

KINGDOM OF CAMBODIA
NATION RELIGION KING
ELECTRICITY AUTHORITY OF CAMBODIA
REGULATIONS
ON GENERAL PRINCIPLES FOR REGULATING
ELECTRICITY TARIFFS IN THE KINGDOM OF CAMBODIA

Under Electricity Law of The Kingdom of Cambodia

Approved by EAC session No. 113 on dated October 26, 2007

DECISION
ON GENERAL PRINCIPLES FOR REGULATING ELECTRICITY TARIFFS
IN THE KINGDOM OF CAMBODIA
ELECTRICITY AUTHORITY OF CAMBODIA

- In exercise of the Electricity law of the Kingdom of Cambodia, which was promulgated by the Royal KRAM No. NS/RKM/0201/03 of February 2, 2001
- In exercise of the Royal Decree of Preahbath Samdech Preah NORODOM SIHAMONI, the king of the Kingdom of Cambodia No. NS/RKT/1104/022 of November 20, 2004 on the appointment of Excellency TY NORIN as Chairman of Electricity Authority of Cambodia
- In accordance with the consultation with concerned Ministries and institutions, licensees, and the public made from May 25, 2007 to July 08, 2007
- In accordance with the decision of EAC's Session No. 113 dated October 26, 2007

DECIDES

Article 1-

Issue Regulations called "Regulations on General Principles for Regulating Electricity Tariffs in The Kingdom of Cambodia" under Electricity Law of the Kingdom of Cambodia for governing the process of tariff review and tariff setting, and to ensure the fair and equitable balance between the interests of suppliers and consumers in the Kingdom of Cambodia.

Article 2-

These Regulations have the whole contents as attached document.

Article 3-

These Regulations shall apply to all Distribution Licensees, Retail Licensees, consolidated licensees whose license consists of either Distribution or Retail activity and all consumers of electricity in the Kingdom of Cambodia, related to the supplying, receiving and use of electricity.

Article 4-

These Regulations shall come into force for implementation from the date of signing until the new decision. EAC may revise and reissue these Regulations at any time.

Article 5-

Secretariat of the Electricity Authority of Cambodia shall publicize these Regulations to the public.

Chairman of EAC

TABLE OF CONTENTS

CHAPTER 1: GENERAL PROVISIONS

1.1 Purpose

1.2 Title

1.3 Jurisdiction

1.4 Consistency with Electricity Law, Sub-decree and Other Laws

1.5 Power to revise or modify these Regulations

1.6 Power to remove difficulties

1.7 Definitions

CHAPTER 2: PROVISIONS IN THE ELECTRICITY LAW

2.1 Power of EAC to review and approve the Electricity Tariff

2.2 Objectives of Electricity Tariff

2.3 Procedures for Tariff Review

2.4 Rules for tariff discussion

CHAPTER 3: EAC POLICY FOR REGULATING ELECTRICITY TARIFF

3.1 General Policy

3.2 Approaches for EDC and Larger Licensees Tariff Setting

3.3 Approaches for Smaller Licensee Tariff Setting

CHAPTER 4: REVIEW AND APPROVAL OF ELECTRICITY TARIFF

- 4.1 Annual Tariff Monitoring
- 4.2 Tariff Review when requested by a Licensee
- 4.3 Tariff Review for New Licensee
- 4.4 Obligations of Licensees related to Tariff Reviews

CHAPTER 5: EVALUATION OF LICENSEE COSTS

- 5.1 Reasonable Costs
- 5.2 Separate Treatment for Separate Business
- 5.3 General Methodology for evaluating the generation reasonable cost
- 5.4 General Methodology for evaluating the Transmission reasonable cost
- 5.5 General Methodology for evaluating the Distribution reasonable cost
- 5.6 Principle for determination of reasonable Operation and Maintenance Costs
- 5.7 Principle for determination of reasonable fuel costs
- 5.8 Principle for determination of administrative and general management costs
- 5.9 Principle for determination of reasonable power purchase costs
- 5.10 Principle for determination of reasonable asset valuation
- 5.11 Principle for lease charge
- 5.12 Principle for determination of reasonable depreciation costs
- 5.13 Principle for determination of reasonable rate of return and costs of Loan
- 5.14 Principle for determination of energy sales and revenue
- 5.15 Principle for Energy Loss

