

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



IN THE MATTER OF THE
APPLICATION FOR APPROVAL OF
THE PROPOSED TIME-OF-USE
(TOU) RETAIL RATES TO END-
USERS

ERC CASE NO. 2006-038 RC

VISAYAN ELECTRIC COMPANY,
INCORPORATED (VECO),

Applicant.

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D O C K E T E D

Date: SEP 24 2008

By: [Signature]

DECISION

Before this Commission for resolution is the application filed on August 18, 2006 by Visayan Electric Company, Incorporated (VECO) for approval of its proposed Time-Of-Use (TOU) Retail Rates to end-users.

Having found said application sufficient in form and in substance with the required fees having been paid, an Order and a Notice of Public Hearing, both dated October 16, 2006, were issued setting the same for jurisdictional hearing and pre-trial conference on November 17, 2006 and evidentiary hearing on November 23, 2006.

In the same Order, VECO was directed to cause the publication of the Notice of Public Hearing, at its own expense, twice (2x) for two (2) successive weeks in two (2) newspapers of general circulation in the Philippines, with the date of the last publication to be made not later than ten (10) days before the scheduled date of the initial hearing. It was also directed to inform the consumers within its franchise area, by any other means available and

[Handwritten signatures]

appropriate, of the filing of the instant application, its reasons therefor, and of the scheduled hearing thereon.

The Office of the Solicitor General (OSG), the Commission on Audit (COA) and the Committees on Energy of both Houses of Congress were furnished with copies of the Order and the attached Notice of Public Hearing and were requested to have their respective duly authorized representatives present at the aforesaid initial hearing.

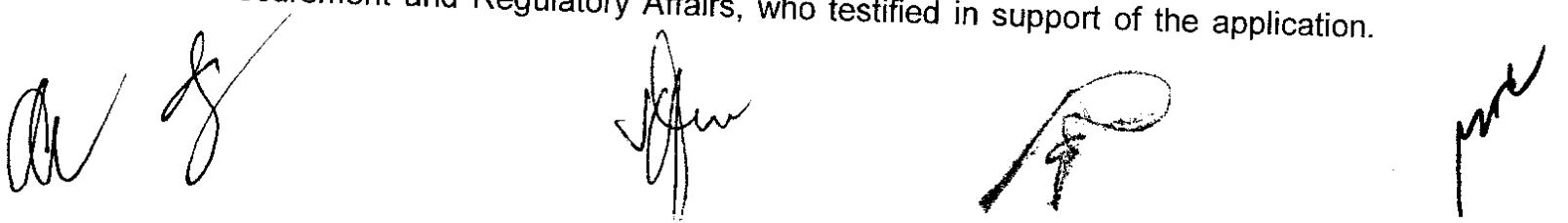
Likewise, the Offices of the Mayors of the Municipalities and Cities within the franchise area of VECO were furnished with copies of the said Order and the Notice of Public Hearing, for the appropriate posting thereof on their respective bulletin boards.

On November 14, 2006, VECO filed its "Pre-Trial Brief".

During the November 17, 2006 initial hearing at the VECO's Conference Room in Cebu City, only VECO appeared. No intervenor/oppositor appeared nor was there any intervention/opposition registered.

In the said hearing, VECO presented its proofs of compliance with the Commission's posting and publication of notice requirements which were duly marked as Exhibits "C" to "N-3", inclusive. Thereafter, it conducted an expository presentation of its application.

At the continuation of the hearing on November 23, 2006, VECO presented its lone witness, Mr. Rodrigo Tadeo Y. Nocete, its Manager for Power Procurement and Regulatory Affairs, who testified in support of the application.



The direct examination of the said witness having been terminated, the Commission propounded clarificatory questions.

On November 29, 2006, NAPOCOR Industrial Consumers Association, Inc. (NICAI) filed its "Comment and Manifestation".

