

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

**IN THE MATTER OF THE APPLICATION
FOR APPROVAL OF THE REVISED RATE
SCHEDULES IN COMPLIANCE WITH SECTION 36
OF REPUBLIC ACT NO. 9136 AND ORDER
DATED OCTOBER 30, 2001, AND FOR APPROVAL
OF APPRAISAL OF PROPERTIES, WITH PRAYER
FOR PROVISIONAL AUTHORITY**

**ERC CASE NO. 2002-13
(2001-899)**

**DAGUPAN ELECTRIC CORPORATION
(DECORP)**

Applicant.

x-----x

D E C I S I O N

Before the Commission for resolution is the application/supplemental and/or amended application filed on December 26, 2001 and January 15, 2002, respectively, by applicant Dagupan Electric Corporation (DECORP) for approval of its revised rate schedules in compliance with Section 36 of Republic Act No. 9136 and ERC Order dated October 30, 2001, with prayer for provisional authority.

Having found the application sufficient in form and substance with the required fees having been paid, an Order and a Notice of Public Hearing were

issued both dated March 18, 2002 setting the same for initial hearing on May 24, 2002.

In the same Order, DECORP was directed to publish, at its own expense, the Notice of Public Hearing twice (2x) for two (2) successive weeks in two (2) newspapers of general circulation in the Philippines at least two (2) weeks before the date of initial hearing.

Copies of the application, the Order and the Notice of Public Hearing were furnished the Office of the Solicitor General (OSG), the Commission on Audit (COA) and the Committees on Energy of both Houses of Congress and were requested to have their respective duly authorized representatives present at the initial hearing. Copies of the Order and the Notice of Public Hearing were likewise furnished the City and Municipal Mayors within DECORP's franchise area for the appropriate posting thereof on their respective bulletin boards.

During the May 24, 2002 initial hearing of this case, only DECORP and intervenor Engr. Robert Mallillin, representing large load consumers, appeared.

DECORP presented its proofs of compliance with the Commission's publication and posting of notice requirements and had these marked as Exhibits "A" to "C-8", inclusive. It then moved that an order of general default be made against all parties who might be minded to oppose the application. Said motion was noted. Thereafter, it presented its witnesses, Atty. Rhodora

Kapunan, DECORP's Head of Accounting Department; Engr. Augusto Sarmiento, DECORP's Area Manager for Quezon City Office; Mr. Romeo Feliciano, External Auditor of DECORP; and Mr. Roberto Mendoza, Asian Appraisal's Assistant Vice President, for direct examinations. Atty. Kapunan testified on DECORP's compliance with the requirements of Section 36 of Republic Act No. 9136 and the guidelines contained in the Commission's Order dated October 30, 2001. Engr. Sarmiento testified on the manner by which DECORP prepared its revised rate application including the different schedules using the unbundling process. In the course thereof, documents were presented and marked as Exhibits "D" to "V", inclusive. Engr. Mallillin conducted cross-examination on the said witnesses while the Commission propounded clarificatory questions. As a result thereof, DECORP was directed to submit various documents.

On June 3, 2002, Engr. Mallillin submitted a "Position Paper" raising the following issues:

a) Rate Design

The Distribution Charges, which are attributable to fixed costs, should be in "P/kW" if metering installations permit, with the exception of those without demand meters; that meter charge should be in terms of "Peso per Customer"; that the supply charge should also be in "Peso per customer"; that the Distribution System Charge should be determined based on the delivery voltage level of the customer; that the Distribution System Loss Recovery should be a

separate and distinct charge segregated by voltage level in each customer class in order to reflect rate levels that are closer to the true cost of service; and that the Lifeline Rate threshold level should consider also the connected load aside from the historical energy consumption of the customer.

b) Rate Base should be reduced by 20% since it is bloated

c) Costs and Financial Issues

If the Weighted Average Cost of Capital (WACC) is used, it should be related to their long term sources of funds so that short term securities, loans or other obligations are not included; that cross subsidies should be phased out starting with the proposed charges/ rates under the rate unbundling case; that poles, line hardware, line transformers, conductors and wires should be allocated under "Demand" only; and that the System Loss Cap under Republic Act No. 7832 should be maintained.

During the August 26, 2002 hearing, DECORP submitted its Audited Financial Statements but manifested that it would still study the impact of the said statements on its filing. On the other hand, Engr. Mallillin moved that he be furnished any revision of DECORP's filings. Said motion was granted.

During the September 17, 2002 hearing, DECORP presented another witness, Ms. Ofelia Barroga, Audit Partner of Diaz, Murilla and Dalupan. Ms. Barroga testified on the audit conducted on the books of account of DECORP.

In the course thereof, documents were presented and marked as Exhibits “W” and “X”. Engr. Mallillin conducted a cross-examination of said witness while the Commission propounded clarificatory questions. As a result thereof, DECORP was directed to reconstruct its fixed assets subsidiary ledgers from 1995 to enable its external auditor to make a clear opinion on the matter.

On October 22, 2002, DECORP was directed to submit several documents.

On November 27, 2002, DECORP submitted its partial compliance with the Commission’s October 22, 2002 Order.

On February 17, 2003, DECORP was directed anew to submit the remaining documents required in the Commission’s October 22, 2002 Order.

On March 13, 2003, DECORP submitted the said documents.

On April 9, 2003, DECORP was directed to submit additional documents.

On April 25, 2003, DECORP filed an “Urgent Motion to Reset Hearing and for Extension of Time to Submit Documents” praying for the resetting of the hearing and extension of time to submit the required documents. In the Commission’s Order dated May 5, 2003, DECORP was granted its last

extension/postponement after noting that it was the third time that the hearing was reset due to the unavailability of the audited financial statements.

During the June 2, 2003 hearing, DECORP recalled its last witness, Ms. Barroga, for additional direct examination. Said witness testified on the steps taken by DECORP to comply with the Commission's directive to reconstruct the subsidiary ledgers and to render a clear opinion on DECORP's Audited Financial Statements. Relative thereto, DECORP moved that Exhibit "X" be substituted with the new Audited Financial Statement, Said motion was granted. Engr. Mallillin moved that he be furnished with the electronic copies of the new submissions of DECORP. Said motion was, likewise, granted. Engr. Mallillin then reserved his right to cross-examine said witness. DECORP inquired if Engr. Mallillin was amenable to just propound his questions in writing so the witness would not have to come back for another hearing to which Engr. Mallillin agreed. Thereafter, DECORP was directed to submit a reconciliation between the reconstructed data and the Uniform Rate Filing Requirement (UFR) submission within fifteen (15) days from said date of hearing. Engr. Mallillin manifested that he would inform the Commission if there would be a need for another hearing, through a written manifestation. The Commission propounded clarificatory questions on the said witness.

The Commission then recalled Ms. Sardillo to the witness stand for additional clarificatory questions. Engr. Mallillin asked additional questions on the same witness and moved for twenty (20) days from said date of hearing within which to submit his comment on the reconciliation.

In the Commission's Order dated July 3, 2003, DECORP was directed to submit additional documents.

During the July 25, 2003 hearing, DECORP recalled its witness, Atty. Kapunan. The Commission propounded clarificatory questions on the said witness.

On January 15, 2004, DECORP submitted its "Formal Offer of Exhibits".

