed on to end-users and Third Parties \leq discount availed from TransCo/NGCP for the month; and

CP_N = Actual Coincident Peak Demand or the computed Coincident Peak Demand Allocation Factor for customer class N corresponding to the previous month's period.

S_{TR_N} = kWh sales for the previous month for customer class N;

TKR_N = TR component expressed in Peso/kWh based on the Approved Unbundled Rates for customer class N or the latest Approved Rate for customer class N, if any;

$OTCA_N$ = Other Transmission Cost Adjustments, refer to transmission rate adjustments approved by the Commission and adjustments determined using the formula provided in Article 4, Section 3 and Article 5, Section 3 hereof;

D_N = kW billing demand for the previous month for customer class N multiplied by $(1 + u)$ where u is defined as above; and

N = Refers to a specific customer class (ex. $N=1,2,\dots$, where 1= Residential, 2= Commercial, etc.).

Section 4. System Loss Rate. The System Loss Rate (SLR) shall be calculated and billed each calendar month by the DUs using the following formula:

FORMULA 3

$$SLR = (AGR + ATR)U + OSLA$$

Where:

SLR = System Loss Rate expressed in Peso/kWh;

AGR = Adjusted Generation Rate as defined in Section 2 Formula 1;

ATR = Average Transmission Rate expressed in Peso/kWh, computed as follows:

$$ATR = \frac{t_N}{kWh_{TR}}$$

Where:

t_N = Total Transmission Cost for the previous month;

Where:

If SLR is a uniform charge to all customer classes:

t_N = PTC as defined in Article 2, Section 3 hereof;

If SLR varies per each customer class:

t_N = PTC x CP_N ;

Where:

PTC = As defined in Article 2, Section 3 hereof;

and

CP_N = As defined in Article 2, Section 3 hereof.

kWh_{TR} = Energy input (for the previous month in total kWh) excluding Site Specific Loss Adjustment (SSLA), as clarified in ERC Resolution No. 10, Series of 2018,¹⁵ net of kWh exports to the transmission system, and kWh distributed to special programs and Sale for Resale Agreements, if the customers being supplied are not connected with the main distribution grid and the cost is different from those for other regular customers. If SLR varies per each customer class, the denominator *kWh_{TR}* shall also pertain for each customer class.

U = Gross Up Factor defined as:

$$U = \frac{DSL_{ST+SS} + \text{Min}(DSL_{fdr}, DSL_{fdr, cap})}{1 - (DSL_{ST+SS} + DSL_{fdr})}$$

Where:

DSL_{ST+SS} = Sub-Transmission and Substation Loss for the most recent 12-month period, in percent;
DSL_{fdr} = Distribution Feeder Loss for the most recent 12-month period, in percent; and
DSL_{fdr, cap} = Distribution Feeder Loss cap, in percent.

Determination of Distribution System Loss recoverable through system loss rates shall be in accordance with ERC Resolution No. 10, Series of 2018,¹⁶ or any subsequent rules as may be approved by the Commission.

If SLR varies per customer class, the DU shall compute the applicable Gross Up Factor per customer class provided that the total recoverable Distribution System Loss shall be determined based on DU's overall Distribution System Losses computed as the sum of the Sub-transmission and Substation Losses and lower of the Distribution Feeder Loss and Distribution Feeder Loss Cap, pursuant to Section 2.4 of ERC Resolution No. 10, Series of 2018.¹⁷

OSLA = Other System Loss Cost Adjustments, refers to system loss rate adjustments approved by the Commission and adjustments determined using the formula provided in Article 4, Section 4 and Article 5, Section 3 hereof.

Section 5. Lifeline Subsidy Rate Formula. The Lifeline Subsidy Rate (LSR) shall be calculated and billed each calendar month by the DU using the following formula:

¹⁵ *Supra*, note 1.

¹⁶ *Supra*, note 1.

¹⁷ *Ibid*.

FORMULA 4

$$LSR = \left(\frac{TD}{S_{NL_{LSR}}} \right) + OLRA$$

Where:

LSR = Lifeline Subsidy Rate expressed in Peso/kWh

TD = Total Discount amount given to Lifeline customers in the previous month computed as follows:

$$TD = \sum_{i,j} [(S_{LSRij} \times TRate_i) + (NCust_{i,j} \times Fixed/Cust)] D_j$$

Where:

i = Each area in which there is a different Trate

j = Lifeline level bracket 1 to lifeline bracket n ;

S_{LSRij} = Total kWh for the previous month of lifeline bracket j in area i ;

$TRate_i$ = Total PhP/kWh rate in area i subject to lifeline discount which include generation, transmission, system loss, distribution, supply, metering and loan condonation, and other charges as may be approved by the Commission;

$NCust_{i,j}$ = Total number of customers for the previous month for lifeline bracket j in area i ;

D_j = Discount rate for lifeline bracket j ; and

$Fixed/Cust$ = Fixed metering charge for residential customers.

$S_{NL_{LSR}}$ = Total kWh of non-lifeline customers for the previous month; and

$OLRA$ = Other Lifeline Cost Adjustments, refer to lifeline subsidy rate adjustments approved by the Commission and adjustments determined using the formula provided in Article 4, Section 5 and Article 5, Section 3 hereof.