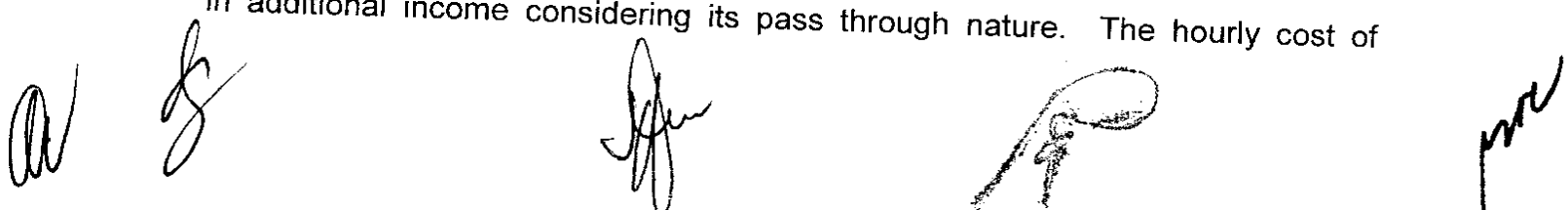
On December 18, 2006, VECO filed its "Formal Offer of Evidence" which is hereby admitted for being relevant and material to the final resolution of this application.

DISCUSSION

By virtue of the Commission's Decision dated April 13, 2005 in ERC Case No. 2004-178 [*In the Matter of the Application for Approval of the Proposed Generation Rates for Luzon, Visayas and Mindanao Grids, with Prayer for Provisional Authority, National Power Corporation (NPC) and Power Sector Assets and Liabilities Management Corporation (PSALM) – Applicants*], all Distribution Utilities (DUs) were directed to file their own TOU retail rates, which aims to support the objectives of Republic Act No. 9136, otherwise known as the "Electric Power Industry Reform Act of 2001" or the EPIRA to bring about an affordable and reliable supply of electric power to end-users.

In compliance therewith, on August 18, 2006, VECO filed the instant application.

In its application, VECO alleged, among others, that its proposed change in generation charges to all customers will be revenue-neutral and will not result in additional income considering its pass through nature. The hourly cost of



generation will be determined using the weighted average cost of purchases for the corresponding hour during the previous billing month, consistent with the "true cost of service" principle.

Further, the TOU retail rates will be arrived at using computation methodologies consistent with the Guidelines for Automatic Adjustment of Generation Rates and System Loss Rates by DUs (AGRA) promulgated by the Commission on October 13, 2004 as well as the Decision in ERC Case No. 2004-178.

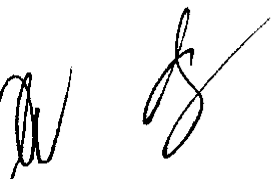
With regard to all other unbundled rate components, VECO shall apply the rate levels approved, or as subsequently approved or adjusted by the Commission, as well as the recovery mechanisms already promulgated or will be promulgated by the Commission.

Finally, the application of the TOU retail rates shall be on voluntary basis, and in stages or phases based on the billing requirements of VECO. Existing customers who opt to be billed under the TOU retail rates shall pay incidental costs.

1. Proposed Generation Charge

1.1 For TOU Customers

Generation Charge shall consist of twenty-four (24) hourly rates during weekdays and Sundays/Holidays. The hourly rate shall be determined by calculating the weighted average costs of purchases from the NPC and Independent Power Producers (IPPs) corresponding to that hour in the previous billing month. An adjustment based on the AGRA will



be added to, or subtracted from, the hourly TOU generation charges to reflect monthly movements in generation cost as well as other generation charge adjustments defined under the same Guidelines.

The impact of TOU retail rates will vary among customers depending on factors such as the particular hours electricity is consumed and the load profile of such customer.

