



**RETAIL ELECTRICITY
SUPPLIERS ASSOCIATION**

Outline

- RCOA Process
- Current Tax Implications of RES/LRES transactions
- Recommendations

BACKGROUND ON RCOA PROCESS

RCOA Background

- Open Access is the last major feature of the EPIRA.
- Objective is to promote efficiency and open competition for end-users in the procurement of generation supply
- Initial implementation started in June 26, 2013 with around 29% of the total contestable market participating



RCOA Process

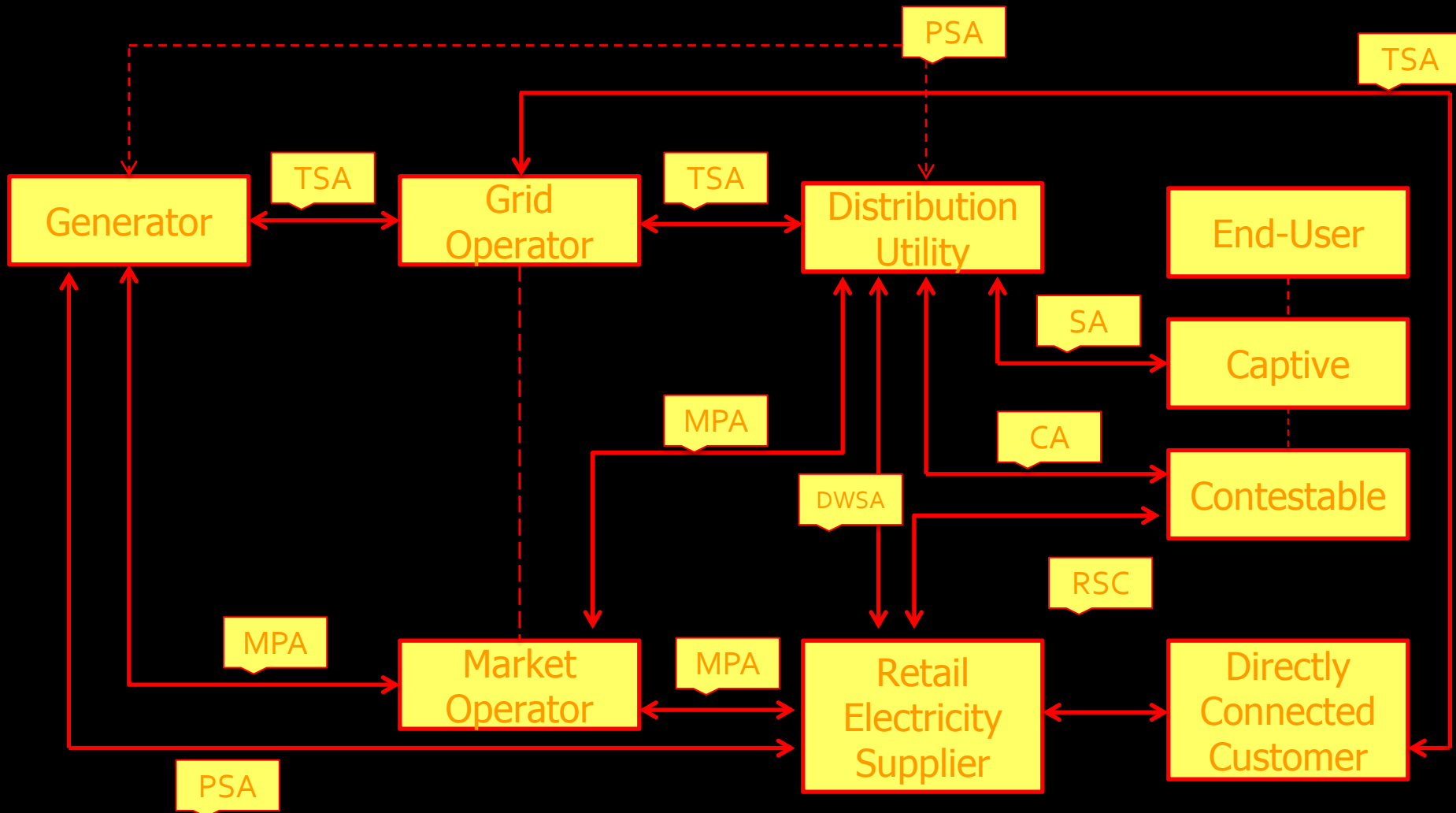
- An entity called Retail Electricity Supplier (RES) is introduced as the point entity to operate in the electricity supply segment.
- Transactions between the DU, Market and Generators are handled by the RES company serving the Contestable Customer
- An RES acts as collecting entity for service providers of end-user