CHAPTER 1

GENERAL PROVISIONS

1.1 Purpose

In exercise of powers conferred by Article 7, 46, 47 and 48 of the Electricity Law promulgated by the Royal Decree No.NS/RKM/0201/03 dated February 02, 2001, the Electricity Authority of Cambodia (henceforth referred to as EAC) hereby makes the following Regulations on Tariffs for providing electricity services in the Kingdom of Cambodia. The aim of these regulations is to ensure that in the determination of tariffs the interests of Licensees and consumers are balanced

and the objectives of the Law are met. These regulations cover the EAC's Tariff Policy, Obligations of Licensees to submit financial data and other information, and the methodologies and process that EAC is to follow in reviewing and determining tariffs.

1.2 Title

These Regulations shall be called "General Principles for Regulating Electricity Tariffs in the Kingdom of Cambodia".

1.3 Jurisdiction

These Regulations shall apply to all Distribution Licensees, Retail Licensees, consolidated licensees whose license consists of either Distribution or Retail activity and all consumers of electricity in the Kingdom of Cambodia, related to the supplying, receiving and use of electricity.

1.4 Consistency with Electricity Law, Sub-decree and Other Laws

1. These Regulations are made in accordance with the Electricity Law of Kingdom of Cambodia and with the Sub-decree on Principles for Determining the Reasonable Costs in Electricity Business issued under the Law. These Regulations relate to EAC's powers in respect of the review and approval of tariffs. These Regulations shall be read in conjunction with any Procedures or other Regulations that EAC shall issue from time to time.
2. These regulations apply to the accounting information and other information to be maintained by Licensees for the purposes of providing information to EAC in order to fulfil its obligations under the Law. These Regulations do not cancel or modify in any way other obligations on Licensees to maintain and submit accounts to other authorities under the provisions of other Laws or regulations.
3. A distinction should be made between regulatory data that Licensees will be required to prepare and submit to EAC, and the audited accounting data that the Licensees will routinely prepare and submit for other purposes. Some of the information required in the tariff setting process will differ in format and content from information routinely collected in the standard accounting records of the licensee. The standard accounting records and statements primarily provide basic information about revenues, costs, profits or losses, assets, and liabilities for the Company. The purpose of auditing is to check the correctness of accounting standards followed. On the other hand, the purpose of regulatory data is to verify Licensee operations for prudence and efficiency,

provide a complete analysis of its costs, revenues, tariffs and examination of the performance parameters, and ensure that there is proper balance between interests of the licensees and the consumers. The required regulatory data may therefore differ in content and format from standard accounting data.

1.5 Power to revise or modify these Regulations

EAC may at any time vary, alter, modify or amend any provisions of these Regulations.

1.6 Power to remove difficulties

If any difficulty arises in giving effect to the provisions of these Regulations, EAC may, by general or specific order, make such provisions not inconsistent with the provisions of the Law, as may appear to be necessary for removing the difficulty.

1.7 Definitions

In these Regulations, unless the context otherwise requires, the following terms shall have the following meanings:

“EAC” means the Electricity Authority of Cambodia established under the Law.

“EDC” means Electricite Du Cambodge, including any of its operating companies in Cambodia.

“Law” means the Electricity Law of the Kingdom of Cambodia, 2001.

“Licence” means any licence issued under the Law to which these Regulations apply.

“Licensee” means any holder of a Licence to which these Regulations apply.

“Procedures” mean the Procedures for Data Monitoring, Application, Review and Determination of Electricity Tariff in The Kingdom of Cambodia issued under the Law.

“Regulation” means these regulations.

“Sub-decree” means the Sub-decree on Principles for Determining the Reasonable Costs in Electricity Business promulgated under the Law.

CHAPTER 2

PROVISIONS IN THE ELECTRICITY LAW

The Electricity Law of Kingdom of Cambodia has a number of provisions on Electricity Tariffs for Electricity Supply in Cambodia that has been taken into account in the preparation of these Regulations. These provisions are the following.

2.1 Power of EAC to review and approve the Electricity Tariff

Article 7 of the Law provided EAC the power to approve tariff rates and charges and terms and conditions of electric power services of licensees, except where EAC considers those rates or charges and terms and conditions are established pursuant to a competitive, market-based process.