VECO proposed for the following Generation Charge formula to calculate monthly generation rates for TOU customers:

Generation Charge for TOU Customers

$$GR_{TOU(H)} = GC_{TOU(H)} + OGA$$

Where:

- $GR_{TOU(H)}$ = Generation Rate in PhP/kWh to be charged to TOU customers during time H
- H = Hour: 0000H, 0100H, 2300H
- $GC_{TOU(H)}$ = Generation Cost, automatically computed without need of prior ERC verification and confirmation as follows:

$$\frac{[GC_{i(H)} + GC_{ii(H)} + \dots + GC_{n(H)}]}{TP_{(H)}} + \frac{CF_{GC}}{TP}$$

Where:

- $GC_{i \text{ to } n(H)}$ = Generation Cost in PhP from source of power 1 through source of power n for the previous month at time H
- $TP_{(H)}$ = Total Purchases in kWh during time H of the previous month

- CF_{GC} = Capacity Fee portion of the generation cost in PhP of sources of power 1 through source of power n for the previous month
- TP = Total Purchase in kWh for the previous month
- OGA = Other Generation Rate Adjustments as defined in the AGRA guidelines

1.2 For Non-TOU Customers

Generation Charge shall be computed based on the AGRA. This will include a rate adjustment that considers the over or under recovery in the generation costs from the previous billing months. The said over or under recovery is due to the increase or decrease in the average generation rate of TOU customers against the generation rate that should have been applied to them, had there been no TOU retail rates.

VECO proposed for the following Generation Charge formula to calculate monthly generation rates for Non-TOU customers:

Generation Charge for Non-TOU Customers

$$GR_{NTOU} = GC_{NTOU} + R$$

Where:

- GC_{NTOU} = Generation Rate in PhP/kWh to be charged to non-TOU customers
- R = Unallocated Generation Cost in PhP/kWh of the previous month due to the application of TOU rates
- GC_{NTOU} = Generation Cost in PhP/kWh automatically computed without need of prior ERC verification and confirmation, as follows:



$$\frac{[GC_i + GC_{ii} + \dots + GC_n]}{TP} + OGA$$

Where:

- GC_{i to n}** = Generation Cost in PhP from source of power 1 through source of power n for the previous month
- TP** = Total Purchase in kWh for the previous month
- OGA** = Other Generation Rate Adjustments as defined in the AGRA guidelines

1.3 Over or Under Recovery

The over or under recovery represents the difference between the total generation cost being recovered and the sum of the actual generation revenues derived from TOU and non-TOU customers.

$$R = \frac{[GC_{NTOU(pm)} - GR_{TOUave(pm)} * kWh_{TOU(pm)}] - [R_{(pm)} * (kWh_{NTOU(pm)} - kWh_{NTOU(2pm)})]}{kWh_{NTOU(pm)}}$$

Where:

- GC_{NTOU(pm)}** = Generation Cost for non-TOU customers from the previous month
- GR_{TOUave(pm)}** = Average Generation Rate for all TOU customers from the previous month
- kWh_{TOU(pm)}** = Total kWh from TOU customers from the previous month
- R_(pm)** = Unallocated generation Cost in PhP/kWh for non-TOU customers from the previous month
- kWh_{NTOU(pm)}** = Total kWh from non-TOU customers from the previous month
- kWh_{NTOU(2pm)}** = Total kWh from non-TOU customers two (2) months ago

2. Proposed Incremental Costs for TOU Customers

2.1 Supply Charge

VECO will charge its TOU customers with the approved supply charges based on its unbundled rates plus a monthly incremental supply charge on a per customer per month basis. Said incremental supply charge will be calculated based on the formula:

$$\text{TOU Incremental Supply Charge} = \frac{\text{CICS}}{\text{TNC} \times 12} + \text{UICS}$$

Where:

- Incremental Supply Charge** = supply charge in pesos per customer per month which a TOU customer shall pay
- CICS** = the incremental cost of supply in pesos that is common to all TOU customers that has to be recovered as approved by the ERC
- TNC** = the total number of TOU customers in the previous month
- UICS** = the incremental cost of supply in pesos per customer per month that is unique only to a TOU customer that has to be recovered as approved by the ERC