**Retail Electricity
Supplier**



**Contestable
Customer**

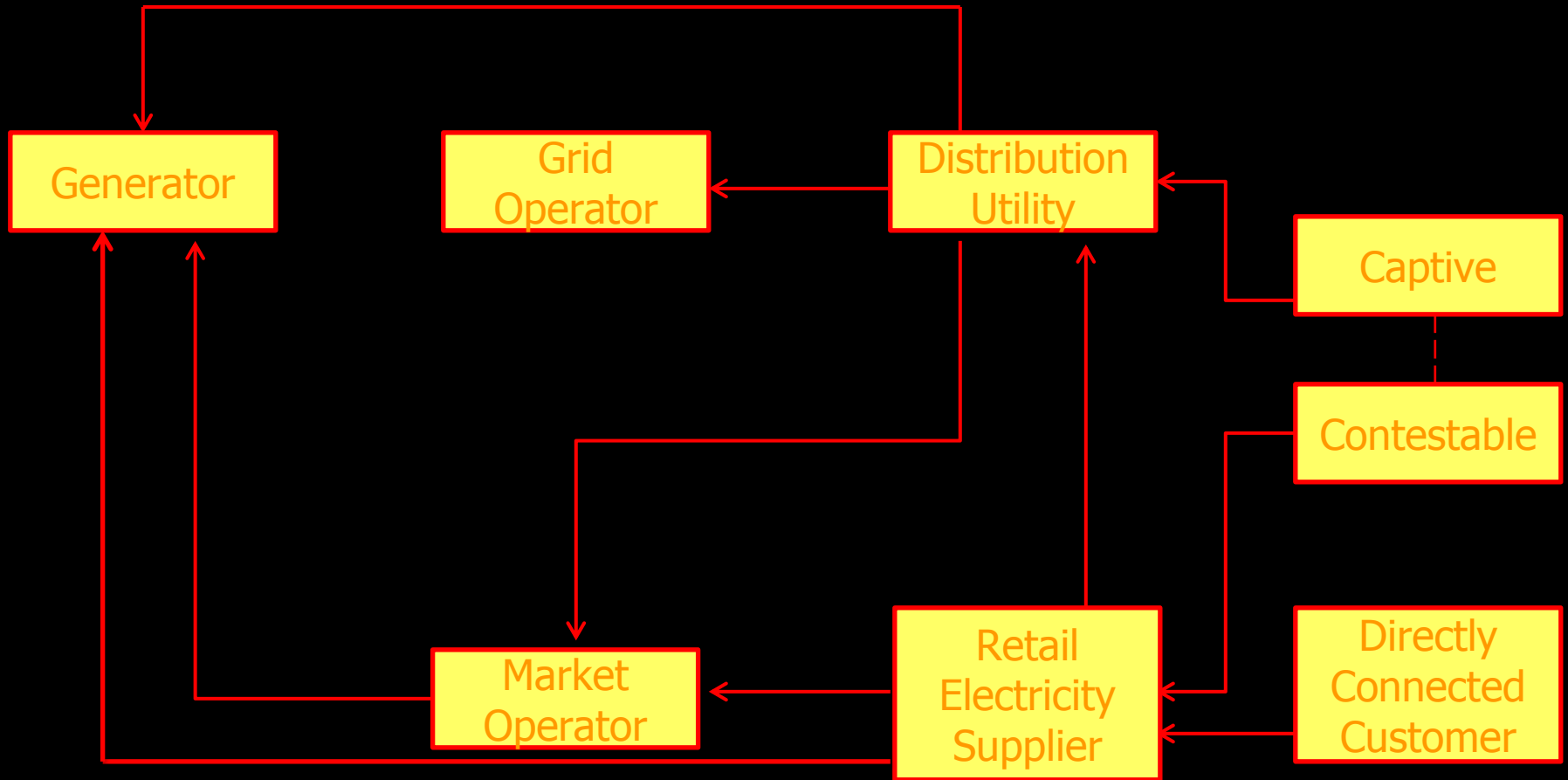
RCOA Process – Contracting Relations



RCOA Process

- DWSA (Distribution Wheeling Service Agreement)
- CA (Connection Agreement)
- MPA (Market Participation Agreement)
- TSA (Transmission Service Agreement)
- PSA (Power Supply Agreement)
- RSC (Retail Supply Contract)