Section 6. Senior Citizen Subsidy Rate Formula. The Senior Citizen Subsidy Rate (SCSR) shall be calculated and billed each calendar month by the DU using the following formula:

FORMULA 5

$$SCSR = \left(\frac{TD_{Sr}}{kWh_{SEU}} \right) + OSrRA$$

where:

$SCSR$ = Senior Citizen Subsidy Rate expressed in Peso/kWh for the month to be charged to all subsidizing end-users

TD_{Sr} = total amount of discount granted to all Senior Citizen customers during the previous month which shall be computed as follows:

$$TD_{Sr} = (TD_{SrResl} + TD_{SrInst})$$

where:

TD_{SrResl} = The total amount of discounts granted to all qualified residential senior citizen customers during the previous month in accordance with Section 4(c) of the Republic Act 9994 and Article 12, Section 1 of the abovementioned Act's IRR

The computation is as follows:

$$TD_{SrResl} = \sum_i \sum_1^{100} ([kWhS_{SrResl} \times TRate_i] + \{NCust_{SrResl} \times [\text{Fixed SuppRate/Cust/Mo}_{SrResl} + \text{Fixed MetRate/Cust/Mo}_{SrResl}]\}) \times [100\% - L_{j=1..n}] \times D_{SrResl}$$

where:

i = Each area in which there is a separate TRate

$kWhS_{SrResl}$ = total kWh sales per kWh consumption of all qualified individual senior citizens during the previous month in area i

$TRate_i$ = Total PhP/kWh rate in area i subject to lifeline or Senior Citizen discount which include generation, transmission, system loss, distribution, supply, metering and loan condonation, and other charges as may be approved by the Commission

$NCust_{SrResl}$ = total number of customers in area i per kWh consumption of qualified residential senior citizen who were granted the senior citizen discount during the previous month.

$\text{Fixed SuppRate/Cust/Mo}_{SrResl}$ = fixed supply charge for residential customers

$\text{Fixed MetRate/Cust/Mo}_{SrResl}$ = fixed metering charge for residential customers

$L_{j=1..n}$ = Lifeline level discount percentage for lifeline level bracket 1 to lifeline level bracket n applicable to the billing month's kWh consumption of the specific qualified lifeline residential senior citizen customer

Note: For DUs where the maximum lifeline level is below the mandated 100 kWh subject to senior citizen discount, the excess kWh consumption shall have an equivalent zero percent (0%) for this variable since the same are not subject to lifeline discount but only to senior citizen discount.

D_{SrResl} = applicable discount rate for all qualified residential senior citizen customers as mandated under Section 4(c) of the Republic Act 9994 and Article 12, Section 1 of the abovementioned Act's IRR

TD_{SrInst} = total amount of discount granted to all qualified senior citizen centers and residential care facilities/institutions or group homes during the previous month in accordance with Section 5(d) of the Republic Act 9994 and Article 12, Section 2 of the abovementioned Act's IRR, with separate computation for each customer class where the qualified senior citizen centers and residential care facilities/institutions or group homes belong.

The computation is as follows:

$$TD_{SrInst} = \sum TD_{SrInst_{i,n}}$$

where:

$$TD_{SrInst_{i,n}} = ([kWhS_{SrInst_{i,n}} \times TRate_{SrInst_{i,n}}] + [NCust_{SrInst_{i,n}} \times \{Fixed\ MetRate/Cust/Mo_{SrInst_{i,n}} + Fixed\ SuppRate/Cust/Mo_{SrInst_{i,n}}\}] + [kWS_{SrInst_{i,n}} \times \{TransRate_{SrInst_{i,n}} + DistRate_{SrInst_{i,n}}\}]) \times D_{SrInst}$$

where:

$kWhS_{SrInst_{i,n}}$ = total kWh sales per customer classification of all qualified senior citizen centers and residential care facilities/institutions or group homes during the previous month

$TRate_{SrInst_{i,n}}$ = total Php/kWh rate per customer classification subject to the discount granted to all

qualified senior citizen centers and residential care facilities/institutions or group homes which include generation, transmission, system loss, distribution, supply, metering and loan condonation (for electric cooperatives), and other charges as may be approved by the Commission

- $NCust_{SrInst\ i,n}$ = total number of customers per customer classification of qualified senior citizen centers and residential care facilities/institutions or group homes who were granted the senior citizen discount during the previous month
- $Fixed\ MetRate / Cust / Mo_{SrInst\ i,n}$ = fixed metering charge per customer classification of all qualified senior citizen centers and residential care facilities/institutions or group homes
- $Fixed\ SuppRate / Cust / Mo_{SrInst\ i,n}$ = fixed supply charge per customer classification of all qualified senior citizen centers and residential care facilities/institutions or group homes
- $kWS_{SrInst\ i,n}$ = total kW sales per customer classification of all qualified senior citizen centers and residential care facilities/institutions or group homes during the previous month
- $TransRate_{SrInst\ i,n}$ = transmission demand charge (PhP/kW) per customer classification of all qualified senior citizen centers and residential care facilities/institutions or group homes
- $DistRate_{SrInst\ i,n}$ = distribution demand charge (PhP/kW) per customer classification of all qualified senior citizen centers and residential care facilities/institutions or group homes
- $D_{SrInst\ i,n}$ = applicable discount rate for all qualified senior citizen centers and residential care facilities/institutions or group

homes as mandated under Section 5(d) of the Republic Act 9994 and Article 12, Section 2 of the abovementioned Act's IRR

$kWhS_{SEU}$ = total kWh Sales to all subsidizing end-users during the previous month

$OSrRA$ = Other Senior Citizen Cost Adjustment, refer to senior citizen subsidy rate adjustments approved by the Commission and adjustments determined using the formula provided in Article 4, Section 6 and Article 5, Section 3 hereof.

Note: Any part of or variable in the formula that is not applicable shall have the value of zero (0).

Section 7. Other Pass-Through Costs. Other pass-through costs pursuant to Article 1, Section 2.6 shall be determined in accordance with the mechanism and formula determined by the Commission.

ARTICLE 3

REPORTORIAL REQUIREMENTS

Section 1. Submission of Reportorial Requirements. Starting on the month upon inclusion of the computed rates in the customers' bills, the DU shall provide the Commission with all calculations and information relative to the adjustment mechanisms provided for herein through the prescribed Uniform Reportorial Requirements (URR) spreadsheet template along with prescribed supporting documentation. The information is to be provided by the last day of the month, or the next working day if the last day falls on a weekend or a public holiday.

