

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

IN THE MATTER OF THE APPLICATION  
FOR APPROVAL OF THE UNBUNDLED  
RATES PURSUANT TO THE PROVISIONS  
OF REPUBLIC ACT NO. 9136

**ERC CASE NO. 2001-922**

BUSUANGA ISLAND ELECTRIC COOPERATIVE,  
INC. (BISELCO),

*Applicant.*

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**DECISION**

Before this Commission for resolution is the application filed by Busuanga Island Electric Cooperative, Inc. (BISELCO) on December 21, 2001 for approval of its unbundled rates pursuant to the provisions of Republic Act No. 9136.

Having found said application sufficient in form and substance with the required fees having been paid, an Order and a Notice of Public Hearing both dated August 22, 2002 were issued setting the same for hearing on October 1, 2002.

In the same Order, BISELCO 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 country, the last date of publication to be made not later than two (2) weeks before the scheduled date of initial hearing. In compliance with the said directive, BISELCO had the Notice of Public Hearing published in "*The Manila Times*" and "*Kabayan*" both on *September 4 and 9, 2002*.

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 Notice of Public Hearing and were requested to have their respective duly authorized representatives present at the aforesaid initial hearing.

Likewise, the Municipal Mayors of Busuanga, Coron and Culion, all in the Province of Palawan were furnished with copies of the Order and the Notice of Public Hearing for the appropriate posting thereof on their respective bulletin boards.

During the initial hearing on October 1, 2002, only BISELCO appeared. No oppositor appeared nor was there any opposition registered.

At the said hearing, BISELCO presented proofs of compliance with the Commission's publication and posting of notice requirements which were duly marked as Exhibits "A" to "C-1" inclusive.

Thereafter, BISELCO presented its first witness, Ms. Nancy Abellano, BISELCO's Finance Manager who testified on the different schedules submitted in support of the application. In the course thereof, several documents were presented and duly marked as Exhibits "D" to "BB - 1", inclusive. The direct examination of said witness having been terminated, the Commission propounded clarificatory questions. In the course thereof, BISELCO was directed to submit additional data pertaining to its "Other Income".

BISELCO then presented its second witness, Mr. Dovelito Mendenilla, BISELCO's Technical Services Department (TSD) Manager, who testified on the technical aspect of the application. In the course thereof, BISELCO was directed to submit a breakdown of its actual expenses for the year 2000 on vehicles and equipment. The direct examination of said witness having been terminated, the Commission again propounded clarificatory questions.

BISELCO moved that it be given fifteen (15) days from said date of hearing within which to submit the required documents and thereafter, submit its Formal Offer of Evidence. Said motion was granted by the Commission.

Meanwhile, the Commission directed BISELCO to submit additional documents for the proper evaluation of the instant application. In compliance therewith, BISELCO submitted said documents on various dates.

On April 04, 2003, BISELCO submitted its "Formal Offer of Evidence" which was admitted by the Commission for the purposes for which they were being offered. BISELCO having rested its case with the filing of said formal offer and having submitted all the additional documents required by the Commission, this case is now ripe for resolution.

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## I. SUMMARY OF BISELCO's APPLICATION

### I.A. REVENUE REQUIREMENT

BISELCO's revenue requirement per unbundled application based on historical test year 2000 was as follows:

Account Name	HISTORICAL YEAR	
kWh Sales		2,984,938
Purchased Power	PhP	8,993,225
Payroll		2,198,794
Operation and Maintenance (less Purchased Power & Payroll)		3,973,102
Debt Service (plus interest cost of cash working capital )		2,030,270
Revenue Requirement	PhP	17,195,391
Other Revenue Items		746,531
Total Revenue Requirement		16,448,860
Reinvestment Fund (11%) <sup>1</sup>		1,743,474
<b>TOTAL REVENUE REQUIREMENT</b>	<b>PhP</b>	<b>18,192,334</b>

BISELCO's proposed revenue requirement was PhP 18,192,334 based on historical costs for the year 2000. The Overall Average Tariff Adjustment (OATA) published was PhP 2.4605/kWh. The same OATA was stated by witness Abellano, in her testimony on October 1, 2002 [Transcript of Stenographic Notes (TSN), October 1, 2002, page 15], however, BISELCO's revised Schedule A reflects an OATA of PhP 0.3656/kWh.

BISELCO also submitted Audited Financial Statements for the year 2000.

<sup>1</sup> In the UFR, this item is reflected as "Plus Percentage for Cooperative Investment".