I. DECORP'S PROPOSAL

DECORP's proposed rate structure/revised rate schedule reflects the unbundling of rates in accordance with the sectors or functions identified in Section 5, R.A. 9136. These rates were developed on the basis of the data and calculations contained in the schedules prescribed in the Uniform Rate Filing Requirements (UFR) as per ERC Order dated October 30, 2001, as follows:

TABLE 1

| RATE SCHEDULE | REFERENCE |
|-------------------------|---------------------------------------|
| 1. Residential | Residential-Domestic Purpose |
| 2. Secondary GSR-X1 | Small Commercial |
| 3. Secondary GSR-X2 | Medium Commercial |
| 4. Secondary GSR-X3 | Large Commercial |
| 5. Primary GSR-X3 | Primary Metered Large Commercial |
| 6. Secondary ISR | Industrial Service Rate |
| 7. Primary ISR | Prim. Metered Industrial Service Rate |
| 8. Streetlights Service | Flat Rate |

I. A. Revenue Requirements

DECORP calculated its Total Revenue Requirement based on test year

2000 using the Return on Rate Base (RORB) methodology. The application contains assets valued both at historical costs and appraised value. DECORP's calculation used the appraised or sound value of assets, as underlying basis for the formulation and design of the Revised Rate Schedules. The submitted historical cost of assets, as required in the UFR, was solely for informational purposes, and not as basis for ratemaking.

On the basis of the submitted schedule (Schedule B), the proposed Total Revenue Requirement amounted to PhP 829,600,899, which was calculated by adding the total cost of service and the total return on rate base (computed at 12% of the rate base). Details as follows:

TABLE 2

| Account Name | Total Company |
|---|------------------------|
| Purchased Power | PhP 597,219,549 |
| Payroll | 42,164,056 |
| O&M (net of purchase power and payroll) | 42,313,819 |
| Depreciation & Amortization | 60,159,990 |
| Income Taxes | 15,781,141 |
| Other Expenses | 0 |
| Return On Rate Base | 71,962,344 |
| Revenue Requirement | PhP 829,600,899 |
| Less: Other Revenue Items | 0 |
| Total Revenue Requirement | PhP 829,600,899 |

I.A.1. Operating Revenue

DECORP reported a total operating revenue of PhP 742,202,196 for the year 2000, computed as follows:

TABLE 3

| Customer Type | Total Revenue |
|-------------------------|------------------------|
| Residential Service | PhP 352,499,983 |
| Secondary GSR-X1 | 56,131,930 |
| Secondary GSR-X2 | 120,156,229 |
| Secondary GSR-X3 | 71,506,365 |
| Primary GSR-X3 | 31,107,974 |
| Secondary ISR | 46,432,616 |
| Primary ISR | 56,731,619 |
| Street Lighting Service | 7,635,480 |
| Total | PhP 742,202,196 |

I.B. Rate Base

DECORP proposed that Schedule B (Restated Value of assets) be used as basis in the determination of its Rate Base. Thus, DECORP utilized the appraised value of assets as of December 31, 2000 as reported by an independent appraiser, Asian Appraisal Company, Inc. (AACI) dated January 24, 2001 in the rate base determination. The proposed rate base is as follows:

TABLE 4

| | Adjusted Electric |
|---------------------------------------|------------------------------|
| Distribution Plant | PhP 667,994,840 |
| General Plant | 117,393,910 |
| Total Plant In Service | PhP 785,388,750 |
| Accumulated Depreciation | |
| Distribution Plant | PhP 278,884,080 |
| General Plant | 36,109,120 |
| Total Accumulated Depreciation | PhP 314,993,200 |
| | |
| Net Plant In Service | PhP 470,395,550 |
| Construction Work in Progress | 2,022,133 |
| Plant Held For Future Use | 0 |
| Materials & Supplies | 17,248,700 |
| Cash Working Capital | 110,019,814 |
| Total Rate Base | PhP 599,686,197 |

I.B.1. Plant in Service

I.B.1.a. Asset Valuation

In support of its unbundled rate application, DECORP submitted for approval to the Commission a report of AACI with respect to the sound value of its properties existing as of December 31, 2000. Based on the said report, DECORP's assets were appraised based on cost level as of December 2000 at the prevailing Peso-to-Dollar exchange rate of PhP 49.998 to U.S.\$1.00 with total cost of reproduction (new) of PhP 785,388,750 and sound value of PhP 470,395,550, to wit:

TABLE 5

| Particulars | Cost of Reproduction, | | Sound Value |
|------------------------------|-----------------------|--------------------|------------------------|
| | New | | |
| Land | PhP | 69,890,000 | PhP 69,890,000 |
| Buildings | | 27,012,000 | 14,223,500 |
| Other Land Improvements | | 6,060,000 | 5,094,000 |
| Leasehold Improvements | | 827,000 | 676,000 |
| Machinery & Equipment | | 5,814,600 | 1,950,300 |
| Meter Reading Equipment | | 850,900 | 515,200 |
| Electrical Equipment | | 612,780,400 | 340,572,500 |
| Communication Equipment | | 1,929,500 | 1,139,000 |
| Transportation Equipment | | 44,802,000 | 27,271,000 |
| Furniture & Office Equipment | | 15,422,350 | 9,064,050 |
| TOTAL | PhP | 785,388,750 | PhP 470,395,550 |

I.C. Weighted Average Cost of Capital

DECORP's proposed a Weighted Average Cost of Capital of 12% or equivalent to a return of PhP 71,962,344, computed as follows:

TABLE 6

| Component | Amount As Of 12/31/2000 | Component As % of Total | Component Cost Of Capital | Weighted Cost Of Capital |
|---------------------|-------------------------------|-------------------------------|---------------------------------|--------------------------------|
| Long-term Debt | PhP 0 | 0% | 0% | 0% |
| Notes Payable | 5,416,667 | 2.29% | 12.00% | 0.27% |
| Total Debt | PhP 5,416,667 | 2.29% | | 0.27% |
| Common Equity | 231,447,000 | 97.71% | 12.00% | 11.73% |
| Total | PhP 236,863,667 | 100.00% | | 12.00% |
| Rate Base | | | | PhP 599,686,197 |
| Return On Rate Base | | | | PhP 71,962,344 |

I.D. Rate Design

DECORP's proposed rate structure consisted of charges for the following specific functions: (a) Generation/Transmission, (b) Distribution, (c) Supply, and (d) Metering.

I.D.1. Generation and Transmission Charge

DECORP proposed a fixed rate of PhP 3.64821 per kWh (December 2000 base cost) as Generation and Transmission Charges, any increase or

decrease will be recovered in the proposed PPA formula, applicable to all customer classes, to wit:

$$PPA = \frac{A}{B - (C + L)} \times \frac{(1)}{(1-FT)} - E$$

Where:

| | | |
|-----|---|--|
| PPA | = | Purchased Power Adjustment per kWh |
| A | = | Cost of Electricity purchased and generated for the previous month (exclusive of discounts) less amount recovered from pilferages. |
| B | = | Total kWh purchased and generated for the previous month. |
| C | = | The moving average system loss of the proposed amended cap of 11.14%, whichever is lower. |
| L | = | kWh consumed by Marginalized Consumers (Residential Lifeline Rate) |
| FT | = | National and Local Franchise Tax rate. |
| E | = | Applicable base cost of PHP3.64821 per kWh in December 2000. |

I.D.2. System Loss

DECORP proposed a moving average system loss (12 months) or 11.14% actual system loss for 2000 whichever is lower to be the recoverable rate for its system loss through the proposed PPA formula applicable to all customer classes.

I.D.3. Distribution Charge

DECORP proposed a peso per kilowatt-hour for distribution charge applicable to all customer classes.

I.D.4. Supply and Metering Charges

DECORP proposed a peso per kilowatt-hour for the metering function and peso per customer per month for the supply function for residential customers. All other end-users shall be charged peso per customer per month for both metering and supply function.