2.2 Metering Charge

VECO will charge its TOU customers with the approved metering charges based on its unbundled rates plus a monthly incremental metering charge on a per customer per month basis. Said incremental cost of meter per customer per month will be calculated based on the formula:



$$\text{TOU Incremental Metering Charge} = \frac{\text{CICM}}{\text{TNC} \times 12} + \text{UICM}$$

Where:

- Incremental Metering Charge** = additional metering charge in pesos per customer per month which a TOU customer shall pay
- CICM** = the incremental cost of metering in pesos that is common to all TOU customers that has to be recovered as approved by the ERC
- TNC** = the total number of TOU customers in the previous month
- UICM** = the incremental cost of metering in pesos per customer per month that is unique only to a TOU customer that has to be recovered as approved by the ERC

3. Conversion Fee

Existing customers of VECO who opt to be a TOU customer shall be billed a one-time conversion fee, which pertains to the necessary expenses for the removal of the old meters and installation of the TOU-meters, and shall be covered by a separate application for the recovery of "Other Charges", as follows:

Rate Schedule	Supply Related	Metering Related			Total Fee
	Computer Software	Tough Book	TOU Meter	Meter Reprogramming	
Schedule I-FX/FZ: Streetlight	1,000	1,000	0	500	2,500
Schedule II-Residential	1,000	1,000	14,000	500	16,500
Schedule III-S: General Service	1,000	1,000	14,000	500	16,500
Schedule IV-P: General Power	1,000	1,000	8,000	500	10,500
Schedule V-P: Bulk Power	1,000	1,000	8,000	500	10,500
Schedule VI-P: Wholesale Power	1,000	1,000	0	500	2,500
Schedule VII-P: Special Wholesale	1,000	1,000	0	500	2,500

4. Meter Fee

Existing customers of VECO who opt to be a TOU customer shall be billed a one-time, non-refundable meter fee representing the difference for the upgrade of the installed non-TOU meter to a TOU meter. For TOU customers, VECO shall bill them the entire Meter Fee therefor. The actual cost shall be determined once it shall have obtained the quotation from possible suppliers, acceptable to the Commission. The applicable provisions under the Magna Carta for Residential Electricity Consumers and the Distribution Service and Open Access Rules (DSOAR) in regard to meter upkeep and safety are adopted.

5. Meter Upgrade

In the event that it is necessary to replace existing TOU meters due to upgrade requests of customers, the Meter Fee shall be increased corresponding to the cost of the upgrade, which shall be designated as the "Meter Upgrade". VECO reserves its right to submit a formula for the calculation of and justification for the Meter Upgrade for the approval by the Commission.

The conversion or application as a TOU customer shall be on a voluntary basis only, according to the billing requirements of VECO. In this connection, VECO likewise reserves its right to exercise prerogative in regard to the actual implementation of the TOU and the stages or phases it may deem necessary, the TOU retail rates and the acceptance of conversion applications from non-TOU to TOU customer.

Any request of an existing TOU customer to revert back to non-TOU status must be made with at least sixty (60) days prior written notice to VECO.






Any and all applicable taxes for the installation of the TOU meter, fees, and charges shall be borne exclusively by the TOU customers.

6. Customer Classification

Consistent with the implementation of the proposed TOU retail rates, there will be sub-classifications in customer classes, as follows:

Customer Sub-Classification

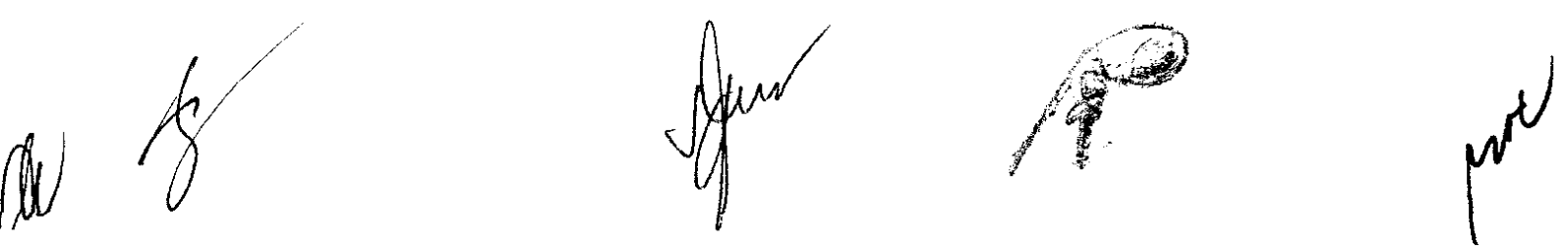
Schedule 1-FX/FZ	Streetlight
Schedule 1-FX/FZ N	Streetlight Non-TOU
Schedule 1-FX/FZ T	Streetlight TOU
Schedule II-R	Residential
Schedule II-RN	Residential Non-TOU
Schedule II-RT	Residential TOU
Schedule II-RW	Residential Wheeling
Schedule III-S	General Service
Schedule III-SN	General Service Non-TOU
Schedule III-ST	General Service TOU
Schedule III-SW	General Service Wheeling
Schedule IV-P	General Power
Schedule IV-PN	General Power Non-TOU
Schedule IV-PT	General Power TOU
Schedule IV-PW	General Power Wheeling
Schedule V-P	Bulk Power
Schedule V-PN	Bulk Power Non-TOU
Schedule V-PT	Bulk Power TOU
Schedule V-PW	Bulk Power Wheeling
Schedule VI-P	Wholesale Power
Schedule VI-PN	Wholesale Power Non-TOU
Schedule VI-PT	Wholesale Power TOU
Schedule VI-PW	Wholesale Power Wheeling
Schedule VII-P	Special Wholesale
Schedule VII-PN	Special Wholesale Non-TOU
Schedule VII-PT	Special Wholesale TOU
Schedule VII-PW	Special Wholesale Wheeling



The implementation of the TOU retail rates has the following advantages:
1) customers will benefit from lower electricity price during off-peak periods but experience a higher price during peak periods; 2) it promotes efficient utilization of existing capacities; 3) customers will have the choice of managing their usage of electricity; and 4) customers will experience price differentiation based on their demand curve.

7. TOU/Hourly Rates

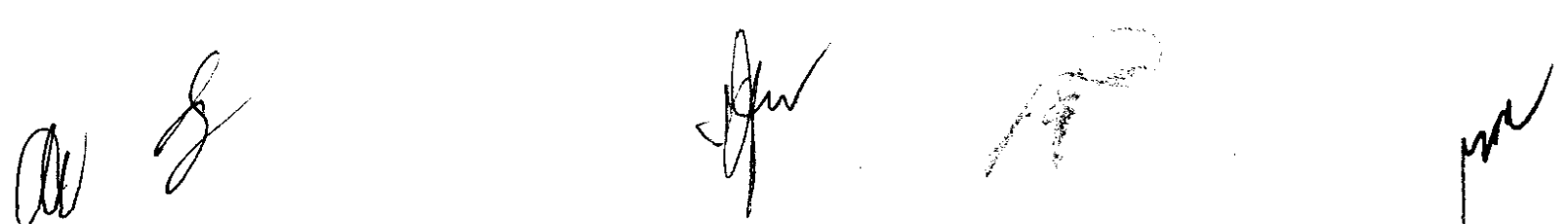
In its application, VECO proposes an automatic adjustment formula to compute for the monthly TOU and non-TOU retail rates. However, it is worth mentioning that the Commission, in its Decision in ERC Case No. 2004-178 [In the Matter of the Application for Approval of the Proposed Generation Rates for Luzon, Visayas and Mindanao Grids, with Prayer for Provisional Authority, National Power Corporation (NPC) and Power Sector Assets and Liabilities Management Corporation (PSALM) – Applicants] and its Order dated June 27, 2007 in ERC Case No. 2007-111 RC [In the Matter of the Application for Approval of the Proposed Time-of-Use (TOU) Retail Rates to End-Users, with Prayer for Provisional Authority, Manila Electric Company (MERALCO) – Applicant], approved fixed hourly (TOU) rates for NPC and MERALCO, respectively.