**I.B. RATE STRUCTURE/DESIGN**

The unbundled rates proposed by BISELCO were as follows:

**Residential**

Energy Charge	PhP	5.5745/kWh
Customer Charge		50.00/customer/month

**Small Commercial**

Energy Charge		5.4019/kWh
Customer Charge		50.00/customer/month

**Large Commercial**

Energy Charge		4.0388/kWh
Customer Charge		50.00/customer/month
Demand Charge		224.78/kW

**Industrial**

Energy Charge		3.5597/kWh
Customer Charge		50.00/customer/month
Demand Charge		328.78/kW

**Public Buildings**

Energy Charge		5.7520/kWh
Customer Charge		50.00/customer/month

**Street Lights**

Distribution Facilities Charge		482.6763/customer/month
Energy Charge		6.4029/kWh

**Large Load**

Energy Charge		6.1646/kWh
Customer Charge		50.00/customer/month
Demand Charge		175.18/kW

### **I.B.1. FUNCTIONALIZATION, CLASSIFICATION and ALLOCATION**

All of the functionalization and the allocation factors used by BISELCO were default factors provided in the Uniform Rate Filing Requirements (UFR) prescribed by the Commission. These were adopted by BISELCO as applicable to its operations.

However, for certain distribution costs, BISELCO developed its own classification factors for its demand and customer-related costs using the Minimum Plant Method.

### **I.B.2. SYSTEM LOSS**

Witness Mendenilla, in his testimony, stated that the system loss used in preparing BISELCO's unbundled rate application was 16.23%, which was the average system loss for the year 2000 (October 1, 2002, TSN, page 74).

The system loss reflected in BISELCO's unbundling application, particularly Schedule J: System Loss, was 16.30%.

### I.B.3. INTER-CLASS CROSS SUBSIDY

BISELCO provided the amounts of cross subsidies for each customer type, as well as a program for the removal thereof.

<b>CUSTOMER TYPE</b>	<b>ADJUSTED EXISTING (PhP)</b>	<b>PROPOSED EXISTING (PhP)</b>	<b>INTER-CLASS CROSS SUBSIDIES (PhP)</b>
Residential	11,146,278	11,672,639	(526,361)
Small Commercial	2,342,964	2,142,286	200,678
Large Commercial	3,299,347	2,773,847	525,500
Industrial	475,073	314,739	160,334
Public Buildings	1,285,359	1,234,409	50,950
Street Lights	174,409	454,512	(280,103)
Large Load	215,435	346,433	(130,998)
<b>TOTAL</b>	<b>18,938,865</b>	<b>18,938,865</b>	<b>0.00</b>

### I.B.4. LIFELINE RATE and LEVEL

BISELCO proposed the following level and rate for marginalized end-users:

	<b>Option 1 (At Existing Rates)</b>	<b>Option 2 (At Proposed Customer Charges)</b>
<b>Level</b>	10 kWh	10 kWh
<b>Rate</b>	PhP 5.7365/kWh	PhP 50.00/customer/month

**I.C. OTHER CHARGES**

BISELCO, in its subsequent submission, provided this Commission with information on its existing Other Charges as shown below. BISELCO did not propose any adjustment to these charges.

<u>PARTICULARS</u>	<u>RATES</u>
Standard Fees	
1. Material Cost	PhP 5.00/unit
2. Membership Fee	5.00/unit
3. Inspection Fee	10.00/unit
4. Calibration Fee	50.00/unit
5. Coop share on Installation	1.00 or 2.00/unit
6. Meter Transfer	30.00/unit
7. Reconnection Fees	100.00/unit
8. Pole Rental	9.00/yr/pole
9. Transformer Rental	7.50/kVa
10. Surcharge	5%/bill

**II. COMMISSION DISCUSSIONS and CONCLUSIONS****II.A. DETERMINATION OF TOTAL REVENUE REQUIREMENT****II.A.1. TEST YEAR**

The Commission finds BISELCO's proposal to use the test year 2000 in its unbundled rate application acceptable, since it is consistent with Rule 15 Section

6 (c) of the Implementing Rules and Regulations (IRR) of R.A. 9136. Therefore, the discussions and conclusions that follow are based on Schedule A, adjusted to audited financial statement figures for historical test year 2000.

## II.A.2. GENERATION COST

At present, BISELCO is buying power only from the National Power Corporation – Small Power Utilities Group (NPC – SPUG).