Section 2. Prescribed Format for the Calculation and Provision of Information. The DU shall strictly adopt and use the prescribed URR spreadsheet template¹⁸ prescribed by the Commission, to calculate the automatic cost adjustments to tariffs. It shall report on a monthly basis the over and under-recovery of these cost adjustments. The DU shall ensure that the information provided is accurate and complete and the monthly submissions are provided no later than the due date.

Section 3. Supporting Information. The supporting information to be provided, together with the monthly submission on the calculation and monitoring of the automatic cost adjustments, shall include, but not be limited to, the following:

¹⁸ The prescribed URR spreadsheet template shall be accomplished in Microsoft Excel Spreadsheet Software.

3.1 Basic Supporting Documents

- i. Official receipts and invoices from Power Supplier/s, including the computation of the fuel cost billed¹⁹ by the power supplier, official receipts and invoices showing the cost of fuel purchases and the quantities of fuel purchases by generation companies, fuel purchase agreement/fuel supply contracts between generation companies and its fuel suppliers, Delivery Receipts by fuel suppliers, and transaction summaries or similar documentation for WESM purchases;
- ii. Official Receipts and invoices from National Transmission Corporation (TransCo)/National Grid Corporation of the Philippines (NGCP), including the details on the Meter Point Profile;
- iii. Debit/Credit Memos from Power Supplier/s and TransCo/NGCP, if any;
- iv. Official Receipts of payments to Power Supplier/s and TransCo/NGCP, or any proof of payment, as applicable, in case suppliers fail to issue receipts for any reason outside the control of the DU;
- v. Actual consumer bills per class (3 bills per class);
- vi. Actual consumer bills of customers with any pass-through rate different from Captive Customers, if any;
- vii. Other Technical Data Template;
- viii. and other documents/data/information that may be required by the Commission.

3.2 For Generation Rates and System Loss Rates

- i. Sworn statement of DU if it has its own generation facility (one-time submission only, if applicable);
- ii. Monthly Generation Report for DU-Owned generation facility, if applicable; and
- iii. Sworn and notarized statement on PPD availed from power supplier/s, PPD extended to end-users and pilferage recoveries enjoyed by the DU.

¹⁹ A format/table is included in the Other Technical Data Template.

3.3 For Transmission Rates

- i. Sworn and notarized statement on PFD availed from TransCo/NGCP and PFD extended to end-users and Third Parties by the DU.

ARTICLE 4

CALCULATION OF THE OVER OR UNDER RECOVERY IN THE IMPLEMENTATION OF ADJUSTMENT MECHANISMS

Section 1. Calculation of Over/Under Recoveries. The DU shall calculate the over or under recoveries on the Generation Rate, Transmission Rate, System Loss Rate, Lifeline Subsidy Rate and Senior Citizen Subsidy Rate brought about by the variance between the allowable cost and the revenues billed using the applicable formulae. The sections below set out the basis for the calculation for the cumulative over or under-recovery amount for a period as the difference between the amount billed in regard to that component during the period and the actual costs for the component. The calculated amount billed excludes adjustments determined by the Commission in respect of over or under-recoveries in prior Compliance Filing periods. The computed amount (in Pesos) shall be the basis for the Commission's approval of the DU's over or under-recoveries. The cumulative over or under-recovery is divided by the relevant quantity to express the rate per amount billed for that component, as a reference for the indicative rate impact of the computed over or under-recoveries. The calculated cumulative over or under-recoveries for the period is used:

- 1.1 **At the triennial review** for the Commission's determination of the total amount of over or under-recovery to be returned or recouped in the next period and the adjustment to the rates required for this.
- 1.2 **During the three-year period** to monitor the level of over and under-recoveries during the period and the DU's compliance with the requirements of Article 5 and the calculation of any corrections under Formula 15 in Section 3 of Article 5.

Section 2. Generation Rate Over/Under Recovery. The Generation Rate Over/Under Recovery (GOUR) applicable to customers being referred to in Article 2, Sub-sections 1.1.3 and 1.2.4, and to customers being referred to in Section 1.2.1, if sourcing is the same from non-TOU customers being referred to in Article 2, Sub-sections 1.1.3 and 1.2.4, shall be calculated based on the following formula:

FORMULA 7

$$GOUR = \frac{[(AGC - GRR) + eGOUR]}{S_{GOUR_{Total}}}$$

Where:

GOUR = Refers to under/over-recoveries in generation costs during the recovery period expressed in Peso/kWh;

AGC = Total Allowable Generation Cost, computed as follows:

$$AGC = \left(\frac{TGC_{GOUR}}{kWh_{GOUR}} \right) S_{GOUR}$$

Where:

TGC_{GOUR} refers to Total Generation Cost defined as:

$$TGC_{GOUR} = [(GC_i + GC_{ii} + \dots + GC_n) - 50\% (PPD_i + PPD_{ii} + \dots + PPD_n) - PCR_{GOUR}]$$

Where:

GC_{i to n} = The Generation Costs in Pesos from source of power i through source of power n for month 1 to m coming from Transition Supply Contracts (excluding Mandated Rate Reduction and penalties), Power Supply Agreements, WESM purchases, Net-Metering and Distributed Energy Resources Export Energy, Interruptible Load Programs (net of de-loading compensation revenue from Contestable Customers and GEOP end-users) and distribution utility-owned generation facility, as incorporated in the approved unbundled rates or as subsequently authorized by the Commission, exclusive of the following:

- a. Cost of power allocated to contestable customers in accordance with Section 10 of ERC Resolution No. 16, Series of 2012²⁰ and to GEOP end-users in accordance with Section 14 of ERC Resolution No. 08, Series of 2021;²¹
- b. Cost of power distributed to customers under DU's special programs;
- c. Cost of power distributed to customers under a Sale for Resale Agreement, if the customers being supplied are not connected with the main distribution grid and the cost is different from those for other regular customers; and
- d. Losses due to trading of the contracts to the WESM in accordance with ERC Resolution No.