Thus, the Commission deems it necessary for VECO to adopt the following fixed hourly rates:

VECO HOURLY/ TOU RATES		
Period	Regular Days	Sundays & Holidays
01:00	2.2909	2.2985
02:00	1.9058	1.8996
03:00	1.9093	1.9018
04:00	1.9118	1.9131
05:00	1.9166	1.9326
06:00	1.9276	1.9423
07:00	1.9625	1.9747
08:00	2.7238	2.0299
09:00	3.2191	2.0935
10:00	3.4385	2.4992
11:00	3.4792	2.8505
12:00	3.4826	2.8840
13:00	3.4948	2.9036
14:00	3.4817	2.9958
15:00	3.4836	2.9032
16:00	3.4891	2.9128
17:00	3.4199	2.9263
18:00	5.7450	3.5152
19:00	5.7364	5.7474
20:00	5.7361	5.7469
21:00	5.7413	3.5339
22:00	3.4554	3.3824
23:00	2.8759	2.8870
00:00	2.6705	2.3974

The foregoing rates were based on the weighted average hourly generation costs and corresponding kWh purchases from NPC and VECO's independent power producers (IPPs) for calendar year 2007. Said rates were patterned after the NPC TOU retail rates in Visayas, wherein different rates were derived for regular days (Monday to Saturday) and for Sundays and Holidays. Peak and off-peak hours were also the same. Further, these were subjected to adjustments on NPC Generation Rate Adjustment Mechanism (GRAM) and Incremental Currency Exchange Rate Adjustment (ICERA), and the Franchise and Benefits to Host Communities (FBHC).



The table below shows VECO's supply mix for calendar year 2007:

Power Suppliers	kWh Purchased	Supply Mix
NPC	1,365,770,780	73.40%
TPC	205,762,017	11.06%
Cebu Private Power Corporation (CPPC)	223,079,526	11.99%
East Asia Utilities Corporation (EAUC)	0	0.00%
Total	1,860,667,538	100.0%

In this regard, the Commission deems it prudent that the AGRA should be revised to include a formula for the calculation of TOU retail rates for DUs with various sources, generation rate to non-TOU customers, as well as for the determination of annual over or under recoveries resulting from the movement of purchased power cost, supply mix and changes on the DUs' load profile. The existing manner of calculating the system loss charge shall still be applicable to all customers.

8. Incremental Costs

Shown below is the summary of VECO's existing and proposed incremental supply and metering charges:

Customer Class	Existing Supply Charges (PhP/mo.)	TOU Incremental Supply Charge (PhP/cust./mo.)	Existing Metering Charges (PhP/mo.)	Incremental Metering Charge (PhP/cust./mo.)
Schedule I-FZ: Streetlight	42.75	1,227.12		967.29
Schedule II-R: Residential	42.75	1,227.12	5.00	1,082.29
Schedule III-S: General Service	42.75	1,227.12	86.54	1,082.29
Schedule IV-P: General Power	85.51	1,227.12	264.90	1,082.29
Schedule V-P: Bulk Power	128.26	1,227.12	661.93	1,082.29
Schedule VI-P: Wholesale Power	213.77	1,227.12	7,722.53	1,082.29
Schedule VII-P: Special Wholesale	213.77	1,227.12	11,032.19	1,082.29