The Generation charge shall reflect the NPC-SPUG's generation charge as approved in ERC Order dated December 20, 2002, Case No. 2002-01 [In the Matter of the Application for the Approval of Unbundled Power Rates and Basic Rate Increase in the Small Island Grids, National Power Corporation (NPC) – Applicant]. A separate charge to account for the allowable system loss shall likewise be provided in the bill to end-users (please refer to Section II.B.2.b. for details). Hence, a distribution utility with system loss that is within the allowable cap can recover from its end-users the total cost of generation. *Annualization*<sup>2</sup> of billing determinants was applied.

Adjustment to Purchased Power Cost	PhP	4,732,337
Less: Adjustment to System Loss		131,792
Total Adjustments	PhP	4,600,545

<sup>2</sup> The annualization of kWh sales is calculated by multiplying the average kWh consumption of a specific customer class by the year-end number of customers.

The adjustment made by the Commission to Purchased Power of PhP 4,732,337 pertains to the difference between the proposed purchased power of BISELCO amounting to PhP 8,993,225 and the purchased power cost based on the new rates of NPC-SPUG amounting to PhP 13,725,562.

Records show that BISELCO's average system loss for the years 2000, 2001 and 2002 was 14.82%. The Commission allowed a system loss of 14% in the calculation of BISELCO's revenue requirement as discussed in Section II.B.2.b. of this Decision. Thus, the Commission made an adjustment to system loss of PhP 131,792 to exclude the excess of actual system loss over the allowable recoverable cap of PhP 1,984,749.

Based on the new NPC-SPUG generation charge, as well as the allowable system loss, the Commission sets BISELCO's unbundled Generation Charge and Recoverable System Loss as follows:

Generation Charge	PhP	11,609,021
Recoverable System Loss		1,984,749
<b>Total</b>	<b>PhP</b>	<b>13,593,770</b>

BISELCO's approved generation charge shall remain fixed until changes in NPC-SPUG's generation rate are approved and authorized by the Commission pursuant to its Orders dated February 24, 2003 and May 15, 2003, Case No. 2003-44 [ In the Matter of the Adoption of the Generation Rate Adjustment

Mechanism (GRAM) and Incremental Currency Exchange Recovery Adjustment (ICERA) ] and 2003-156 [ In the Matter of the Application for the Recovery of Fuel and Independent Power Producer Costs under the Generation Rate Adjustment Mechanism (GRAM)]. In which case, BISELCO shall bill its end-users the new generation rate charged by NPC-SPUG. In the meantime, BISELCO shall discontinue charging the Purchased Power Adjustment (PPA) upon effectivity of the unbundled rates.

### II.A.3. PAYROLL

The Commission made a downward adjustment in BISELCO's payroll by PhP 40,487 representing the unaccounted portion of its payroll account, computed as follows:

BISELCO's Payroll Account ( per UFR )	PhP	2,198,794
Amount shown in the details of Payroll account submitted by BISELCO		2,158,307
Adjustment representing unaccounted portion of BISELCO's payroll account	PhP	(40,487)

The Commission reviewed the Wage Adjustment Clause (WAC) Formula authorized by the then Energy Regulatory Board through ERB Case Nos. 94-25 and 94-96. The then Board allowed the implementation of the WAC Formula based on three (3) established criteria for it to be classified under automatic

adjustment clauses. These are: 1) when such costs are extremely volatile, changing rapidly over a short period of time; 2) when such volatile cost changes represent significant portions of total utility operating expenses; and 3) when such volatile cost changes are beyond the ability of the utility to control.

Analysis shows that the wage adjustments do not warrant an automatic recovery clause. The Commission therefore rules that the application of the WAC Formula be discontinued. The growth in kWh sales will be sufficient for the electric cooperatives to absorb increases in salaries/wages mandated by the wage orders.

The Commission notes that BISELCO correctly chose not to apply the WAC formula nor implement it as an automatic adjustment mechanism.

#### **II.A.4. OPERATION and MAINTENANCE (less Purchased Power and Payroll)**

In general, operating expenses allowed are those which are reasonably incurred in connection with business operations to yield revenue or income. These should be required or necessary in the operation of a utility, are recurring and should redound to the service or benefit of end-users.

The Commission enjoins BISELCO to incur only “prudent and reasonable costs” for inclusion in the determination of retail rates. While a distribution utility

is allowed to pass through its costs of purchased power and other reasonable costs to the end-users, 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 its very nature is that of a service company for its end-users, with a mandate to advocate and transact judiciously for and in their behalf.

“Reasonable costs” may be defined as the cost 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 that should be 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, it cannot simply rely on its right to pass on its costs to its end-users.

