

Performance Based Regulation of Philippines Electricity Distribution Companies

REGULATORY TRAINING COURSE

Cebu – November 5 & 6, 2007
Baguio – November 8 & 9, 2007

SESSION 5C –THE ANNUAL RATE RESET



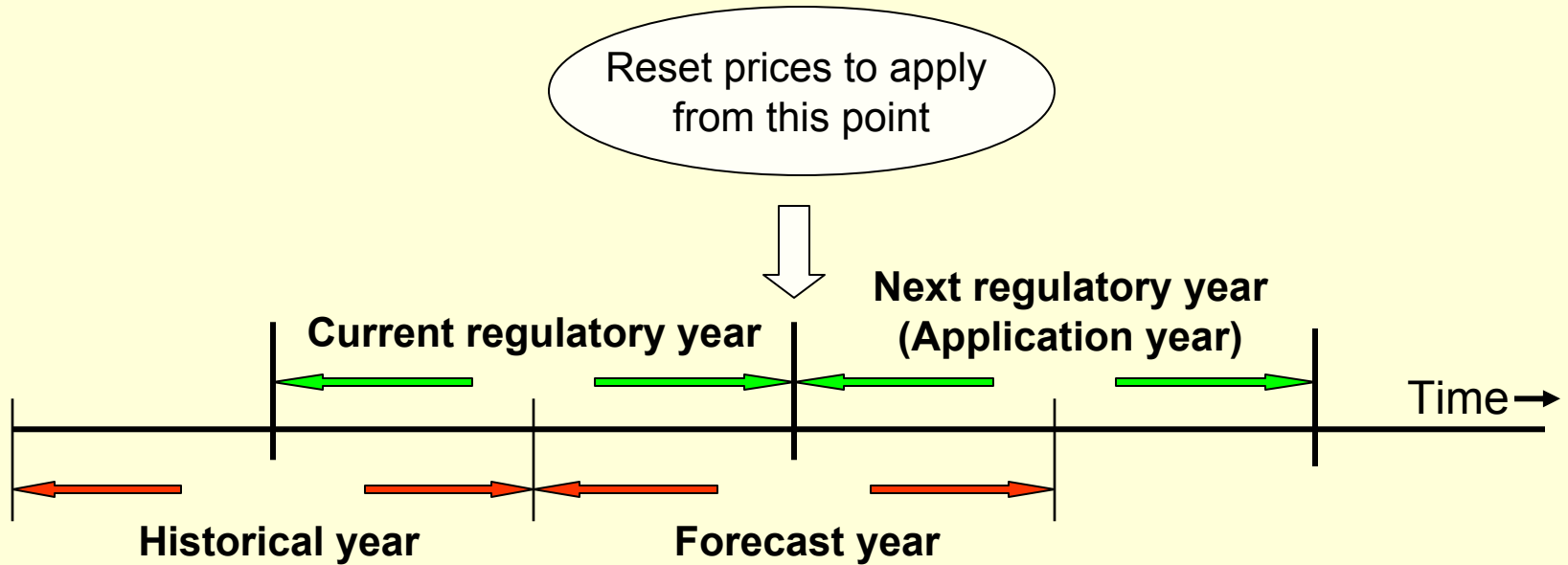
Overview of the session

- This session will cover:
 - The procedure for the annual rate reset during the Regulatory Period

The annual reset

- As part of the initial regulatory reset process:
 - A forecast price path is determined
 - The X-factor is set
- However, during the regulatory period:
 - Annual rate adjustments are to occur, based on actual:
 - Economic indices $MAP_t = [MAP_{t-1} \times \{1 + CWI_t - X\}] + S_t - K_t + ITA_t$
 - Energy consumption
 - Average distribution price
 - Service quality performance
 - Utilities are to lodge applications for the revised distribution rates, that will apply during the application year
 - Calculation of the revised rates are based on factors established for :
 - Historical period (ending six months before the start of the application year)
 - Forecast period (ending six months into the application year)

The timeline



The Process

TIME	ACTION
14 Weeks before start of application year	Utilities submit rate adjustment information & proposal for new wheeling rates
11 Weeks before start of application year	ERC to pass requests for further information to utilities
9 Weeks before start of application year	Utilities provide further information
8 Weeks before start of application year	Utilities to meet with ERC staff to explain the submission in detail
6 Weeks before start of application year	ERC decides whether proposed wheeling rate can be implemented as submitted, or whether amendments are necessary
4 Weeks before start of application year	Public notification of amended wheeling rates (if approved by ERC)
Start of application year	Implementation of the wheeling rates (if approved by ERC)

The Process

- If ERC does not approve the proposal for the annual adjustment:
 - Will provide reasons to utilities
 - Set new timeframe for submission
- Utilities to consult and revise the proposed rates before re-submission
- Review process then resumes as before
- Once accepted, the rates must be publicly notified for a minimum 4-week period before being implemented

Information to be submitted with annual reset application

- All supporting calculations for the application
- For the 12-months preceding the application date (the historical period, which ends six months before the application year) :
 - amount billed to customers for distribution services
 - net income derived from each related business undertaking
 - total amount of energy delivered
 - simple average of the monthly 180 day weighted-average Manila Reference Rate
 - Correction Factor under the over/under recovery formula for the Application Year (K_t)
 - change in Weighted Index for the Application Year (CWI_t)
 - Tax Adjustment for the Application Year (ITA_t)
 - maximum average price (expressed in PhP/kWh) permitted to the utility
 - Actual performance against each index included in the performance incentive scheme

Further historical information required

- For the historical period:
 - total amount billed to all Customers in each Customer Segment
 - maximum distribution wheeling rates applied to each Customer Segment
 - actual distribution wheeling rates applied to each Customer Segment
 - total amount of energy delivered to all Customers in each Customer Segment

Further forecast information required

- For the Forecast Period (ending 6 months into the Application Year):
 - amount forecasted to be billed to all Customers in each Segment
 - amount of energy forecasted to be delivered to all Customers in each Customer Segment

QUESTIONS