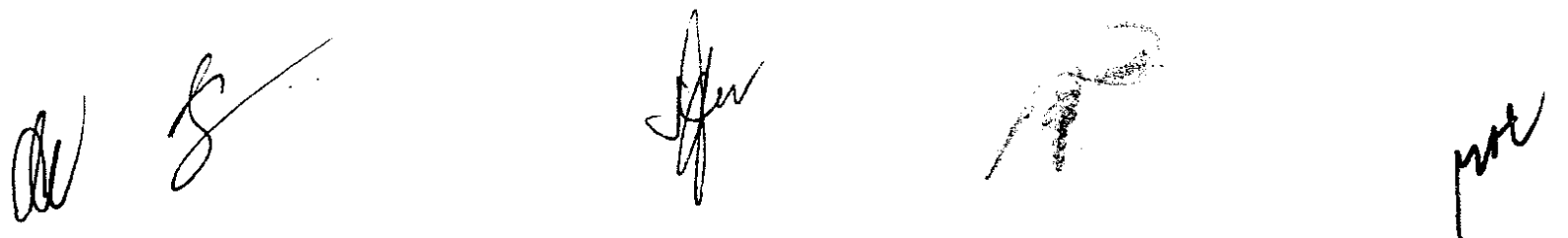
VECO's proposed incremental supply and metering charges are based on an assumption that only ten (10) customers would be availing of TOU retail rates. The Commission finds this to be unacceptable. These charges greatly vary depending on the actual number of customers who will avail of the TOU retail rates.

Further, VECO should not earn additional profit nor incur losses on the implementation of its TOU retail rates. Any additional investments and operating costs incurred by VECO to serve its TOU customers should be accounted separately and shall not form part of its rate base and revenue requirement.

Relative thereto, the Commission shall verify VECO's calculation of the incremental supply and metering charges based on actual number of customers who will avail of the TOU retail rates.

9. Offer of TOU Rates

On VECO's procedure of offering the TOU retail rates, the Commission deems it prudent that strict compliance with the provisions of Article II, Section 1 of Resolution No. 1, Series of 2008 [A Resolution Adopting the Rules to Govern the Implementation of the Time-of-Use (TOU) Retail Rates of Distribution Utilities (DUs) Sourcing 100% of Their Power Requirements From the National Power Corporation (NPC) and/or Independent Power Producers (IPPs) with Authorized Rates Pegged at NPC's Rate] should be observed.



A thorough review of the instant application showed that the proposed TOU retail rates of VECO will redound to the benefit of its consumers as this would provide them a fair choice to consume electricity at different time periods given the rates.

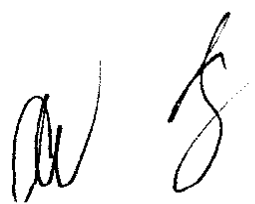
WHEREFORE, the foregoing premises considered, the application for approval of the proposed Time-Of-Use (TOU) Retail Rates to end-users filed by Visayan Electric Company, Incorporated (VECO) is hereby **APPROVED WITH MODIFICATION**.

Accordingly, the Commission hereby **RESOLVES** to:

- 1) **APPROVE** the hourly TOU rates for VECO as follows:

VECO HOURLY RATES		
Period	Regular Days	Sundays & Holidays
01:00	2.2909	2.2985
02:00	1.9058	1.8996
03:00	1.9093	1.9018
04:00	1.9118	1.9131
05:00	1.9166	1.9326
06:00	1.9276	1.9423
07:00	1.9625	1.9747
08:00	2.7238	2.0299
09:00	3.2191	2.0935
10:00	3.4385	2.4992
11:00	3.4792	2.8505
12:00	3.4826	2.8840
13:00	3.4948	2.9036
14:00	3.4817	2.9958
15:00	3.4836	2.9032
16:00	3.4891	2.9128
17:00	3.4199	2.9263
18:00	5.7450	3.5152
19:00	5.7364	5.7474
20:00	5.7361	5.7469
21:00	5.7413	3.5339
22:00	3.4554	3.3824
23:00	2.8759	2.8870
00:00	2.6705	2.3974

Note: Above rates are subject to NPC adjustments (GRAM & ICERA) plus the Franchise & Benefits to Host Communities (FBHC).