As such, the Commission, in fulfillment of the policy of R.A. 9136 to establish a regime of free and fair competition and full public accountability to achieve greater operational and economic efficiency, enjoins BISELCO to institute and report to the Commission its respective policies and procedures for cost-cutting and for the transparent and competitive procurement of goods and services.

BISELCO's end-users have a right to receive safe, reliable, and adequate service at a reasonable rate. On the other hand, these end-users should pay their power bills on time to ensure BISELCO's viability. To this end, BISELCO should view a petition for an increase in rates to be the last recourse. In future filings, BISELCO 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.

Upon review of the components of the expenses included in the revenue requirement, the Commission disallowed expenses of PhP 970,892 which consist of lodging and meals for visitors, wreath, and other miscellaneous expenses which were found to have gone beyond the need by which these expenses were meant for.

The disallowed expenses were excluded for revenue requirement determination. These expenses translate to PhP 0.3100/kWh which the Commission considers material.

For future rate cases, BISELCO will continue to be required to make full disclosure of all its O & M expenses and be responsible in providing documentation to prove the reasonableness and prudence of all its expenditures. BISELCO should ensure that procedures are put in place so that all expenditures that are included in the determination of revenue requirement are adequately documented and that such documentation is reasonably accessible to the ERC.

## **II.A.5. OTHER REVENUE ITEMS**

The Commission defines Other Revenue Items (ORI) as revenue earned (net of other expenses) by the electric utilities from activity other than sale of electricity.

The Commission encourages BISELCO to improve its financial condition through the development of other related sources of revenue. However, in order to balance the interests of BISELCO and its end-users and in recognition of the fact that some of the costs incurred in improving certain services classified under ORI had already been included in the revenue requirement, the Commission is reducing the total revenue requirement by 50% of the total ORI. This reduction of 50% amounts to PhP 357,621 computed as shown below. BISELCO already reflected an amount of PhP 746,531 in its ORI account, hence, the adjustment of PhP 388,910.

<b>Other Revenue Items</b>	<b>Amount (PhP)</b>
Installation Cost – Special Equipment	67,623
Pole Rental	26,730
Transformer Rental	23,015
Material Cost	8,795
Surcharge	276,994
Inspection Fee	2,620
Calibration Fee	3,000
Coop Share on Installation	3,951
Meter Transfer	1,240
Reconnection Fees	30,800
Penalty	12,800
Others	257,674
<b>Total Other Revenue Items</b>	<b>715,242</b>
<b>50% of Total Other Revenue Items</b>	<b>357,621</b>
<b>Amount already reflected by BISELCO in its ORI account ( per UFR )</b>	<b>746,531</b>
<b>ADJUSTMENT</b>	<b>(388,910)</b>

The Commission also rules that any interest/dividend income earned will be retained 100% by BISELCO. However, such income should form part of the reinvestment fund and will be used solely for rehabilitation/expansion programs of BISELCO.

#### **II.A.6. DEBT SERVICE**

The Commission made a net downward adjustment of PhP 52,719 to assure that the debt service included in BISELCO's revenue requirement is consistent with NEA's records. The Commission also considered BISELCO's loan from a Local Government Unit (LGU). Such loan was secured by

BISELCO in connection with the Provincial Energy Development Program. The Commission disallowed the interest cost associated with cash working capital as calculated by BISELCO due to lack of justification. The details of the adjustment are shown below.

LOANS	LOAN PROFILE		DIFFERENCE (PhP)
	PER BISELCO (PhP)	PER NEA / LGU (PhP)	
Rural Electrification:			
LOAN A	786,852	786,852	0
LOAN D	106,836	106,836	0
OECF Construction	43,244	43,244	0
OECF Logistical	26,444	26,444	0
VEH. (KIA CERES)	0	86,404	86,404
Restructured 1	687,640	687,640	0
Interest Cost of Cash Working Capital	139,123	0	(139,123)
<b>Total NEA Loan</b>	<b>1,790,139</b>	<b>1,737,420</b>	<b>( 52,719)</b>
LOAN from LGU	240,131	240,131	0
<b>Total Debt Service</b>	<b>2,030,270</b>	<b>1,977,551</b>	<b>( 52,719)</b>

Pursuant to Section 60 of R.A. 9136 and E.O. 119, savings realized by electric cooperatives (ECs) due to the assumption of certain loans by the Power Sector Assets and Liabilities Management Corporation (PSALM Corp.) shall be passed on to EC's end-users. BISELCO applied for a rate reduction under the Guidelines for the Implementation of the Reduction in Rates of the Electric Cooperatives due to Condonation of Debts issued by the Commission on October 21, 2002, as amended on November 15, 2002.