RCOA Process – Settlement Flow



Components of the RES Bill

Contestable Electricity Bill	Energy and Supply Charges	Contracted Energy, WESM related charges	Covered by Income Tax, Royalties, RPT, LBT and VAT (12%)
	Transmission and Distribution Wheeling Charges	Transmission and Distribution Charge, Metering Charge, Supply Charge	Covered by LBT, Franchise Tax and VAT
	Subsidies	Lifeline, Senior, TRAC	
	Universal Charges	Missionary, Environmental, NPC and DU Stranded Costs, etc	

CURRENT TAX IMPLICATIONS RES / LRES TRANSACTIONS

Present system - Single Billing

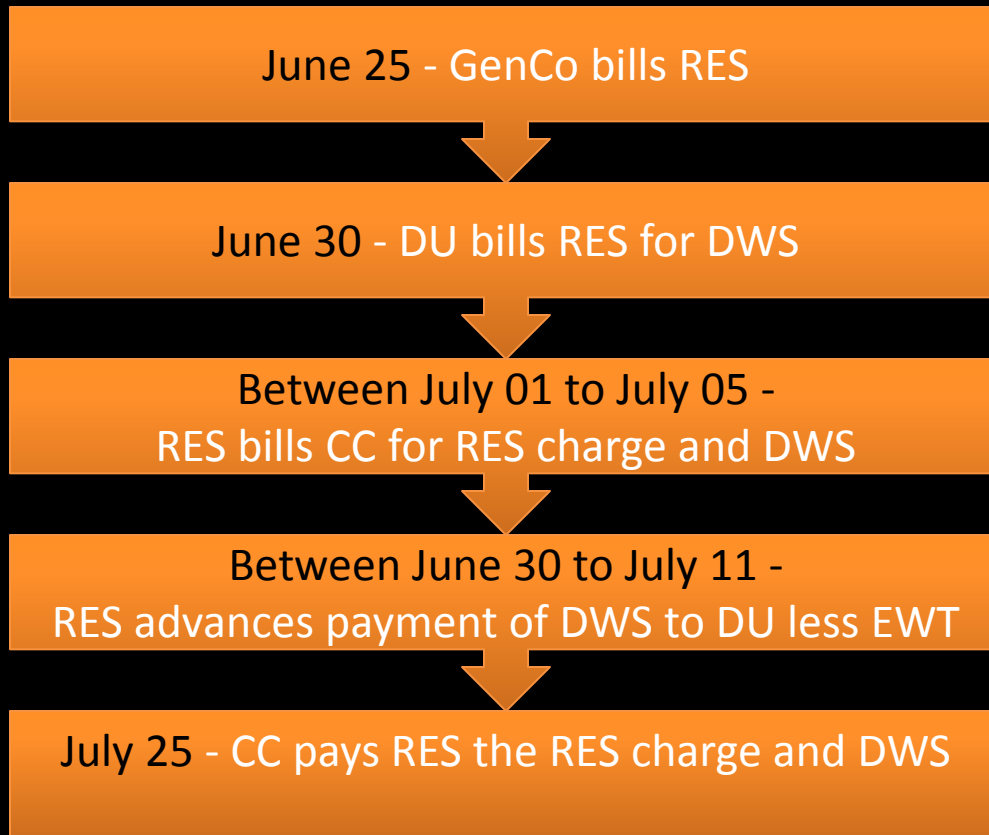
SINGLE BILLING - Contestable Customer receives only one consolidated bill issued by a RES, LRES or SOLR. The RES, LRES or SOLR is responsible for contracting with other service providers.