Under the terms in Article 46 of the Law, EAC can determine or revise the tariff of a Licensee either (i) on application by the Licensee or (ii) on a review being made by EAC.

2.2 Objectives of Electricity Tariff

Article 48 of the Electricity Law of Kingdom of Cambodia has provided the requirements that the Electricity Tariffs approved by EAC shall:

1. Protect consumers against monopolistic prices;
2. Provide licensees with an opportunity to recover their costs, providing this cost shall be the reasonable cost according to the business principles which are determined by Sub-Decree;
3. Encourage the efficiency of operations and internal management of Licensees by allowing to increase their financial returns and minimise services costs consistent with meeting the requirements of their licences.
4. Encourage the economic efficiency of power sector by reflecting short run and long run marginal costs and by sending accurate price signals regarding the abundance or shortage of the supply of electric power services;
5. Take into account the cost and other differences between categories of consumers and types of service, including any subsidies provided by the Government.

2.3 Procedures for Tariff Review

To facilitate the EAC process of determination or revision of the tariff of a Licensee either (i) on application by the Licensee or (ii) on a review being made by EAC, Article 47 says that EAC shall establish procedures and models for submitting the tariff applications for approval in accordance with the provisions of the Law, and this is to include:

- (a) Evidentiary requirements for tariff applications, including audited financial information;
- (b) Time frames for tariff applications and decisions;

- (c) Procedures for consumers and other interested parties to comment on tariff applications; and
- (d) Procedures for EAC to obtain additional information from the applicant as necessary to evaluate tariff applications.

Article 46 of the Law says that EAC shall determine and review the tariff rates, charges, and service terms and conditions of the licensee, and that within ninety (90) days from the receiving date of any application by licensees requesting EAC to determine or revise their tariff, EAC shall approve, revise, or disapprove this request. In addition, EAC shall determine the effective date for new tariff or the revised tariff not later than ninety (90) days as stipulated above.

2.4 Rules for tariff discussion

To ensure transparency in the process of Tariff Review, in carrying out its functions under these Regulations EAC shall follow its internal rules on proceedings as specified in Article 20 of the Law. These rules shall control meetings between EAC's members or employees and any party involved in the establishment of a tariff. The rules shall determine the objective, the date and time, the place and the meeting proceedings for giving an opportunity to the interested persons to participate.

CHAPTER 3

EAC POLICY FOR REGULATING ELECTRICITY TARIFF

3.1 General Policy

1. EAC will only approve tariffs for Licensees where it considers that the tariffs are best able to meet the objectives set out in the Law. In determining such tariffs, EAC will follow the principles set out in the Sub-Decree and this Regulation except to the extent that it considers that to do so is not appropriate in all the circumstances.
2. EAC shall ensure that the Licensee's tariffs will recover only the Licensee's reasonable level of costs, minus any revenue subsidies received by the Licensee and any other income received by the Licensee business. In those special circumstances where EAC decides to leave an uncovered revenue gap in the recovery of the total reasonable costs, EAC may make adjustments to compensate for this gap in future based on reasonable cost analysis.
3. Where revenue from current or proposed tariffs is held below the level of reasonable cost to reflect any subsidy, EAC will need to satisfy itself that the subsidy is in accordance with the

policy of the Government and that the Licensee does receive full payment of the subsidy from the subsidy giving body on a timely basis.

4. Where current or proposed tariffs result in any cross-subsidy between customers or classes of customers, EAC shall satisfy itself that the cross-subsidy is in accordance with the policy of the Government, and is reasonable taking into account all the circumstances.

5. EAC will wish to ensure that, subject to any subsidy arrangements, current or proposed tariff structures achieve the following objectives, and will expect Licensees to provide cost or other studies to demonstrate this:

(a) That the revenues collected from different classes of consumers reasonably reflect the costs of service for those classes.

(b) That the structure of tariffs, both within classes and between classes, reflect the costs of serving those classes.

6. Where it considers it appropriate, EAC may include in any tariff structure a fuel adjustment surcharge mechanism and its terms of implementation. Such mechanisms can allow pre-specified adjustments to be made to the tariff, to reflect changes in fuel prices, power purchase prices etc.