I.E. Inter-Class Cross Subsidy

DECORP estimated the level of cross-subsidies incorporated in the rate structure. The cross-subsidies enjoyed or borne by each customer class are summarized below:

TABLE 7

| Customer Class | kWh Sold | Total Computed Revenue (Based on Model) | Total Actual Revenue (Existing Rates) | Inter-Class Cross Subsidies | Inter-Class Cross Subsidies (PhP/kWh) | Cross-subsidy removal per year for 3 yrs. (PhP/kWh) |
|-------------------------|--------------------|---|---------------------------------------|-----------------------------|---------------------------------------|---|
| Residential Service | 78,949,947 | 438,917,101 | 352,499,983 | (86,417,118) | (1.0946) | (0.3649) |
| Secondary GSR-X1 | 12,559,079 | 58,130,750 | 55,961,455 | (2,169,295) | (0.1727) | (0.0576) |
| Secondary GSR –X2 | 27,004,169 | 123,180,022 | 120,326,704 | (2,853,318) | (0.1057) | (0.0352) |
| Secondary GSR –X3 | 16,451,237 | 72,703,473 | 71,739,176 | (964,297) | (0.0586) | (0.0195) |
| Primary GSR-X3 | 6,768,300 | 28,370,542 | 29,514,635 | 1,144,093 | 0.1690 | 0.0563 |
| Secondary ISR | 11,626,282 | 49,298,136 | 50,698,916 | 1,400,780 | 0.1205 | 0.0402 |
| Primary ISR | 12,343,350 | 47,849,759 | 53,825,846 | 5,976,087 | 0.4842 | 0.1614 |
| Street Lighting Service | 1,794,635 | 11,151,123 | 7,635,480 | (3,515,643) | (1.9590) | (0.6530) |
| Total | 167,496,999 | 829,600,906 | 742,202,196 | (87,398,710) | | |

I.F. Lifeline Rate

DECORP proposed a rate of PhP 1.54219 per kWh plus Retail Customer Charge excluding Generation and Transmission Charges for its lifeline customers using consumption level of 12 kWh. This is sufficient to cover the consumption of two (2) lighting outlets and two (2) convenience outlets. This reflects the cost of living in the rural area as well as in the depressed area of the cities within DECORP's franchise area. The assumed connected loads as basis for the 12 kWh is as follows:

TABLE 8

| Quantity | Type of Load | Watts | Hrs.used/day | KWh/Month |
|----------|-------------------|-------|--------------|-----------|
| 2 | Incandescent Bulb | 25 | 4 | 6 |
| 1 | Electric Fan | 50 | 4 | 6 |
| | | | Total | 12 |

I.G. Other Charges/Non-Recurring Rates

DECORP proposed the following revised Other Charges and/or non-recurring charges, to wit;

TABLE 9

| Other Charges | Amount (Php) |
|---|--|
| 1. Account Initiation Charge | |
| Meter Installation is not required at an existing location | |
| a. Single-Phase Meter | 40.00 |
| b. Self-Contained Three-Phase Meter | 120.00 |
| c. CT-rated Three-Phase Meter | 120.00 |
| Meter Installation is required at a new location | |
| a. Single-Phase Meter | 110.00 |
| b. Self-Contained Three-Phase Meter | 430.00 |
| c. CT-rated Three-Phase Meter | 1,520.00 |
| 2. Service Call Charges | Actual cost but not Less than 175.00 |
| 3. Disconnection/Reconnection Charge | |
| a. Single-Phase Meter | 125.00 |
| b. Three-Phase Meter | 160.00 |
| 4. Requested Service Interruption Charge | Actual cost |
| 5. Facilities Relocation/Removal Charge | Actual cost but not Less than 1,630.00 per day |
| 6. Temporary Facilities | |
| a. Install and remove single phase service and read a Meter (includes account initiation charge) | 220.00 |
| b. Install and remove single phase service wires, meters and transformers (up to 50 kVA) on existing pole and read a meter (includes account initiation charge) | Actual cost but not Less than 3,480.00 |
| c. All other temporary meter (includes account initiation charge) | Actual cost |
| 7. Metering Charge | |
| Off-site Meter Reading Equipment Installed Charge | Equipment installed and labor and associated overheads |
| Automated Meter Reading Equipment Installed Charge | Equipment installed and labor and associated overheads |
| Standard Advanced Metering Equipment | Equipment installed and labor and associated overheads |
| Off-cycle Meter Reading Charge | 40.00 per re-read |
| Automated Meter Reading Charge | |
| a. AMR-Cycle Meter Read | Calculated |
| b. AMR-Specific Date Meter Read | Calculated |
| c. Maintenance of electrical pulse devices | Calculated |
| Advance Metering Interval Load Data Equipment Maintenance Charge | Actual cost to maintain the equipment |

| | |
|---|---|
| Electrical Pulse Equipment Maintenance Charge | Actual cost to maintain the equipment |
| Requested Meter Test Charge | |
| a. Single-Phase Meter | ERC approved meter testing rate plus 1,090.00 |
| b. Self-contained Three Phase meter | ERC approved meter testing rate plus 1,090.00 |
| c. CT-rated Three Phase Meter | ERC approved meter testing rate plus 1,090.00 |
| Broken Meter Seal Charge | Actual cost |
| Tampering Charge | 10,000.00 plus DECORP will determine |
| 8. Miscellaneous Discretionary Service Charge | |

II. COMMISSION DISCUSSIONS AND CONCLUSIONS:

In reaching the conclusion herein, the Commission took into consideration the documents as well as the comments and issues submitted by the applicant, intervenor, and other interested parties who manifested their respective position on the instant application.

II.A. Determination of the Total Revenue Requirement

II.A.1. Test Year

The Commission finds DECORP's proposal to use the test year 2000 in its unbundled rate application acceptable since it is consistent with Rule 15 Sec. 6 (c) of the Implementing Rules and Regulations (IRR) of R.A. 9136. Therefore, the discussions and conclusions that follow are based on Schedule B, "Revalued Cost by Function" (Cost of Service by Function – Historical Test Year).

II.A.2. Generation and Transmission Costs

Generation Cost

The Commission updated the generation cost based on the most recent approved NPC rate, i.e. ERC Case No. 2003-291 (In the Matter of the Application for the Approval of the Revised Unbundled Generation Tariffs, National Power Corporation (NPC) and Power Sector Assets and Liabilities Management (PSALM) – applicants) Order dated September 29, 2003. Notably, the Commission approved the adoption of the Incremental Currency Exchange Rate Adjustment (ICERA) in ERC Case No. 2003-498, Order dated December 4, 2003 (NPC and PSALM – applicants). The Commission directed NPC and PSALM to refund to its customers the Deferred Accounting Adjustment (DAA) and FOREX Correction for Luzon amounting to PhP 0.0065 per kWh within a period of six months starting December 2003 to May 2004.

The total purchased power cost, as presented in the amended application amounting to PhP 597,219,549, was adjusted to reflect the following:

- a) The Commission decided to retain the system loss cap prescribed under Rule IX Section 1 of the Implementing Rules of Republic Act No. 7832 pending the conduct of a comprehensive study on the matter. Hence, the Commission used the maximum allowable cap for system loss at 9.5% instead of the 11.14% proposed herein by DECORP and actual company use of 0.1579% for the year 2000. (See further discussion on Section II.1.3.)

- b) The Commission also used annualization in calculating the kilowatt-hour purchase power cost. This is calculated as the sum of the products of the average kilowatt-hour consumption for each rate class and the year-end number of customers for each rate class; and
- c) Since power rates are to be applied prospectively, the Commission also updated the purchased power costs to the most recent levels available.