Implications:

- Difference in settlement timelines between RES, WESM and DU charges
- Tax exposure for RES companies serving PEZA classified and VAT-zero rated contestable customers / accounts

Assume billing period May 26 to June 25

IMPACT



GROSS RECEIPTS OF RES/LRES pass thru/DWS are included

DOCUMENTATION/REPORTING OF TAXES
EWT on DWS advanced by RES
VAT on DWS (under govt tax)

ECOZONE-REGISTERED CCs
DU bills RES DWS with VAT but RES cannot collect VAT fr. CC

RECOMMENDATIONS

Process Improvements

- Synchronization of Billing and Settlement cycles for DU, WESM and RES charges in order to avoid additional working capital expenses for RES companies
- Issuance of BIR and ERC guidelines to address and ensure correct tax applications for RES related transactions

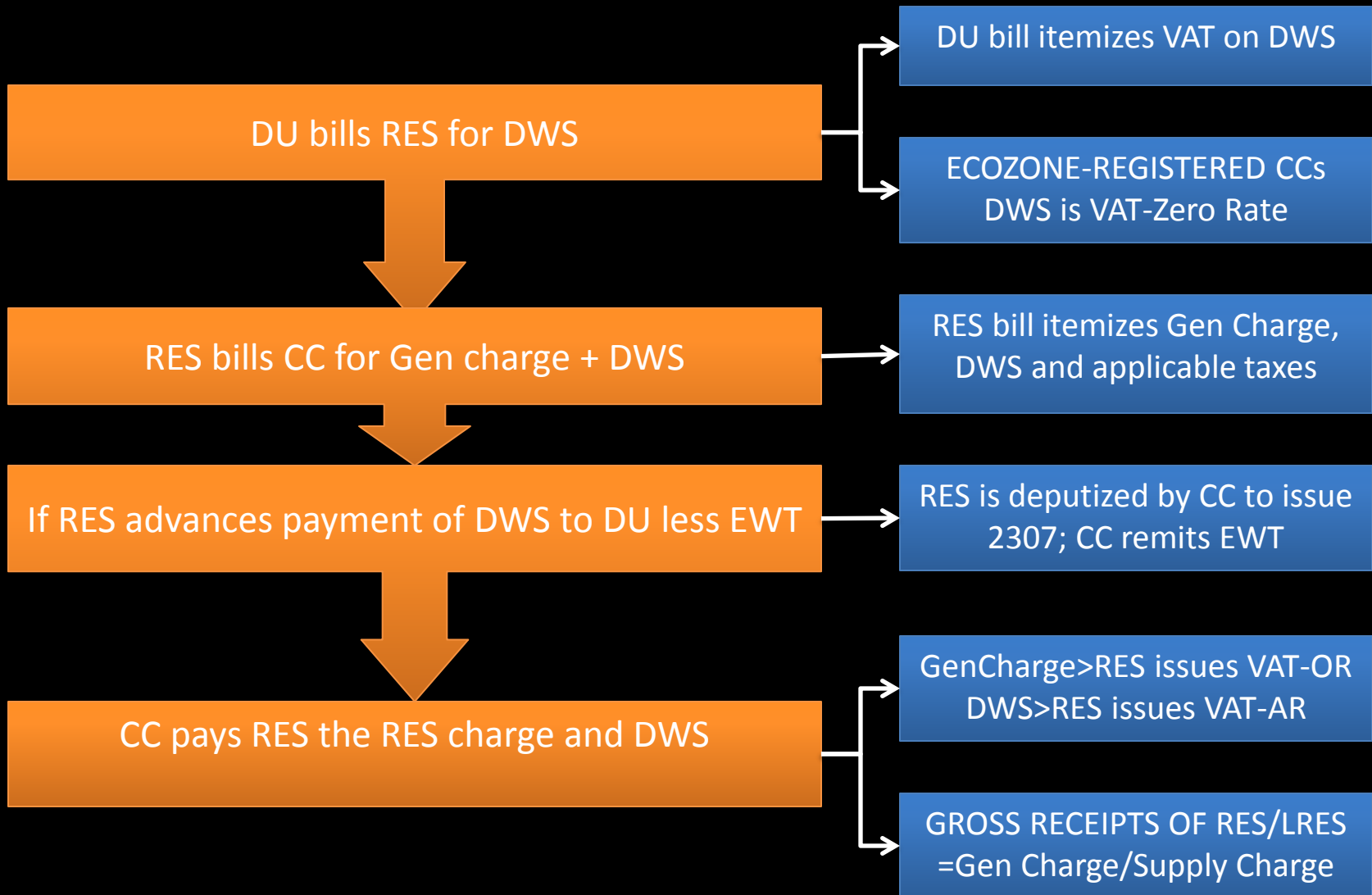
Proposals

SINGLE BILLING

- Tax Guideline establishing:
 - The business taxes applicable to RCOA transactions under single-billing
 - (including Ecozone transactions, RE and energy mix)
 - The basis for gross receipts of suppliers of electricity (exclude pass thru)
 - The tax treatment of DWS/other pass through charges
 - The documentation and reporting of taxes due on RCOA transactions