7. The tariff so finalised by EAC shall be in force from the date specified in the Order and shall unless amended or revoked, continue to be in force. No tariff or part of any tariff may be ordinarily amended except in respect of any changes expressly permitted under the terms of any fuel surcharge formula as specified by EAC.

8. For the purposes of tariff setting, EAC will designate a licensee as either a 'Larger Licensee' or a 'Smaller Licensee'.

3.2 Approaches for EDC and Larger Licensees Tariff Setting

1. In the case of EDC and other Licensees that EAC will designate as "Larger Licensees", all Licensees will be required to make annual submissions to EAC of accounting and other data, and the procedure and requirements for this will be laid down in the Procedures. On the basis of these submissions and other information, EAC may decide to review tariffs of one or more Larger Licensees. The Licensees themselves may make a submission to EAC for tariff review whenever they consider it is necessary to do so.

2. Because of the different conditions that exist in different Licensees' service areas, EAC may determine different tariffs for different Licensees.
3. In reviewing Larger Licensees' submissions and reviewing tariffs, EAC will examine both their reasonable costs in total, and the extent to which tariffs reflect costs.
4. In examining a Licensee's reasonable costs, EAC will try to ensure that these include only prudently incurred costs necessary to undertake its licensed activities as consistent with the Sub-Decree. The Licensee's estimate of reasonable costs for the next year will be reviewed by EAC according to the Sub-Decree and used to assess whether a tariff revision is necessary. In reviewing a Licensee's reasonable costs, EAC will follow the provisions of the Sub-Decree and the methodology set out in this Regulation.

3.3 Approaches for Smaller Licensee Tariff Setting

1. All Smaller Licensees will be required to make annual submissions to EAC of accounting and other data, and the procedure and requirements for this will be laid down in the Procedures. On the basis of these submissions and other information, EAC will evaluate the reasonable cost of Licensee according to the Sub-Decree and based on the result of this evaluation EAC may decide to review tariffs. The Licensees themselves may make a submission to EAC for tariff review whenever they consider it necessary to do so.
2. In examining a Licensee's reasonable costs, EAC will try to ensure that these include only prudently incurred costs necessary to undertake its licensed activities. EAC will estimate the Licensee's reasonable costs for the next year and assess whether the tariff revision is necessary. In reviewing a Licensee's reasonable costs, EAC will follow the provisions of the Sub-Decree and the methodology set out in this Regulation.
3. EAC may aim to move towards issuing same tariffs for groups of licensees. This would require grouping of Smaller Licensees with similar operational, technical or geographic characteristics.

CHAPTER 4

REVIEW AND APPROVAL OF ELECTRICITY TARIFF

4.1 Annual Tariff Monitoring

1. All Licensees shall submit annually to EAC the data and other information related to its tariffs and costs, so that EAC may review and monitor the tariffs and determine whether any revision

in tariffs is necessary. The timing of these submissions, the contents of the submission, and the procedures to be followed are set out in the Procedure for Data Monitoring, Application, Review and Determination of Electricity Tariff published by EAC from time to time.

2. Where following EAC's review of an annual submission or other information available to it, EAC determines that its existing tariffs need to be reviewed, it shall require the Licensee to submit the additional information to EAC with all the financial and other information that are necessary for EAC to determine whether the tariff revision is necessary. The timing of such a submission, its required contents, and the procedure to be followed are set out in the Procedure for Data Monitoring, Application, Review and Determination of Electricity Tariff published by EAC from time to time.

4.2 Tariff Review when requested by a Licensee

When a Licensee wishes to revise its existing tariffs, it shall submit an Application for Tariff Revision to EAC with all the financial and other information that are necessary for EAC to determine whether the tariff revision is necessary. The timing of such a submission, its required contents, and the procedure to be followed are set out in the Procedure for Data Monitoring, Application, Review and Determination of Electricity Tariff published by EAC from time to time.

4.3 Tariff Review for New Licensee

For a New Licensee, before the licence is issued, it shall submit an Application for Tariff approval to EAC with all the financial and other information that are necessary for EAC to set its tariff. The timing of such a submission, its required contents, and the procedure to be followed are set out in the Procedure for Data Monitoring, Application, Review and Determination of Electricity Tariff published by EAC from time to time.