Based on November 2003 data submitted by DECORP to the Commission, DECORP buys 100% of its power requirement from NPC. As such, the generation cost as computed by the Commission reflects the cost of electric power bought from NPC as of supply month November 2003. The resulting total adjusted purchased power cost amounting to PhP 633,412,624 for the test year 2000 was computed as follows:

TABLE 10

| | |
|---|------------------------|
| Purchased power cost submitted by DECORP (inclusive of transmission component) | PhP 597,219,549 |
| Adjustment due to update of purchased power cost | 39,630,142 |
| Total | 636,849,691 |
| Less: Excess system loss | 3,437,067 |
| Total Purchased Power Cost included in Revenue Requirement | PhP 633,412,624 |

Transmission Cost

The Commission's Decision in ERC Case No. 2001-901 dated June 26, 2002 and September 20, 2002 set the transmission charges for the National Transmission Corporation (TRANSCO) without any provision for an automatic adjustments thereof. Since the transmission rates to be paid by DECORP are fixed, it is the decision of the Commission to likewise fix the unbundled transmission rates to be billed to end-users. The transmission charges

approved for billing by DECORP have been calculated based on the approved TRANSCO rates, which include cross subsidy elements to be phased out over a three-year period.

System Loss

A separate charge to account for allowable system loss shall likewise be provided. The Commission decided to retain the system loss cap prescribed under Rule IX Section 1 of the IRR of R.A. 7832 pending the conduct of a comprehensive study on the matter. Hence, the Commission used the maximum allowable cap for system loss at 9.5% or actual, whichever is lower.

Based on the new generation and transmission charges, as well as the allowable system loss, the Commission has determined DECORP's unbundled generation, transmission and recoverable system loss as follows:

TABLE 11

| | |
|-------------------------|------------------------|
| Generation Charge | PhP 435,211,949 |
| Transmission Charge | 137,673,490 |
| Recoverable System Loss | 60,527,185 |
| Total | PhP 633,412,624 |

DECORP's approved generation charge shall remain fixed until changes in NPC's generation rate are approved and authorized by the Commission pursuant to its Order dated February 24, 2003, ERC Case No. 2003-44 (GRAM) and ERC Case No. 2003-498 (ICERA), Order dated December 4, 2003. In view thereof, the Commission does not foresee the need for DECORP to continue to implement its Purchased Power Adjustment (PPA) clause. Towards this end, the Commission hereby directs DECORP to discontinue the implementation of its PPA upon the effectivity of the herein approved unbundled rates.

II.A.3. OPERATION AND MAINTENANCE

The general criteria in the evaluation of operating expenses to be allowed for recovery are: 1) that the expense is a requisite of, or necessary in the operation of the utility; 2) it is recurring; and 3) it redounds to the benefit of the utility's customers (Public Service Commission [PSC] Decision in Case Nos. 85889, 85890 and 89893). The Commission enjoins DECORP to incur only "prudent and reasonable costs" for inclusion in the determination of retail rates. While a distribution utility enjoys the benefit of passing its costs of purchased power and other reasonable costs to the consumer, it is obligated as a public utility to ensure that its costs of operations including payroll are kept at a minimum. The distribution utility must bear in mind that as a service-oriented company, its mandate is to advocate and transact judiciously for and in their behalf of its consumers.

"Reasonable costs" refers to the costs of those goods and services which, while may not be the lowest in price, need to be incurred with consideration of quality, efficiency, reliability and security, which are characteristics of the service delivered by the distribution utility. "Prudent costs" demand that the utility ensures that its purchases of goods and services are at their minimum, without sacrificing the foregoing characteristics. When making a purchase or executing a contract, a utility cannot simply rely on its right to pass on its costs to its consumers. As such, the Commission, in fulfilment of the policy of the EPIRA to establish a regime of free and fair competition and full public accountability to achieve greater operational and economic efficiency, enjoins DECORP to institute and report to the Commission their

respective policies and procedures for cost-cutting and the transparent and competitive procurement of goods and services.

DECORP's customers have a right to receive safe, reliable, and adequate service at a reasonable rate. To this end, DECORP should view a petition for an increase in rates to be the last recourse. In future filings, DECORP should be reminded that it has the burden of proving that all reasonable and appropriate cost cutting measures have been taken before resorting to a petition to increase rates.

Operations and Maintenance account was adjusted to PhP 19,832,816 after considering adjustment of PhP 22,481,003, computed as follows:

TABLE 12

| | | |
|---|-----------------|-----------------------|
| Adjusted O&M per DECORP | | PhP 42,313,819 |
| Adjustments: | | |
| Expenses excluded for ratemaking purposes | PhP (4,277,739) | |
| Franchise Tax (separate item) | (18,203,264) | (22,481,003) |
| Adjusted O & M | | PhP 19,832,816 |

Adjustments

The Commission finds some expenses to be unnecessary in the provision of DECORP's electric service and therefore excluded the same for ratemaking purposes, as follows:

TABLE 13

| Particulars | Amount |
|--|----------------------|
| Officers Allowances & Benefits | |
| Office Representation Expense | PhP 288,933 |
| Miscellaneous Gen. & Adm. Expense | 1,482,069 |
| Prior year Retirement Expense | 2,506,737 |
| Total expenses excluded for ratemaking purposes | PhP 4,277,739 |

Franchise tax shall appear as a separate line item on the customers' bills as percentage of the total monthly electricity charges. Given this rate design, it is appropriate to remove the amount of PhP 18,203,264 associated with franchise taxes from the revenue requirement as this is just a pass through item.

For future rate cases, DECORP will continue to be required to make full disclosures of all its O & M expenses in order for the Commission to determine the prudence of its expenditures. Unless otherwise justified by DECORP, expenses found to be unreasonably incurred shall not be allowed by the Commission as part of its recoverable costs to be passed on to DECORP's end-users.

II.A.4. Depreciation and Amortization

The Commission made an adjustment corresponding to depreciation on the 5% allowance for over-valuation on the appraisal increase, computed as follows:

TABLE 14

| | |
|--|-----------------------|
| Depreciation proposed by DECORP | PhP 60,159,990 |
| Depreciation on the 5% allowance for Over-valuation | (1,209,826) |
| Adjusted depreciation to be included in Revenue requirement | PhP 58,950,164 |

DECORP is required to set up a depreciation fund each year corresponding to the whole amount of depreciation that it has recorded on its books. The setting up of this fund should be done on a monthly basis corresponding to the monthly depreciation. DECORP will be required to strictly account for the expenditures out of this fund which should be used solely for investment in electric plant. The utility is free to withdraw funds from this

account at any time but all withdrawals should be reported to the Commission within thirty (30) days specifying the use of the funds. This report should be consolidated with the monthly reportorial requirements (M-001 & M-002).

II.A.5. Income Tax

The finality of the Supreme Court Decision in G.R. Nos. 141314 and 141369 dated April 9, 2003 affirms that for ratemaking purposes under the RORB methodology income tax payment should not be recovered from customers as operating cost.

In view of the above, income tax payment in the amount PhP 15,781,141 was excluded from DECORP's revenue requirement.

II.B. Other Revenue Item

The Commission considered Other Revenue as items to be deducted from the revenue requirement used to calculate the rates for the end-users. Since all the expenses associated with the provision of the services that gave rise to these items of revenue are included in the revenue requirement, the income generated must also be considered, to wit:

TABLE 15

| | |
|-------------------------------|-----------------------|
| Prompt Payment Discount (50%) | PhP 8,899,038 |
| Pole Rentals | 2,823,209 |
| Total | PhP 11,722,247 |

The Commission believes that the utility and end-users should share the benefits of the prompt payment discount received by DECORP from NPC amounting to PhP 17,798,075. Fifty percent (50%) of the discount equivalent to PhP 8,899,038 should be deducted from the revenue requirement used to calculate the rates for the end-users and fifty percent (50%) retained by the

utility to serve as incentive to improve efficiency in the payments of its purchased power costs.