²⁰ *Supra*, note 8.

²¹ *Supra*, note 9.

16, Series of 2016, or any subsequent rules as may be approved by the Commission;²²

$PPD_{i\ to\ n}$ = Prompt Payment Discounts and other discounts availed by the DU, net of the discounts extended to the end-users for month 1 to m, where discount extended to end-users cannot be higher than the discount availed from the power supplier/s, relative to generation cost;

PCR_{GOUR} = Pilferage cost recoveries for month 1 to m;

kWh_{GOUR} = Energy input (for month 1 to m in total kWh) excluding SSLA as clarified in ERC Resolution No. 10, Series of 2018,²³ net of kWh exported to the Transmission system, kWh delivered to customers with individual generation supply agreements, kWh sold to contestable customers and GEOP end-users, and kWh distributed to special programs and Sale for Resale Agreements, if the customers being supplied are not connected with the main distribution grid and the cost is different from those for other regular customers; and

S_{GOUR} = Actual energy sales for month 1 to m, net of kWh exported to the Transmission system, kWh delivered to customers with individual generation supply agreements, kWh sold to contestable customers and GEOP end-users, and kWh distributed to special programs and Sale for Resale Agreements, if the customers being supplied are not connected with the main distribution grid and the cost is different from those for other regular customers.

In the case of ineligible supply contracts, generation costs shall include the kilowatt-hours pertaining to ineligible contracts, but the costs shall be pegged at the DU's load weighted average NPC TOU rates, or in case DU is not sourcing from NPC, NPC's TOU rates²⁴ as posted in their website, or the actual rate as billed by the IPP or Selling DU under a Sale for Resale Agreement, whichever is lower. Provided that this is without prejudice to the imposition of appropriate penalties as provided under the EPIRA or the rules and regulations of the Commission.

In the case of embedded generators without supply contracts with the DU, energy deliveries, which form part of the Energy Input, shall not be compensated by the DU and shall not form part of the generation costs.

GRR = Total generation revenues billed to customers (exclusive of any adjustments approved by the Commission to address prior period over and under recoveries at previous Compliance Filing Reviews) except revenues from contestable customers, GEOP end-users, those with individual generation supply agreements, special programs and Sale for Resale Agreements, if the area is not connected with the main distribution grid and the cost is different from those for other regular customers, computed as follows:

²² *Supra*, note 10.

²³ *Supra*, note 1.

²⁴ *Supra*, note 12.

Where:

$$GRR = (AGR_{non-TOU} \times S_{non-TOU}) + TOU_{rev}$$

$AGR_{non-TOU}$ = AGR (as defined in Article 2, Section 2); and

$S_{non-TOU}$ = S_{GOUR} as defined above less TOU sales

TOU_{rev} = Total TOU revenue billed to DU's TOU customers, which was supplied by the same source as that of customers billed with GR under Article 2, Section 1

$eGOUR$ = The total ending balance of the refund/collect as a result of any prior confirmation/s.

$S_{GOUR_{Total}}$ = Total energy sales for the most recent months corresponding to the recovery period or as determined by the Commission, net of kWh exported to the Transmission system, kWh delivered to customers with individual generation supply agreements, kWh sold to contestable customers and GEOP end-users, and kWh distributed to special programs and Sale for Resale Agreements, if the customers being supplied are not connected with the main distribution grid and the cost is different from those for other regular customers.

Section 3. Transmission Rate Over/Under Recovery. The Transmission Rate Over/Under Recovery (TOUR) shall be calculated per customer class based on the following formula:

3.1. For Customer classes with TR expressed in Peso/kWh:

FORMULA 8

$$TOUR_N = \frac{[(ATC_N - TRR_N) + eTOUR_N]}{S_{TOUR_N}}$$

3.2. Customer classes with TR expressed in Peso/kW and Customer classes with TR expressed in both Peso/kWh and Peso/kW:

FORMULA 9

$$TOUR_N = \frac{[(ATC_N - TRR_N) + eTOUR_N]}{BD_{TOUR_N}}$$

Where:

$TOUR_N$ = Refers to over/under recoveries in transmission cost during the recovery period for the relevant customers (*i.e.*, customer class with transmission charge expressed in Peso/kWh in Formula 8 and customer class with transmission charges expressed in Peso/kW, or Peso/kW and Peso/kWh in Formula 9);

ATC_N = Refers to the allowable transmission cost during the recovery period for the relevant customers (*i.e.*, total cost for customer class with transmission charge expressed in Peso/kWh in

Formula 8 and customer class with transmission charges expressed in Peso/kW, or Peso/kW and Peso/kWh in Formula 9) computed as follows:

$$ATC_N = \sum_{1..m} \left[\left(\frac{TC - 50\%PFD}{kWh_{TOUR}} \right) S_{TOUR} \right] CP_N$$

Where:

TC = The actual transmission cost in Peso for month 1 to m;

PFD = Power Factor Discounts and any other discounts availed by the DU, net of the Power Factor Discounts given to end-users and Third Parties for month 1 to m, *where*: Discount passed on to end-users and Third Parties \leq discount availed from TransCo/NGCP for month 1 to m;

kWh_{TOUR} = Energy input (for month 1 to m in total kWh) excluding SSLA as clarified in ERC Resolution No. 10, Series of 2018,²⁵ net of kWh exports to the transmission system, and kWh distributed to special programs and Sale for Resale Agreements, if the customers being supplied are not connected with the main distribution grid and the cost is different from those for other regular customers corresponding to the transmission cost;