4.4 Obligations of Licensees related to Tariff Reviews

Every Licensee must submit information to EAC in accordance with the requirements laid down in the Law, the Sub-decree, its License, the Procedures, and these Regulations.

The information that Licensees may be required to submit to EAC includes:

- Accounts, reports, data, documents and such other information in any form that EAC may require;
- Accounting and other information for each of the Separate Businesses that the Licensee

operates under its licence, such that the revenues, costs, profits, losses and assets for each Separate Business are clearly identified, presented in the form that would be required where each Separate Business was a separately established company.

Where a Licensee fails to submit any required information to EAC within the specified timescale, EAC may impose such penalties as it considers necessary in accordance with Article 7(l) of the Law.

CHAPTER 5

EVALUATION OF LICENSEE COSTS

5.1 Reasonable Costs

1. In determining the extent to which specific items within a Licensee's costs are reasonable, EAC shall act in accordance with the principles set out in the Sub-Decree and shall also take account of the factors specified in these Regulations.

2. EAC will wish to determine that each Licensee's costs are as low as is consistent with reliable and efficient operation and with maintaining its long-term financial viability. EAC may determine acceptable cost levels by reference to cost levels of comparable utilities elsewhere, indexes of relative efficiency, or to reasonably achievable levels of productivity improvement.

5.2 Separate Treatment for Separate Business

In the case of any Licensee having more than one business activity or area of operations, EAC will, except as provided elsewhere in these regulations, evaluate the reasonable costs separately according to these separate areas and business activities. In accordance with the Law and the Licences, for the purposes of these Regulations these separate businesses shall be defined as:

1. Generation Activities;
2. Transmission Activities;
3. Distribution Activities.

5.3 General Methodology for evaluating the Generation reasonable cost

The total reasonable costs for a generation business will be evaluated by EAC, by examining the main components of costs that go to make up the total. These include

- Generation fuel costs
- Other generation Operation & Maintenance costs

- Generation Administrative & General costs
- Generation asset depreciation
- Generation Reasonable Profit
- Cost of Generation loans

EAC will evaluate each of the components of a Licensee's reasonable costs in accordance with the methodology described in this section below.

5.4 General Methodology for evaluating the Transmission reasonable cost

1. Transmission and distribution costs are basically costs associated with the wires business. They include costs associated with operation and maintenance of the system, depreciation expenses, interest charges, any taxes, and a reasonable return on the net direct capital employed.
2. The total reasonable costs for a transmission business will be evaluated by EAC by examining the main components of costs that go to make up the total, using methodology similar to that used for distribution. EAC will evaluate each of the components of a Licensee's reasonable costs in accordance with the methodology described in this section below.
3. For the time being, transmission shall be considered jointly with the distribution costs, but EAC may decide in the future to separate these and require separate cost information.

5.5 General Methodology for evaluating the Distribution reasonable cost

The total reasonable costs for a distribution business will be evaluated by EAC by examining the main components of costs that go to make up the total. These include

- Power purchase costs
- Other Distribution Operation & Maintenance costs
- Distribution Administrative & General costs
- Distribution asset Depreciation
- Distribution Reasonable Profit
- Cost of Distribution loans

EAC will evaluate each of the components of a Licensee's reasonable costs in accordance with the methodology described in this section below.

5.6 Principle for determination of reasonable Operation and Maintenance Costs

1. In determining whether Operation and Maintenance Costs are reasonable in respect of a

Licensee, EAC may take into account:

- (a) trends in general inflation, specific prices indices, and other factors affecting actual or likely costs of the Licensee;
- (b) any plans submitted by the Licensee for improvements in performance, the steps being taken to implement the plans, and results achieved against the plans.

2. EAC will expect that each Licensee will take all possible steps to reduce the necessary level of costs consistent with an acceptable level of service, and that the level of costs per unit of sales will be reduced on a step by step basis.

3. Costs of employees are a major item in the total O&M costs of a Licensee, and EAC will examine the numbers, pay rates, and other benefits received by employees to ensure that the costs incurred are reasonable in all the circumstances.

4. O&M expenses of assets taken on lease shall be considered if the licensee has the responsibility and bears expenses for it, provided they are considered reasonable by EAC.