II.C. RATE BASE

II.C.1. Net Plant in Service

The Commission has determined DECORP's net plant in service as of December 31, 2000 considered in this case as follows:

TABLE 16

| Plant, Property & Equipment | Sound Value |
|---|------------------------|
| Asset as of Dec. 31, 2000 per Appraisal Report | |
| Reproduction Cost, New | PhP 785,388,750 |
| Accumulated Depreciation | 314,993,200 |
| Sound Value | PhP 470,395,550 |
| 5% over-valuation on appraisal increase | (12,294,524) |
| Adjusted Net Plant In Service as of December 31, 2000` | PhP 458,101,026 |

The past practice of the former ERB was to reduce the plant, property and equipment in service by 5% on the appraisal increase considering that appraisal are, by their very nature, estimates. Said 5% serves as an allowance for overstatement of value amounting to PhP 12,294,524.

II.C.2. Allowance for Cash Working Capital

Working capital is money a business must have available to meet payroll and expenses until customers have paid for the service or product. Utilities are usually allowed, as part of their rate base, an amount for working capital to cover expenses during the time it takes for the customers to use the service, be billed for it and collect payments.

DECORP has included an amount equal to two (2) months cash operating and maintenance expenses including purchased power costs as the estimated allowance for cash working capital.

The cash working capital allowance included in rate base should approximate the cash requirements of DECORP based on the estimated net lag in its cash flow. In order to refine the application of the formula used in past rate proceedings, a more detailed review of the actual lag in cash flow associated with the payments for purchased power and the inflow of cash from DECORP's customers was undertaken. With respect to the outflow of cash associated with the payments for purchased power, it was determined that the time from the provision of service to the outflow of funds can be calculated as follows:

| | |
|----------------|--|
| 15 days | One-half of the billing cycle |
| 5 days | Meter reading and bill preparations |
| <u>10 days</u> | Approximate time before payment is due |
| <u>30 days</u> | Total |

Therefore, DECORP has an average of approximately thirty (30) days from the time service is received until payment is due.

With respect to the collection of funds from its customers, it was determined that the time lag from the provision of service to the inflow of funds can be calculated as follows:

| | |
|---------------|---|
| 15 days | One half of the billing cycle |
| 10 days | Meter reading and bill preparation |
| 10 days | Required time to collect the customer's bill without disconnection |
| <u>5 days</u> | Processing time |
| 40 days | Total |

Therefore, DECORP waits for an average of approximately forty (40) days before it receives payment for the services provided. With respect to purchased power, it appears that the actual net lag days is approximately ten (10) days only (40 less 30) and not the sixty (60) days assumed in DECORP's application of the formula. DECORP's customers who do pay on time should not be penalized because other customers fail to comply with DECORP's payment schedule. If additional finance costs are incurred because of late payment of bills, these costs should be recovered in the form of penalties to the late paying customer and not as additional cash working capital to be paid by all customers.

The adjusted Cash Working Capital allowed by the Commission was computed as follows:

TABLE 17

| | |
|---|-----------------------|
| Adjusted O & M | PhP 754,359,659 |
| Taxes and Non-Cash Items | |
| Depreciation | (58,950,164) |
| Taxes Other Than Income Tax | (961,352) |
| Bad Debts | (2,320,025) |
| Power Cost | (633,412,624) |
| Total Taxes & Non-Cash Items | (PhP 695,644,164) |
| Total O & M, net of cash & non-cash item | PhP 58,715,495 |
| Cash Working Capital – O&M (2 months) | PhP 9,785,916 |
| | |
| Adjusted Power Cost | PhP 633,412,624 |
| Cash Working Capital – Power cost (10 days) | PhP 17,594,795 |
| Total Cash Working Capital | PhP 27,380,711 |

II.C.3. Summary of Rate Base

The following compares the rate base submitted by DECORP with that approved by ERC:

TABLE 18

| | Per DECORP | Per ERC |
|------------------------|------------------------|------------------------|
| Net Plant in Service | PhP 470,395,550 | PhP 458,101,026 |
| CWIP | 2,022,133 | 2,022,133 |
| Materials and Supplies | 17,248,700 | 17,248,700 |
| Cash Working Capital | 110,019,814 | 27,380,711 |
| Total Rate Base | PhP 599,686,197 | PhP 504,752,570 |

II.D. Rate of Return

The current form of rate regulation practiced for the privately owned electric utilities is a cost based method known as the rate of return on rate base (RORB) methodology. Power rates are set to recover cost of service prudently incurred plus a reasonable rate of return on rate base. The rate of return pertains to the percentage which when multiplied by the authorized rate base, provides a return that will fairly compensate the company for the risk inherent to the investment of capital. This simply means that a regulated utility is allowed to set rates which will cover operating costs and provide an opportunity to earn a reasonable rate of return on the assets utilized in the business.

On the basis of current jurisprudence, the Commission has determined that the 12% rate of return will be maintained in this case but the income tax thereon will not be allowed as operating expense. Thus, the 12% rate of return is a pre-tax rate of return which is equivalent to PhP 60,570,308, computed as follows:

TABLE 19

| | |
|----------------------------|-----------------------|
| Adjusted Rate Base | PhP 504,752,570 |
| Rate of Return | 12% |
| Return on Rate Base | PhP 60,570,308 |

The Commission intends to adopt a new internationally accepted method of rate regulation known as Performance-Based Regulation. The

treatment of income tax in this new method may be different from the present RORB method.

II.E. Revenue Requirement Summary

On the basis of the foregoing discussion, the Commission after considering adjustment of PhP 26,393,178 approved a total revenue requirement of PhP 803,207,721 equivalent to OATA of PhP 0.0641 per kWh or 1.42% increase from its existing average rate.

TABLE 20

| | Per DECORP | Adjustments ERC | Adjusted ERC |
|-----------------------------|-----------------|--------------------|-----------------|
| Purchased Power | PhP 597,219,549 | PhP 36,193,075 | PhP 633,412,624 |
| Payroll | 42,164,056 | 0 | 42,164,056 |
| O & M | 42,313,819 | (22,481,003) | 19,832,816 |
| Depreciation & Amortization | 60,159,990 | (1,209,826) | 58,950,164 |
| Income Tax | 15,781,141 | (15,781,141) | 0 |
| Return On Rate Base | 71,962,344 | (11,392,036) | 60,570,308 |
| Other Revenue Item | 0 | (11,722,247) | (11,722,247) |
| Total Revenue Requirement | PhP 829,600,899 | PhP (26,393,178) | PhP 803,207,721 |
| Adjusted Revenue (2000) | | | PhP 792,009,035 |
| Increase/(Decrease) | | | PhP 11,198,686 |
| Annualized Kwh Sales | | | 174,804,976 |
| Required increase PhP/kWh | | | PhP 0.0641 |

The overall average tariff adjustment (OATA) is a measurement tool based on the formula: (Total Revenue Requirement less Existing Revenue divided by kilowatt-hours sales). This measurement is not meant to refer to any specific customer class. DECORP proposed for an OATA of PhP 0.4972 per kilowatt-hour.