S_{TOUR} = Actual kWh Sales for month 1 to m (net of kWh exports to the transmission system, kWh wheeled by generator wheeling customers, and kWh distributed to special programs and Sales for Resale Agreements, if the customers being supplied are not connected with the main distribution grid and the cost is different from those for other regular customers) corresponding to the transmission cost;

CP_N = Actual Coincident Peak Demand or the computed Coincident Peak Demand Allocation Factor for the relevant customers (*i.e.*, customer class with transmission charge expressed in Peso/kWh in Formula 8 and customer class with transmission charge expressed in Peso/kW, or Peso/kW and Peso/kWh in Formula 9) corresponding to the recovery period; and

N = Refers to a specific customer class (ex. $N=1,2,\dots$, where 1= Residential, 2= Commercial, etc.).

TRR_N = Total Transmission Revenues during the recovery period (exclusive of any adjustments approved by the Commission to address previous over and under recoveries at previous Compliance Filing Reviews), to be computed as follows:

$$TRR_N = \sum_{1..m} [(TR_{N,m} \text{ in } Php/kWh \times S_{N,m}) + (TR_{N,m} \text{ in } PhP/kW \times BD_{N,m})]$$

²⁵ *Supra*, note 1.

Where:

$TR_{N,m}$ = Transmission Rate in PhP/kWh and/or PhP/kW as applicable to customer class N as implemented by the DU for month 1 to m (exclusive of any adjustments approved by the Commission to address previous over and under recoveries at previous Compliance Filing Reviews). If the transmission rate for customer N is expressed in PhP/kWh only, then the Transmission Charge in PhP/kW in the formula shall be equal to zero (0) and vice-versa;

$S_{N,m}$ = Total kWh sales for customer class N for month 1 to m;

$BD_{N,m}$ = Total kW billing demand for customer class N for month 1 to m; and

N = Refers to a specific customer class (ex. $N=1,2,\dots$, where 1= Residential, 2= Commercial, etc.).

$eTOUR_N$ = The total ending balance of the refund/collect as a result of any prior confirmation/s.

S_{TOUR_N} = Total kWh Sales for the most recent months corresponding to the recovery period or as determined by the Commission for the relevant customers (i.e., customer class with transmission charge expressed in Peso/kWh).

BD_{TOUR_N} = Total kW billing demand for the most recent months corresponding to the recovery period or as determined by the Commission for the relevant customers (i.e., customer class with transmission charge expressed in Peso/kW, or Peso/kW and Peso/kWh).

Section 4. System Loss Rate Over/Under Recovery. The System Loss Rate Over/Under Recovery (SLOUR) shall be calculated based on the following formula:

FORMULA 10

$$SLOUR = \frac{[(ASLC - ASLR) + eSLOUR]}{S_{SLOUR}}$$

Where:

$SLOUR$ = Refers to over/under recoveries in system loss during the recovery period expressed in Peso/kWh;

$ASLC$ = Allowable System Loss Cost incurred during the recovery period computed as follows:

$$ASLC = \sum_n ASLC_{yn}$$

Where:

$$ASLC_{Y,1...n} = \left(\left[\frac{TGC_Y}{kWh_{GOUR}} + \frac{TC_Y - 50\%PFD_Y}{kWh_{TOUR}} \right] U \right) S_Y$$

TGC_Y = TGC_{GOUR} (as defined in Article 4, Section 2) for January to December of each year during the recovery period;

TC_Y = The actual transmission cost in Peso for January to December of each year during the recovery period

PFD_Y = Power Factor Discounts and any other discounts availed by the DU, net of the Power Factor Discounts given to end-users and Third Parties for January to December of each year during the recovery period, *where*: Discount passed on to end-users and Third Parties \leq discount availed from TransCo/NGCP for month 1 to m;

kWh_{GOUR} = Energy input (for January to December in total kWh) excluding SSLA as clarified in ERC Resolution No. 10, Series of 2018,²⁶ net of kWh exported to the transmission system, kWh delivered to customers with individual generation supply agreements, kWh sold to contestable customers and GEOP end-users, and kWh distributed to special programs and Sale for Resale Agreements, if the customers being supplied are not connected with the main distribution grid and the cost is different from those for other regular customers corresponding to the generation cost;

kWh_{TOUR} = Energy input (for January to December in total kWh) excluding SSLA as clarified in ERC Resolution No. 10, Series of 2018,²⁷ net of kWh exported to the transmission system, and kWh distributed to special programs and Sale for Resale Agreements, if the customers being supplied are not connected with the main distribution grid and the cost is different from those for other regular customers corresponding to the transmission cost;

S_Y = The total kWh sales for January to December of each year, excluding kWh wheeled by generator wheeling customers, during the recovery period

U = Gross Up Factor defined as:

$$U = \frac{DSL_{ST+SS} + \text{Min}(DSL_{fdr}, DSL_{fdr,cap})}{1 - (DSL_{ST+SS} + DSL_{fdr})}$$

Where:

DSL_{ST+SS} = Sub-Transmission and Substation Loss for the period January to December, in percent;

DSL_{fdr} = Distribution Feeder Loss for the period January to December, in percent; and

$DSL_{fdr,cap}$ = Distribution Feeder Loss cap, in percent;

²⁶ *Supra*, note 1.

²⁷ *Supra*, note 1.

Determination of Distribution System Loss recoverable through system loss over/under-recovery shall be in accordance with ERC Resolution No. 10, Series of 2018,²⁸ or any subsequent rules as may be approved by the Commission.