SINGLE BILLING with TAX GUIDELINE

IMPACT



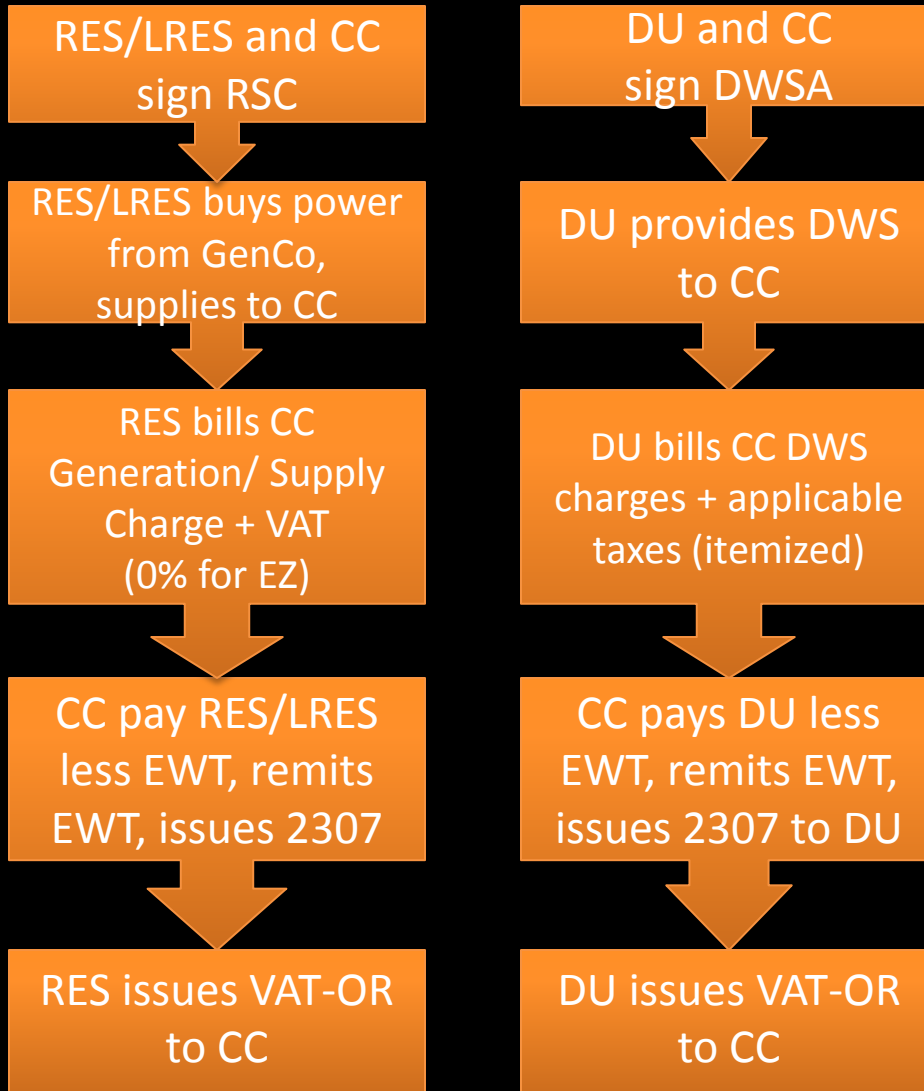
Proposals:

DUAL BILLING

- ERC Resolution and Guidelines adopting Dual Billing
- Tax Guideline establishing:
 - The business taxes applicable to RCOA transactions under dual-billing
 - The basis for gross receipts of suppliers of electricity
 - The tax treatment of DWS/other pass through charges of suppliers
 - The documentation and reporting of taxes due on RCOA transactions

DUAL BILLING with ERC RESOLUTION + TAX GUIDELINE

IMPACT



CC may have to deal with 2 or more parties

May cause operational setbacks/adjustments on the part of DU

Clearly delineates revenue-generating transactions of RES, LRES, DU

Clearly itemizes taxes due on GenCharge/Supply charge, DWS

No pass thru, No advances by RES on behalf of CC

Documentation/invoicing/reporting of tax is straightforward

Thank You