II.F. Adjusted Operating Revenue

The Commission adjusted DECORP's actual operating revenue to PhP 792,009,035, computed as follows:

TABLE 21

| | |
|--|------------------------|
| DECORP's actual operating revenue | PhP 742,202,196 |
| Add/(Deduct) | |
| Franchise Tax | (18,203,264) |
| Addtl. revenue due to increase in sales | 31,817,028 |
| Addtl. Revenue due to increase in Power cost | 36,193,075 |
| Total Adjusted Operating Revenue | PhP 792,009,035 |

II.G. Functionalization Factors

The Commission agrees to the functionalization and allocation factors used by DECORP. Other Revenue Items which was not considered by DECORP in the calculation of the revenue requirement was functionalized to Distribution function and was allocated based on the total revenue functionalization factors.

TABLE 22

| Factor Name | Total | Residential | Secondary GSR-X1 | Secondary GSR-X2 | Secondary GSR-X3 | Primary GSR-X3 | Secondary ISR | Primary ISR | Street Lighting |
|-------------|-------|-------------|------------------|------------------|------------------|----------------|---------------|-------------|-----------------|
| TOTREV | 1.000 | 0.4741 | 0.0748 | 0.1601 | 0.0973 | 0.0423 | 0.0632 | 0.0772 | 0.0111 |

II.H. Billing Determinants and Customer Class Allocation

The Commission concurs with DECORP's billing determinants and allocation factors except for the billing determinant & allocation factor used for energy related costs. The Commission believes that any energy related cost should be allocated based on annualized sales.

Annualized sales were derived by multiplying year-end number of customers with average annual kWh usage for each customer class. This was performed to project for the future kWh sales for the development of a more appropriate allocation factors and billing determinants for each customer class.

With the annualized sales per customer class, the computed adjusted kilowatt-hour sold was 174,804,976.

The Commission opines that in theory, the most appropriate way to allocate costs among customer classes is through the use of the cost causation principles. Thus, the Commission intends, through future proceedings to move even further towards uniform definitions of customer classes based on cost causation characteristics. However, the Commission believes that such a change would best be accomplished through the issuance of guidelines of general applicability to all utilities. Furthermore, R.A. 9136 requires the identification and removal of interclass cross-subsidies. Substantive change in customer classes at this time prevents precise calculation of cross-subsidy in existing rates. Therefore, no changes in customer class allocations are ordered for DECORP at this time.

II.I. Design and Calculation of Charges

II.I.1. Generation Charge

The Commission updated the generation cost based on the most recent approved NPC rate, i.e., ERC Case No. 2003-291, Order dated September 29, 2003. Notably, the Commission approved the adoption of the ICERA under ERC Case No. 2003-498, Order dated December 4, 2003. The Commission directed NPC and PSALM to refund to its customers the DAA and FOREX Correction for Luzon amounting to PhP 0.0065 per kWh within a period of six months starting December 2003 to May 2004.

The NPC's approved rate will remain fixed until changes are authorized by the Commission. This eliminates the used for future Purchased Power Adjustment.

The Commission has developed a new recovery mechanism designed to replace the purchased power adjustment clauses being used by the power utilities. The Commission has promulgated the Implementing Guidelines on the Generation Rate Adjustment Mechanism (GRAM) effective February 24, 2003. In view thereof, the Commission does not foresee the need for the Purchased Power Adjustment (PPA) clause. Towards this end, the Commission hereby directs DECORP to discontinue implementation of its PPA upon effectivity of the approved unbundled rates.

II.I.2. Transmission Charge

The Commission's decision in ERC Case No. 2001-901 and the Commission's Order dated September 20, 2002 fixed the transmission charges for the TRANSCO without any provision for automatic adjustment thereof. Since the transmission rates to be paid by DECORP are fixed, it is the decision of the Commission to likewise fix the unbundled transmission rates billed to its end-use customers.

The transmission charge shall be billed in a fixed rate per kilowatt-hour for Residential, Secondary GSR-X1, Secondary GSR-X2 and Streetlights end-users. In the case of Secondary GSR-X3, Primary GSR-X3, Secondary ISR and Primary ISR customers, the transmission charge shall be billed using a

combination of a fixed rate per kilowatt (kW) and a rate per kilowatt-hour (kWh).

In consonance with the gradual phase-out of the intra-grid subsidies being billed by TRANSCO, the Commission hereby sets the transmission charges for the succeeding years, as follows:

TABLE 23

| Period | Charges | Resd'l. | GSR-X1 | GSR-X2 | GSR-X3 | Primary GSR-X3 | Secondary ISR | Primary ISR | St. Light |
|------------------------|---|---------|--------|--------|------------------|------------------|------------------|------------------|-----------|
| Oct.2003-Sept. 2004 | Demand (PhP/kW/mo.) Transmission (PhP/kWh) | 0.7830 | 0.7896 | 0.7932 | 111.45 0.3976 | 129.15 0.3760 | 135.30 0.4327 | 193.27 0.3760 | 0.7634 |
| Oct.2004-Sept. 2005 | Demand (PhP/kW/mo.) Transmission (PhP/kWh) | 0.8814 | 0.8889 | 0.8929 | 125.46 0.4476 | 145.39 0.4233 | 152.31 0.4871 | 217.57 0.4233 | 0.8594 |
| Oct. 2005 Sept.2006 | Demand (PhP/kW/mo.) Transmission (PhP/kWh) | 0.9799 | 0.9882 | 0.9926 | 139.48 0.4976 | 161.63 0.4706 | 169.33 0.5415 | 241.87 0.4706 | 0.9554 |

II.I.3. System Loss Charge

The Commission defines System Loss for utilities to include technical loss and administrative loss or the utility's use of power for its own operations.

The Commission approves the recovery of allowed system loss through the establishment of a separate System Loss Charge. The system loss charge shall vary from one customer class to another depending on their respective contributions to the system loss. The allowed system loss is equal to the actual system loss for the test year or the existing system loss cap prescribed in R.A. 7832 whichever is lower.

The Commission believes that the present cap on System Loss of 9.5% should be used in the calculation of revenue requirements at this time. This would however be subject to change upon the approval of a new policy by the Commission. The actual system loss or cap of 9.5% plus 1% of company use

or actual whichever is lower shall be deducted from total power cost and to be billed separately as System Loss Charge.

II.I.4. Distribution Charge

The distribution charge shall be billed using a fixed rate per kilowatt-hour (kWh) for Residential Service, Secondary GSR-X1 and GSR-X2, and Street Lighting Service end-users. In the case of Secondary GSR-X3, Primary GSR-X3, Secondary ISR and Primary ISR with demand meters, the distribution charge shall be billed using a combination of a fixed rate per kilowatt (kW) and a rate per kilowatt-hour (kWh).

Relevant to distribution charge, DECORP proposed distribution wheeling rates comprised of its proposed distribution and supply charges. The Commission believes that wheeling rates are parallel to the cost of service functionalized under Distribution. Thus, the Commission orders that the Distribution Charge provided in the Rate Schedules be likewise utilized as Distribution Wheeling Charges available to the future contestable market.

The Commission's decision to allow a distribution utility to avail of the Distribution Wheeling Charges of another distribution utility is based on general intent of R.A. 9136 to promote a competitive generation market. Distribution utilities that currently or in the near future rely in full or in part on the distribution facilities of another distribution utility should not be held captive by the other distribution utility in the purchase of unbundled generation. Distribution utilities are, therefore, prohibited from bundling or tying the sale of generation or purchased power with the sale of unbundled distribution wheeling service.