The total recoverable Distribution System Loss shall be determined based on DU's overall Distribution System Losses computed as the sum of the Sub-transmission and Substation Losses and lower of the Distribution Feeder Loss and Distribution Feeder Loss Cap, pursuant to Section 2.4 of ERC Resolution No. 10, Series of 2018, or any subsequent rules as may be approved by the Commission.²⁹

ASLR = Total actual system loss revenues billed to customers or per customer classes (exclusive of any adjustments approved by the Commission to address previous over and under recoveries at previous Compliance Filing Reviews), except those associated with special programs and Sale for Resale Agreements, if such sales have different system loss charge rates from regular customers, computed as follows:

$$ASLR = \sum_{1..m} \sum_N [SLR_{N,i} \times S_{N,i}]$$

Where:

SLR_{N,i} = Actual implemented systems loss rate for each customer class for each month of the recovery period (exclusive of any adjustments approved by the Commission to address previous over and under recoveries at previous Compliance Filing Reviews).

S_{N,i} = Actual kWh Sales for each customer class for each month during the recovery period, net of kWh distributed to special programs and Sale for Resale Agreements, if such sales have different system loss charge rates from regular customers, and kWh wheeled by generator wheeling customers;

eSLOUR = The total ending balance of the refund/collect as a result of any prior confirmation/s.

SsLOUR = Total kWh sales for the most recent months corresponding to the recovery period or as determined by the Commission, net of kWh distributed to customers under special programs and Sale for Resale Agreements, if such sales have different system loss charge rates from regular customers, and kWh wheeled by generator wheeling customers.

Section 5. Lifeline Subsidy Over/Under Recovery. The Lifeline Subsidy Over/Under Recovery (LSOUR) shall be calculated based on the following:

²⁸ *Ibid.*

²⁹ *Ibid.*

FORMULA 11

$$LSOUR = \frac{LDiff + eLSOUR}{S_{LSOUR}}$$

Where:

LSOUR = Refers to over/under recoveries on the Lifeline subsidy during the recovery period expressed in Peso/kWh;

LDiff = Difference between the Total Discounts given to Lifeline customers and Total Subsidy collected from non-Lifeline customers, computed as follows:

$$LDiff = \sum_{1..m} (TD_{Lifeline} - TS_{Lifeline})$$

Where:

TS_{Lifeline} = Lifeline subsidy amount collected from non-Lifeline customers for month 1 to m, computed as follows:

$$TS_{Lifeline} = S_{NLC} \times LSR$$

Where:

S_{NLC} = total kWh consumption of non-Lifeline customers for the month; and

LSR = Lifeline subsidy rate per kWh collected from non-Lifeline customers for the month (exclusive of any adjustments approved by the Commission to address previous over and under recoveries at previous Compliance Filing Reviews).

$\sum TD_{Lifeline}$ = Total discount amount given to Lifeline customers for month 1 to m, computed as follows:

$$TD_{Lifeline} = \sum_i \sum_{j=1..n} \left(\frac{LD_j}{E_j} \right) \times TS_j$$

Where:

i = Each area in which there is a different TRate

j = Lifeline consumption level 1 to Lifeline consumption level n;

LD_j = Discount (in Php) for Lifeline in consumption level j;

E_j = Energy consumption (in kWh) for Lifeline in consumption level j;

TS_j = Total energy sales (in kWh) to all Lifeline customers in bracket j.

$eLSOUR$ = The total ending balance of the refund/collect as a result of any prior confirmation/s.

S_{LSOUR} = Total kWh consumption of non-lifeline customers for the most recent months corresponding to the recovery period or as determined by the Commission.

Section 6. Senior Citizen Subsidy Over/Under Recovery. The Senior Citizen Subsidy Over/Under Recovery (SCSOUR) shall be calculated based on the following:

FORMULA 12

$$SCSOUR = \frac{SCDiff + eSCSOUR}{S_{SCSOUR}}$$

Where:

$SCSOUR$ = Refers to over/under recoveries on the Senior Citizen subsidy during the recovery period expressed in Peso/kWh;

$SCDiff$ = Difference between the Total Discounts given to qualified Senior Citizen customers and Total Subsidy collected from all subsidizing end-users, computed as follows:

$$SCDiff = \sum_{i=1}^m (TD_{Sr_i} - TS_{SEU_i})$$

Where:

TS_{SEU_i} = Senior Citizen Subsidy amount collected from subsidizing end-users for month 1 to m, computed as follows:

$$TS_{SEU_i} = SCSR_{SEU_i} \times kWhS_{SEU_i}$$

Where:

$kWhS_{SEU_i}$ = Total kWh consumption of subsidizing end-users for the month; and

$SCSR_{SEU_i}$ = Senior Citizen Subsidy Rate per kWh collected from subsidizing end-users for the month (exclusive of any adjustments approved by the Commission to address previous over and under recoveries at previous Compliance Filing Reviews)

TD_{Sr_i} = total discount amount given to qualified Senior Citizen customers for month 1 to m, computed as follows:

$$TD_{SrI} = \sum TD_{SrResI} + \sum TD_{SrInstI}$$

$\sum TD_{SrResI}$ = total amount of discount implemented or granted to all qualified residential senior citizen customers for the recovery month within the period covered

$$TD_{SrResI} = \sum_i \sum_{j=1..n} \left(\frac{SCD_j}{E_{Srj}} \right) \times TS_j$$

i = Each area in which there is a separate TRate

j = Senior Citizen bracket 1 to Senior Citizen bracket n;

SCD_j = Actual Discount (in Php) for Senior Citizens in bracket j;

E_{Srj} = The level of energy consumption (in kWh) for Senior Citizens in bracket j;

TS_j = Total energy sales (in kWh) to all Senior Citizens in bracket j.