- 2) **APPROVE** the formulae for the incremental supply and metering charges for TOU customers as follows:

A. TOU Incremental Supply Charge Formula

$$\text{TOU Incremental Supply Charge} = \frac{\text{CICS}}{\text{TNC} \times 12} + \text{UICS}$$

Where:

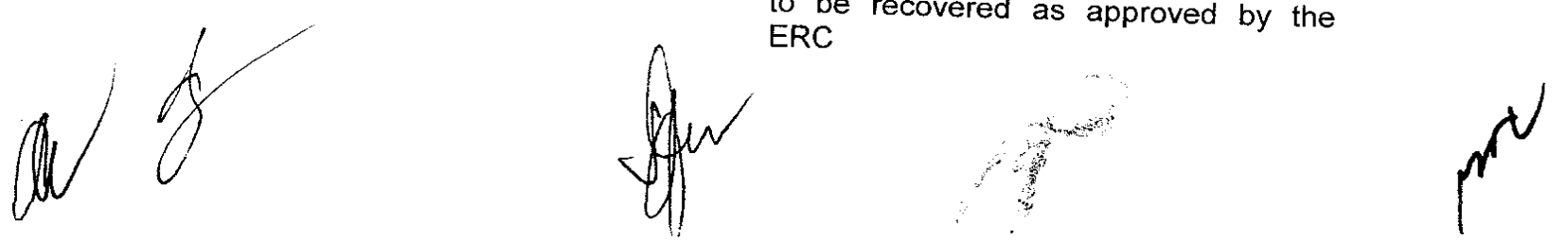
- Incremental Supply Charge** = supply charge in pesos per customer per month which a TOU customer shall pay
- CICS** = the incremental cost of supply in pesos that is common to all TOU customers that has to be recovered as approved by the ERC
- TNC** = the total number of TOU customers in the previous month
- UICS** = the incremental cost of supply in pesos per customer per month that is unique only to a TOU customer that has to be recovered as approved by the ERC

B. TOU Incremental Metering Charge Formula

$$\text{TOU Incremental Metering Charge} = \frac{\text{CICM}}{\text{TNC} \times 12} + \text{UICM}$$

Where:

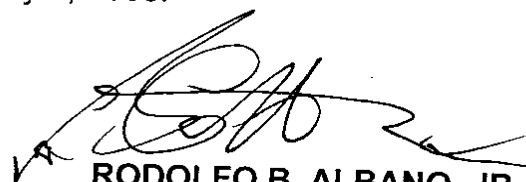
- Incremental Metering Charge** = additional metering charge in pesos per customer per month which a TOU customer shall pay
- CICM** = the incremental cost of metering in pesos that is common to all TOU customers that has to be recovered as approved by the ERC
- TNC** = the total number of TOU customers in the previous month
- UICM** = the incremental cost of metering in pesos per customer per month that is unique only to a TOU customer that has to be recovered as approved by the ERC



- 3) **APPROVE** the customer sub-classification of VECO for accounting and identification of TOU and non-TOU customers; and
- 4) **DIRECT** VECO to:
 - a. Submit on an annual basis the supporting data and calculation on the incremental supply and metering charges, together with its calculation of the over or under-recoveries on the generation costs;
 - b. Account separately the additional investments/asset acquisitions and operating costs incidental to serving TOU customers;
 - c. Calculate over or under recoveries on the generation charge at the end of every year; and
 - d. Include in its AGRA submissions, the schedule of customers availing the TOU retail rates with their corresponding kWh consumptions and costs.

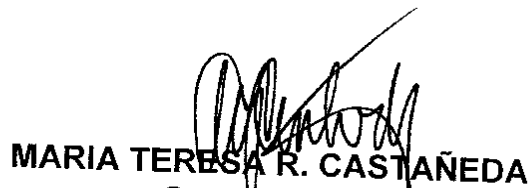
SO ORDERED.

Pasig City, July 7, 2008.


RODOLFO B. ALBANO, JR.
Chairman


RAUF A. TAN
Commissioner


ALEJANDRO Z. BARIN
Commissioner


MARIA TERESA R. CASTAÑEDA
Commissioner


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