II.I.4. Metering and Supply Charges

The Commission acknowledges that cost-causation rate design principles suggests the recovery of customer-related costs through fixed monthly charges. In addition to this cost of service principle, however, the Commission must also consider rate design impacts across the spectrum of customers within each rate class. Although RA 9136 requires the removal of inter-class cross subsidies, the law does not require removal of intra-class cross-subsidies. The Commission has the flexibility to consider other factors in determining rate design for a particular class of customers. Therefore to mitigate the impact on below-average consumption of residential end-users, the Commission orders DECORP to use a combination of peso per customer per month and peso per kilowatt-hour for the metering function. On the other hand, the Commission orders DECORP to use peso per kilowatt-hour rate for the supply function. All other end-users except for Street Lighting Service shall be charged fixed monthly customer charge for both metering and supply functions. Street Lighting Service will be charged fixed monthly customer charge for supply function only.

II.I.5. Franchise Taxes

Franchise taxes shall appear as a separate line item on the customers' bill. Given this rate design, it is appropriate to remove test year amounts associated with franchise taxes from the revenue requirement used to calculate other recurring electricity rates.

Pending issuance of guidelines on this issue by the Department of Finance (DOF), DECORP is in the meantime directed to use the formula below in calculating franchise taxes.

Franchise tax :

$$\text{Total Power Bill} \times \text{FT}_{x,y}$$

Where : FT_x = National franchise tax of 2%
 FT_y = Applicable local franchise tax

II.J. Cross Subsidy Removal

The inter-class cross subsidies in existing rates are as follows:

TABLE 24

| | Total | Residential Service | Secondary GSR-X1 | Secondary GSR-X2 | Secondary GSR-X3 | Primary GSR-X3 | Secondary ISR | Primary ISR | St Lighting Service |
|---|-------------|---------------------|------------------|------------------|------------------|----------------|---------------|--------------|---------------------|
| New Cost-Based Revenue | 803,207,721 | 421,547,913 | 60,413,236 | 121,887,401 | 69,323,542 | 26,457,382 | 45,922,613 | 47,688,763 | 9,966,872 |
| Existing Rates Rev. | 792,009,035 | 378,265,206 | 59,741,572 | 127,357,356 | 75,611,245 | 34,557,642 | 45,057,617 | 63,022,778 | 8,395,619 |
| Total Change in Rev. | 11,198,686 | 43,282,706 | 671,664 | (5,469,954) | (6,287,703) | (8,100,260) | 864,996 | (15,334,016) | 1,571,253 |
| % Change in Rev. | 1.4140% | | | | | | | | |
| Normalized Rev. | 803,207,721 | 383,613,723 | 60,586,293 | 129,158,137 | 76,680,358 | 35,046,273 | 45,694,713 | 63,913,895 | 8,514,329 |
| Inter-class Cross Subsidy Amounts | | (37,934,190) | 173,058 | 7,270,736 | 7,356,816 | 8,588,891 | (227,900) | 16,225,132 | (1,452,543) |
| Class Billing Determinants (in kWh) | 174,804,976 | 82,878,237 | 13,073,151 | 27,984,438 | 17,005,156 | 7,397,886 | 11,042,288 | 13,491,526 | 1,932,294 |
| Inter-class Cross Subsidy Rates (PHP per kWh) | | (0.4577) | 0.0132 | 0.2598 | 0.4326 | 1.1610 | (0.0206) | 1.2026 | (0.7517) |

Section 74 of R.A. 9136 and Rule 16, Section 5 of the Implementing Rules and Regulations thereof provide that ERC shall issue a scheme for phasing out all cross subsidies including subsidies within Grids, between Grids, and between classes of end-users. The phasing out period shall not exceed three (3) years from the establishment of the Universal Charge which may be extendible for a maximum period of one (1) year subject to certain conditions.

The Commission approved the cross subsidy removal scheme for the TRANSCO in its Decision dated June 26, 2002, Case No. 2001-901 which impacts the unbundled transmission rates for DECORP's end users. This impact is reflected in the three-year schedule for unbundled transmission charges provided in Section II.I.2. above.

In the instant case, the Commission will order the cross subsidy removal process at a later date following the establishment of the Universal Charge. Until such time, DECORP will continue to charge the inter-class cross subsidy rates set forth above.

II.K. Lifeline Rate

Section 4 (hh) of R.A. 9136 defines Lifeline Rate as the subsidized rate given to low-income captive market end-users who cannot afford to pay at full cost. Pursuant to Section 73 of R.A. 9136, the Commission hereby sets the level of lifeline consumption and rate applicable to DECORP.

In determining the lifeline level of consumption to be provided to the marginalized end-users, the Commission calculated the probable load requirement of typical low-income consumers by two (2) lighting facilities at 20 watts each and a 50-Watt Radio that are being used for a reasonable number of hours. Thus, the Commission sets the lifeline consumption maximum level of 80 kilowatt-hours for DECORP. The Commission considers the impact that the subsidized Lifeline Rates will have on other end-users who must carry the costs associated with such subsidy. This fact combined with the desire to maximize the benefit to as many marginalized end-users as possible has led

the Commission to adopt the following graduated scale for lifeline discount for DECORP. The graduated scale is also based on the recognition that individual end-user consumption may likely vary from month to month.

TABLE 25

| KWh Consumption | % Lifeline Discount |
|------------------------|----------------------------|
| 30 kWh and Below | 50% |
| 31-40 kWh | 40% |
| 41-50 kWh | 30% |
| 51-60 kWh | 20% |
| 61-70 kWh | 10% |
| 71-80 kWh | 5% |

DECORP shall apply these discounts to the following residential charges: Generation, Transmission, Distribution, Supply, Metering and System Loss. In a given billing period, an end-user at any of the above-consumption levels shall be given the specified corresponding discount on each of these rate components. An end-user with a level of consumption exceeding 80 kWh in a particular billing period shall not be entitled to any discounted lifeline rate for said period.

The cost of subsidy to lifeline end-users shall be passed on to all non-lifeline end users. For DECORP, the lifeline discounts result in a Subsidy on Lifeline by other end-users equal to PhP 0.0707/kWh.

II.L. Other Charges

DECORP's existing other charges were considered in the determination of the revenue requirement. The corresponding revenues out of these charges were appropriately deducted from the determination of the revenue requirement allowed to DECORP.

The Other Charges of DECORP are hereby pegged at their existing levels including the discounts given to end-users until such time that the Commission sets new rates on the same. Further, DECORP is ordered to make a compliance filing on its Other Charges a year from date of this Decision using a format to be prescribed by the Commission.

The compliance filing for approval of Other Charges shall include rates that are cost-based as well as all supporting cost justification for the rates, including but not limited to the amount of actual time and wages of employees performing each task encompassed by each type of Other Charges.

II.M. Estimated Impact On Average Residential Consumer

A comparison of the estimated impact of all adjustments on the revenue requirement on the monthly bill of a residential end-user consuming 137 kWh a month using rates based on DECORP's actual existing rates as of November 2003 against the unbundled rates approved by the Commission is shown below.