$\sum TD_{SrInstI}$ = total amount of discount implemented or granted to all qualified senior citizen centers and residential care facilities/institutions or group homes for the recovery month within the period covered

$$TD_{SrInstI} = SCD_i + SCD_{i+1} + \dots + SCD_n$$

$SCD_{i \text{ to } n}$ = Actual Discount (in Php) for qualified senior citizen centers and residential care facilities/institutions or group homes customer i to customer n;

$eSCSOUR$ = The total ending balance of the refund/collect as a result of any prior confirmation/s.

$SSCSOUR$ = Total kWh consumption of subsidizing end-users for the most recent months corresponding to the recovery period or as determined by the Commission.

Section 7. Over and Under-recovery of other Pass-Through Costs. Over and under-recoveries and the adjustments in regard to other pass-through costs pursuant to Article 1, Section 2.6 shall be determined in accordance with the mechanism and formula determined by the Commission.

ARTICLE 5

ADJUSTMENT OF RATES TO CORRECT ERRORS AND REDUCE THE LEVEL OF MONTHLY OVER AND UNDER RECOVERIES

Section 1. Adjustment of rates to correct errors and monthly over and under recoveries. In order to provide timely correction of discrepancies and errors and prevent the accumulation of large over and under-recovery balances that can add to price volatility, DUs shall:

- a. File the standardized submission, including the monthly and accumulated over and under-recovery balances, on a monthly basis;
- b. Monitor the accumulated over and under-recoveries; if it is an over-recovery, place the over-recovery amount in a Restricted Fund to prevent their use for any purpose other than repayment to customers in subsequent months; and
- c. If at any point the accumulated over and under recoveries exceed $\pm 10\%$ ³⁰ of total non-network revenues for the preceding three (3) billing period, the DU shall adjust its prices in accordance with Formula 15 starting on the succeeding billing period in order to reduce the accumulated over and under recovery balance to within $\pm 3\%$ of the rolling 3-month total non-network revenues within the prescribed number of months. Failure to observe the obligations under Article 3 shall prohibit the DU from implementing the adjustment of rate to correct errors and monthly under recoveries.

While the accumulated over and under-recoveries remain within the allowed band of $\pm 10\%$ of the rolling 3-month total non-network revenues, the DU shall implement the automatic adjustments in accordance with the formula in Article 2 without further corrections [*i.e.*, Formula 15 does not apply if Section 1(c) has not been triggered or the over/under recovery balance has been returned to within $\pm 3\%$ of the rolling 3-month total non-network revenues, in accordance with the requirements of Section 1(c) above]. The Commission, at its discretion, may direct the DU to implement Formula 15 even if the $\pm 10\%$ threshold has not been breached.

Section 2. Operation of the restricted fund. The DU shall open a separate account that shall hold the restricted fund and ensure the appropriate recovery of the aggregate over-recovery resulting from the DUs' operations.

For each month of its operation, the required closing balance in the fund shall be the greater of:

³⁰ For the avoidance of doubt and for purposes of applying these Rules, the $\pm 10\%$ threshold shall be considered breached starting below -10% or beyond 10% of the rolling 3-month total non-network revenues.

1. the aggregate over-recovery as of the current month plus interest earned on the funds held (net of tax withheld); or
2. zero.

If the actual balance at the end of the month exceeds the required closing balance for the month (*i.e.*, an under-recovery for the current month shall result in a lower aggregate over-recovery from the actual balance), the DU may draw down from the fund an amount equivalent to the difference. If the required closing balance for the month exceeds the actual balance in the fund at the end of the month (*i.e.*, an over-recovery for the current month shall result in a higher aggregate over-recovery from the actual balance), the DU shall, within 5 working days from the last day of the month, place into the fund an amount equivalent to the difference.

The DU shall submit to the Commission, every 31st day of May, an annual bank statement or statement of account, detailing the account transactions during the year. The Commission may also require the submission of such statement of account at any time, as may be necessary.

Section 3. Calculation of corrections once the aggregate over or under-recovery exceeds ± 10%. Once the limit of ± 10% of the rolling 3-month total non-network revenues has been exceeded, the DU shall include a correction to prices to reduce the over or under recovery balance for each component of the total over and under-recovery in proportion to the over and under-recovery for that component. These corrections shall continue until the over or under recovery amount has been reduced to within ± 3% ³¹of the rolling 3-month total non-network revenues.

The correction for each component of the resulting over or under recovery amount shall be calculated in accordance with Formula 15. However, for the net or total under recovery amount, in which the sum of the component corrections (per kWh) calculated using Formula 15 exceeds PhPo.30/kWh (the 'side-constraint'), the change for each component shall be reduced by an equal percentage so that the sum of the component corrections (per kWh) does not exceed PhPo.30/kWh.

FORMULA 15

$$Adj_i = \frac{OUR_i / m}{S_i}$$

Where:

Adj_i = Adjustment to component *i* of tariffs to address the over or under-recovery balance (ex. *i* = 1, 2... where 1=Generation, 2=Transmission, etc.)

³¹ For the avoidance of doubt and for purposes of applying these Rules, the ± 3% threshold shall be considered breached starting below -3% or beyond 3% of the rolling 3-month total non-network revenues.

- OUR_i = Balance of over and under recovery for component i (e.g., generation over or under-recovery balance) calculated in the monthly URR report
- m = Number of months by which the over or under-recovery balance shall be reduced to within $\pm 3\%$ of the rolling 3-month total non-network revenues
- S_i = Relevant measure of sales (kWh or kW) for the calculation of component i .

This adjustment is applied to each tariff component as calculated in Article 2. The adjustment is to be applied for transmission charges per customer class (TR_N). If the DU implements SLR per customer class, the DU shall compute the applicable Adjustment (Adj_i) per customer class.

The default value for m in Formula 15 is one (1) to address over-recovery balance.