5.7 Principle for determination of reasonable fuel costs

1. EAC will expect each Licensee to demonstrate if required that in purchasing fuel it has taken all necessary steps to ensure that the requirements of the Sub-Decree have been met. EAC needs to ensure that reasonable quality fuel is purchased at reasonable price. For the Larger Licensees EAC will also expect each Licensee to demonstrate the necessary steps taken to procure fuel through competitive bidding.

2. EAC will ensure that licensee shows progressive improvement to achieve efficient levels of specific fuel consumption.

5.8 Principle for determination of administrative and general management costs

EAC may consider the trends in general inflation, specific prices indices, and other factors affecting actual or likely costs of the Licensee while determining the reasonable levels of administrative and general costs.

5.9 Principle for determination of reasonable power purchase costs

1. Licensees will need to satisfy EAC that its procedures for carrying out the scheduling and despatch of its own plant and contracted plant follow normal merit order principles. Such procedures shall ensure that demand will be met at the lowest possible total cost, taking account

of likely operational condition, the conditions of power purchase contracts, the need to ensure adequate system reliability, impact of seasonality and any other special conditions.

2. Where new power purchases are thought to be required the

(a) first step in the procedure of a competitive power procurement would be a demand forecast by the Licensee whereby it would estimate demand for future years. This would take into account the growth rate of demand, distribution loss reduction plan and any other relevant information available on additions to load in the Licensee's system.

(b) Then the Licensee would be required to develop a plan to meet the demand growth in its area of supply by examining all the available sources of power e.g., own generation, purchase from existing IPPs, import from neighbouring countries. These Demand Forecasts and Power Procurement Plans of the Licensee will have to be approved by the EAC.

(c) Before entering into contractual obligations to buy power from the IPPs or any other sources, the Licensee would be required to establish the need to purchase additional power and whether the proposed arrangement is the best (least cost) option available among all the alternative sources of power. If the available sources are not economical or sufficient to meet demand, then one of the options could be inviting competitive bids for establishing new generation capacities. The competitive bidding process, if conducted in a transparent manner under EAC review, would be expected to result in lower cost and more reliable and flexible power. In this process, the EAC would verify the terms and conditions of the draft and final PPA and its effects on the financial condition of the utility and its customers both in the short term and in the long term. If it finds any of the terms unacceptable, the EAC can either require them to be modified or reject the same. The Licensee shall obtain no objection on price and conditions of power purchase from EAC before signing PPA with the other party.

5.10 Principle for determination of reasonable asset valuation

In accordance with the Sub-decree, the valuation of different types of assets and capital of Licensee shall be determined according to the following basic principles:

1. The gross value of fixed assets utilised in the Licensee's business shall be the cost of their acquisition at the time of their acquisition, plus any subsequent expenditure on their enhancement and less the proceeds of any subsequent partial sale or any decommissioning.

Expenditure by the Licensee shall only be regarded as expenditure on asset enhancement where that expenditure results in one of the following:

(a) a significant extension of the life of the asset, beyond the life assumed in the depreciation rate that is applied to the asset, in which case the appropriate adjustment should also be made to the depreciation life of the asset; or

(b) a significant improvement in the capacity of the plant, beyond the recorded rated capacity of the asset at the time that it was acquired.

2. In determining the total gross value of fixed assets the Authority shall exclude the amount of contributions, grants or gifts for the purposes of determining tariffs except under special circumstances. In cases when the amount of contributions, grants or gifts is excluded from gross value of fixed assets the Authority can based on public interest allow for creation of a fund to replace the asset such created over its economic life.

3. Where the Licensee has an asset that was not acquired through competitive procurement and which EAC believes has a value, assigned to the asset by the Licensee, significantly in excess of its market value, EAC may require an adjustment to be made to the asset's value. Such an adjustment shall have the effect of revising the asset's value to a level that would apply if a similar asset were acquired through a competitive procurement process.

4. Where requested to do so by a Licensee, EAC shall determine an appropriate value for the working capital necessary for the operation of the business. This shall reflect in all cases:

(a) the reasonable lags in payment that would arise in the Licensee's business where it operated according to normal prudent commercial practices;

(b) the normal stocks of fuel and other materials that it is reasonable for the Licensee to hold to ensure an acceptable reliability and quality of service for its consumers;

(c) less guarantee deposit from consumers.