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TABLE 26

| RESIDENTIAL Consuming 137 kWh | Peso/kWh | Amount | | Peso/kWh | Amount |
|----------------------------------|----------|---------|----------------------------------|----------|---------|
| Basic Charge: | 3.4494 | 472.56 | Generation Charge | 2.4897 | 341.09 |
| | | | Transmission Charge | 0.7830 | 107.27 |
| | | | System Loss Charge | 0.4380 | 60.01 |
| PPA | 1.2236 | 167.63 | Distribution Charge | 0.8289 | 113.56 |
| Power Act Reduction | (0.30) | (41.10) | Supply Charge | 0.2433 | 33.34 |
| | | | Metering Charge: | | |
| | | | Retail Customer Charge/Mo. | 5.00 | 5.00 |
| | | | Metering System Charge | 0.2603 | 35.66 |
| | | | Inter-Class Cross Subsidy Charge | (0.4577) | (62.71) |
| | | | Subsidy on Lifeline | 0.0707 | 9.68 |
| | | | Power Act Reduction | (0.30) | (41.10) |
| Universal Charge | 0.0398 | 5.45 | Universal Charge | | |
| | | | Environmental Charge | 0.0025 | 0.34 |
| SUB TOTAL | | | Missionary Electrification | 0.0373 | 5.11 |
| | | 604.55 | SUB TOTAL | | 607.25 |
| TOTAL BILL | | | Franchise Tax 2.5% | | 15.05 |
| Ave. Rate/kWh | | 604.55 | | | 622.30 |
| | | 4.4128 | | | 4.5423 |
| Inc./(Dec.) In Rate | | | | | 0.1295 |
| Inc./(Dec.) In Bill | | | | | 17.75 |

DISPOSITION

WHEREFORE, the foregoing premises considered, it is hereby decided as follows:

1. To approve the unbundled schedule of rates of DECORP, to be effective the first billing cycle thirty (30) days after receipt of this Decision, to wit:

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Dagupan Electric Corporation
ERC CASE NO. 2002-13 (2001-899)
RATE SCHEDULE

| | Residential Service | Secondary GSR-X1 | Secondary GSR-X2 | Secondary GSR-X3 | Primary GSR-X3 | Secondary ISR | Primary ISR | St.Lighting Service |
|--|---------------------|------------------|------------------|------------------|------------------|------------------|------------------|---------------------|
| Generation Charge PhP/kWh | 2.4897 | 2.4897 | 2.4897 | 2.4897 | 2.4897 | 2.4897 | 2.4897 | 2.4897 |
| Transmission Charge PhP/kWh PhP/kW | 0.7830 | 0.7896 | 0.7932 | 0.3976 111.45 | 0.3760 129.15 | 0.4327 135.30 | 0.3760 193.27 | 0.7634 |
| Distribution Charge PhP/kWh PhP/kW | 0.8289 | 0.6726 | 0.5753 | 0.3009 84.33 | 0.1138 39.08 | 0.3091 96.66 | 0.0996 51.20 | 1.6389 |
| Customer Charges: | | | | | | | | |
| Supply Charge PhP/kWh PhP/Cust./Mo. | 0.2433 | | | | | | | |
| | | 28.26 | 28.26 | 28.26 | 28.26 | 28.26 | 28.26 | 28.26 |
| Metering Charge PhP/kWh PhP/Meter./Mo. | 0.2603 5.00 | | | | | | | |
| | | 39.04 | 117.66 | 347.38 | 2,743.42 | 347.38 | 2,743.42 | 0 |
| System Loss Charge PhP/kWh | 0.4380 | 0.4335 | 0.4122 | 0.1649 | 0.0981 | 0.1675 | 0.0839 | 0.2650 |
| Inter-Class Cross Subsidy PhP/kWh | (0.4577) | 0.0132 | 0.2598 | 0.4326 | 1.1610 | (0.0206) | 1.2026 | (0.7517) |
| Lifeline Rate Subsidy PhP/kWh | 0.0707 | 0.0707 | 0.0707 | 0.0707 | 0.0707 | 0.0707 | 0.0707 | 0.0707 |
| Universal Charge PhP/kWh | | | | | | | | |
| Environmental Charge | 0.0025 | 0.0025 | 0.0025 | 0.0025 | 0.0025 | 0.0025 | 0.0025 | 0.0025 |
| Missionary Electrification | 0.0373 | 0.0373 | 0.0373 | 0.0373 | 0.0373 | 0.0373 | 0.0373 | 0.0373 |

Note: Plus National and Local Franchise taxes.

2. To approve DECORP's properties and equipment in service at sound value as of December 31, 2000 amounting to PhP 458,101,026.
3. To direct DECORP to comply with the following:
 - a. Discontinue charging the PPA upon effectivity of the approved unbundled rates. DECORP shall automatically bill its end-user the new Generation Rate charged by NPC as approved and authorized by the Commission;
 - b. Bill its respective end-users using a billing format which contains at least the rate elements provided in Annex "A" (Rate Schedule) of this Decision upon effectivity of the approved unbundled rates;
 - c. Bill its respective end-users using a billing format which contains at least the rate elements provided in Annex "B" of this Decision

upon effectivity of the approved unbundled rates. The rate elements provided in Annex "B" should appear on the end-users' bills even if the rate elements currently have a rate of zero (0) or have not yet been determined by the Commission;

- d. Make a compliance filing on its Other Charges a year from date of this Decision.
- e. Bill the amount of PhP 0.0373/kWh representing the missionary electrification portion of the Universal Charge in accordance with the Decision of the Commission in ERC Case No. 2001-165 (In the Matter of the Petition for the Availments from the Universal Charge the Share for Missionary Electrification, NPC-SPUG, Applicant);
- f. Bill the amount of PhP 0.0025/kWh representing the environmental portion of the Universal Charge in accordance with the Commission's Decision in ERC Case No. 2002-194 (In the Matter of the Petition for the Availment from the Universal Charge the Environmental Share/Charge for the Rehabilitation and Management of Watershed Areas, NPC, Applicant);
- g. To set up a depreciation fund each year corresponding to the whole amount of depreciation that it has recorded on its books. The setting up of this fund should be done on a monthly basis corresponding to the monthly depreciation. DECORP is required to strictly account for the expenditures out of this fund which should be used strictly for investment in electric plant and all withdrawals from this fund should be reported to the Commission within thirty (30) days from withdrawal;

- h. To inform the end-users within its franchise area of the approved unbundled rates not later than thirty (30) days after receipt of this Decision;
- i. To submit for verification and confirmation purposes on or before the twentieth (20th) day of the month following the effectivity of the approved unbundled rates and every month thereafter : a) five (5) sample bills for each customer class; b) copy of bills from the generation and transmission companies; and c) M-001 and M-002 with all related schedules.

SO ORDERED.

Pasig City, January 21, 2004.

LETICIA V. IBAY
Officer-In-Charge

OLIVER B. BUTALID
Commissioner

CARLOS R. ALINDADA
Commissioner

JESUS N. ALCORDO
Commissioner

Copy furnished:

1. Atty. Manuel L. M. Torres
Counsel for Applicant
Quiason Makalintal Barot Torres & Ibarra
21st Floor, Robinsons-Equitable Tower
4 ADB Avenue corner Poveda Street
Ortigas Center, Pasig City 1600

2. Office of the Solicitor General
134 Amorsolo Street, Legaspi Village
City of Makati 1229
3. Commission on Audit
Commonwealth Avenue
Quezon City 0880
4. Senate Committee on Energy
GSIS Building, Roxas Boulevard
Pasay City 1307
5. House Committee on Energy
Batasan Hills, Quezon City 1126
6. The City Mayor
Dagupan City 2400
7. The Municipal Mayor
Calasiao, Pangasinan 2418
8. The Municipal Mayor
Manaoag, Pangasinan 2430
9. The Municipal Mayor
San Fabian, Pangasinan 2433
10. The Municipal Mayor
San Jacinto, Pangasinan 2431
11. The Municipal Mayor
Sta. Barbara, Pangasinan 2419
12. The Municipal Mayor (Ten Barangays)
Laoac, Pangasinan 2437
13. Barangays Cruz and Bolingit
San Carlos City, Pangasinan 2420
14. Dagupan Electric Corporation
3/F Veria I Building
62 West Avenue, Quezon City 1104