On the other hand, to address the under-recovery balance, the default value for m in Formula 15 is six (6) for the first billing month and for the succeeding billing months, m equals $m-1, m-2...m-5$. If the balance is not reduced to within $\pm 3\%$ of the rolling 3-month total non-network revenues within the prescribed number of months, the DU shall continue to apply Formula 15 in each month until the cumulative balance is reduced to within $\pm 3\%$ of the rolling 3-month total non-network revenues. The value of m shall be one (1) for each month that the Formula 15 continues to be applied beyond the initial period.

Section 4. Termination of corrections to address an over and under recovery. The monthly adjustments under Section 3 shall continue to be made until the over or under recovery amount is reduced to within $\pm 3\%$ of the rolling 3-month total non-network revenues. For example, if the adjustments are triggered by an over recovery amount in excess of 10% of the rolling 3-month total non-network revenues, the corrections shall continue until the cumulative over recovery amount has been reduced to within 3% of the rolling 3-month total non-network revenues, or until there is a cumulative under recovery amount (whether or not the under recovery amount is above or below 3% of the rolling 3-month total non-network revenues).

ARTICLE 6

TRANSITION ARRANGEMENTS AND FILING AND RESOLUTION OF THE APPLICATIONS

Section 1. Transition arrangements. The obligations under this Resolution shall commence on 1 January 2023.

- a. Reporting for the period up to December 31, 2022 shall continue under ERC Resolutions No. 16, Series of 2009³² and 24, Series of 2011.³³
- b. All DUs shall be obliged to file, through the online reporting platform by April 2023, the standardized monthly submissions using the new templates. For the purpose of submission and calculation for adjustment of rates to correct errors and monthly over and under recoveries, and without prejudice to over and under recoveries prior to 1 January 2023, each DU shall commence with an opening accumulated over and under recovery balance of zero.
- c. Each DU shall file its consolidated Applications and supporting documentation for the Triennial Review by the Commission in accordance with Section 2 below. At this time, the Commission shall review the information provided, and the over and under recoveries for the period up to December 31, 2022 and in subsequent periods, and determine any adjustment to be applied to reduce over and under recoveries in total and for specific categories of cost adjustments.
- d. The adjustments approved by the Commission in regard to consolidated Applications already filed as of 1 January 2023, and at future Triennial Reviews, shall apply independently of the calculation of within-period adjustments in accordance with Article 5 Section 3.

Section 2. Filing. The DUs shall file their respective consolidated applications for Triennial Review within the period as prescribed hereunder. DUs do not have to resubmit documents filed as part of the monthly submissions from December 31, 2022 but shall provide a consolidated list of documents submitted since that date, as part of the monthly submissions that support its Application for the Triennial Review. However, the DUs shall submit other relevant documents as may be required by the Commission.

Distribution Utilities	Period of Filing	Period covered
Luzon DUs	March 31, 2023	January 2020 – December 2022
Visayas DUs	March 31, 2024	January 2021 – December 2023
Mindanao DUs	March 31, 2025	January 2022 – December 2024

Subsequently, the DUs shall file their respective consolidated applications every three (3) years, following the period of filing prescribed above.

³² "A Resolution Adopting the Rules Governing the Automatic Cost Adjustment and True-Up Mechanisms and Corresponding Confirmation Process for Distribution Utilities."

³³ "A Resolution Adopting the Revised Uniform Reportorial Requirement (URR) by All Distribution Utilities."

Section 3. True Up Mechanisms Approved by the Commission at the Triennial Reviews. The filing of calculations of over or under recoveries from adjustments implemented by the DUs referred to in the preceding Section shall include the Generation Rates Recovery Mechanism, System Loss Rates Recovery Mechanism, Transmission Rates Recovery Mechanism, Lifeline Subsidy Rates Recovery Mechanism, Senior Citizen Subsidy Rate Recovery Mechanism, and such other mechanisms that the Commission may adopt.

Section 4. Applicability of Rules Governing the True-Up Mechanisms. The specific rules for the calculation of over and under-recoveries under this Resolution shall prevail in the event of a difference between these rules and any earlier rules or resolution. Any provisions of earlier resolutions and rules shall remain in effect unless amended by pertinent provisions of these rules.

Section 5. Form of Application and Supporting Documents. The applications and supporting documents therewith shall adopt the templates to be prescribed by the Commission.

Section 6. Referral to External Auditors. At its discretion, the Commission may refer the application at the Triennial Reviews to an accredited external auditor for audit. The cost of hiring such accredited auditor, as stipulated in the contract for the services of such accredited auditor approved by the Commission, shall be borne by the Commission or the concerned DU. Any cost accruing to the delivery of such service, with prior approval by the Commission, shall be treated, upon proof of actual payment thereof, as a recoverable expense and shall be considered in the calculation of over or under recoveries for the test period covered.

Section 7. Applicability of the ERC Rules of Practice and Procedure. - The ERC Rules of Practice and Procedure, as may be amended from time to time, shall apply suppletorily to the verification process outlined in these Rules insofar as they are not inconsistent herewith.

ARTICLE 7

VIOLATION OF THE RULES

Section 1. Fines and Penalties – Violation of any provision of these Rules shall be subject to the imposition of fines and penalties in accordance with Republic Act No. 9136 or the Rules 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 Commission on May 17, 2002, as amended by

Resolution No. 03, Series of 2009,³⁴ and any subsequent amendments thereto.

ARTICLE 8

FINAL PROVISIONS

Section 1. Exception Clause – Where good cause appears, the Commission may allow an exemption from any provision of these Rules, if such 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 Rules 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. Repealing Clause – All previous Commission issuances not consistent with these Rules are hereby accordingly repealed or deemed modified.

Section 4. Effectivity – These Rules shall take effect fifteen (15) days following its publication in a newspaper of general circulation.

Pasig City, 19 December 2022

³⁴ “Resolution Amending 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.”