5. EAC will review licensee's major investment schemes for approval and for this purpose may require the licensees to provide technical and commercial details. Major investment schemes would include those which are significant in terms of financial or physical parameters with respect to the size and area of licensee business.

5.11 Principle for lease charges

Lease charges for assets taken on lease by a licensee shall be considered as per lease agreement provided they are considered reasonable by EAC.

5.12 Principle for determination of reasonable depreciation costs

1. The depreciation cost of fixed assets shall be based on following principles:

(a) the straight-line depreciation method must be used

(b) no allowance to be made for residual value of the assets and

(c) Except for cases referred to in paragraph e) of this Article, the depreciation life of any fixed asset or class of fixed asset shall be based on reasonable estimates of the expected economic life of the asset as shown in the table below.

Type of Asset

Depreciation Life (Years)

Land Non-depreciable

Land Improvement 5 years

Buildings :

-Administration 33 years

-Generation 25 years

-Transmission & Distribution 25 years

Generating Equipments :

-Hydro-electric 30 years

-Diesel electric and gas plant 18 years

-Thermal 25 years

Transmission & Distribution Related :

Type of Asset

Depreciation Life (Years)

-Transformers & Sub-station equipments 25 years

-Lines on Steel Support, 115 kV and more 35 years

-Lines on Concrete Support, 115 kV and

below

30 years

-Lines on wood support, 115 kV and below 25 years

-Meters 15 years

-Other network equipments 25 years

Miscellaneous :

-Office equipments 5 years

-Furniture 10 years

-Motor Vehicles 6.5 years

(d) For assets purchased second hand and assets not otherwise provided for in the above schedule, EAC may determine the depreciation life for each case having regard to the nature, age and condition of the assets at the time of its acquisition by the licensee.

(e) Under circumstances provided in the Sub-decree, where a Licensee requests it and EAC approves the request, different depreciation lives may be used.

5.13 Principle for determination of reasonable rate of return and costs of Loan

1. In determining what would be a reasonable rate of return in the circumstances of any Licensee, EAC may consider all evidence relating to the Licensee or to business conditions in Cambodia or elsewhere that it considers relevant. Such evidence may include the rates of return earned by other similar businesses or other businesses of the Licensee in Cambodia or elsewhere, and the Licensee shall make available such information as EAC considers necessary.

2. The rate of return determined by EAC shall take into account the need for expansion and improvement of licensee's business so as to be able to meet all reasonable demands placed on it by consumers and EAC and shall ensure reasonable balance between the interests of consumers and licensee.

3. In determining the reasonable costs of loans, EAC shall take into account the costs of loans offered by banks and other institutions, the costs of loans taken by other Licensees and other businesses, including other businesses of the Licensee. The Licensee shall make available such information as EAC considers necessary.

4. Where a Licensee has loans that amount to a significant proportion of its fixed assets, and the repayment term of those loans is short in relation to the depreciation life of the fixed assets, the

Licensee may apply to EAC for a revision of the depreciation lives in accordance with Article 5.12 (e). EAC shall only approve such a change to the depreciation lives where it is satisfied that the Licensee would otherwise face cash flow difficulties that would threaten the financial viability of the business. However EAC shall ensure that this will not result in a tariff shock for consumers.

5.14 Principle for determination of energy sales and revenue

1. The Larger licensees shall forecast the number of consumers and energy sales, for the period under consideration. EAC will examine these forecasts by the licensees for reasonableness, past trends, etc., before accepting and adopting them.
2. All licensees, when so requested by EAC, shall provide its consumer database having desired particulars like name, energy consumption, revenue billed etc. to facilitate accurate determination of energy sales and revenue.

5.15 Principle for Energy Loss

1. Licensee shall carry out proper loss estimation studies as required by EAC to set a realistic loss estimate. EAC shall approve a loss target based on the opening loss levels, licensee's filings, submissions and objections raised by stakeholders.
2. Losses should be brought down gradually to acceptable norms of efficiency. The licensees must provide plans for reducing the losses, together with the details of the investment required to achieve the planned reductions.