## **II.A.7. REINVESTMENT FUND**

BISELCO made a proposal for the provision for reinvestment fund in its unbundling of rates application in the amount of PhP 1,743,474.

The Commission permits a reinvestment fund equivalent to 5% of BISELCO's Gross Revenue to finance expansion and rehabilitation/upgrading of its existing electric power system in accordance with the submitted System Rehabilitation/Upgrading and/or System Loss Reduction Plan. This resulted in a downward adjustment of PhP 671,147 in the reinvestment fund account, resulting in an adjusted amount of PhP 1,072,327.

One of the main purposes of providing the 5% Reinvestment Fund is for the end-users of BISELCO to shoulder part of their increasing capitalization requirements as outside sources of funding are getting scarce.

The Reinvestment Fund is authorized subject to the following conditions:

- a) This reinvestment fund shall not be used, even temporarily, for any purpose other than for those projects specified in the submitted plan;
- b) The amounts collected for the reinvestment fund, including interest income (as discussed in Section II.A.5.), shall be placed in a

separate account and shall be disbursed in accordance with the plan submitted by BISELCO;

- c) BISELCO is further required to submit a progress report no later than one (1) year after the date of this Decision and every year thereafter using the format prescribed by the Commission. The progress report shall include detailed accounting itemizing total collections, the actual use of all disbursements, and actual current system losses.

Upon review of the progress report, the Commission may issue an order for BISELCO to appear and show cause why it should continue collection of the reinvestment fund; and

- d) BISELCO shall submit a new System Rehabilitation/Upgrading and/or System Loss Reduction Plan covering the period 2004 to 2008, one (1) year after the date of this Decision using the format to be prescribed by the Commission.

## II.A.8. REVENUE REQUIREMENT SUMMARY

The table provided below is the comparison of the approved revenue requirement with that proposed by BISELCO:

		<b>BISELCO Proposal</b>	<b>Adjustments</b>	<b>ERC Approval</b>
Purchased Power	PhP	8,993,225	4,600,545	13,593,770
Payroll		2,198,794	(40,487)	2,158,307
O & M (less PP & Payroll)		3,973,102	(970,892)	3,002,210
Debt Service ( plus Interest cost of cash working capital )		2,030,270	(52,719)	1,977,551
Reinvestment Fund <sup>3</sup>		1,743,474	(671,147)	1,072,327
Other Revenue Items		(746,531)	388,910	(357,621)
<b>Total Revenue Requirement</b>	<b>PhP</b>	<b>18,192,334</b>	<b>3,254,210</b>	<b>21,446,544</b>

BISELCO proposed an OATA of PhP 2.4605/kWh using rates of year 2000. The OATA is a measurement tool based on the formula: (Total Revenue Requirement less Existing Revenue divided by kWh sales). This measurement is not meant to refer to any specific customer class.

The Commission, after considering adjustments of PhP 3,254,210 approves a Total Revenue Requirement of PhP 21,446,544 equivalent to an OATA<sup>4</sup> of PhP (0.3538)/kWh. The actual impact to end-users will depend on the level of rates currently being charged. This impact is illustrated in Section II.B.6. of this Decision.

<sup>3</sup> In the UFR, this item is reflected as "Plus Percentage for Cooperative Investment".

<sup>4</sup> The OATA was computed using existing approved distribution rates (inclusive of current WAC, if any) and unbundled power cost as of June 2003.

## **II.B. RATE STRUCTURE/DESIGN DETERMINATION**

### **II.B.1 FUNCTIONALIZATION, CLASSIFICATION and ALLOCATION**

The functionalization and allocation factors used by BISELCO were the default factors provided for in the UFR issued by the Commission on October 30, 2001. In the case of BISELCO, a number of the default factors were found not to represent the best alternative among possible factors. Thus, the following three (3) default factors used by BISELCO for functionalization and allocation were modified, to wit:

First, the use of Net Plant in Service (PLTSVC-N) as a factor to functionalize and allocate Maintenance for Office and General Plant will cause skewed results by allocating these maintenance costs toward assets not part of such activity. The Commission, therefore, adopted a factor based on Net General Plant (GP-N) as a more reasonable method to allocate maintenance expense associated with general plant.

Second, the factor “Total Operation and Maintenance, Net of Fuel and Purchased Power” (TOMXFP), which was used as a default factor to functionalize costs under outside services, was replaced with “Total Payroll Excluding Administrative and General Salaries” (PAYXAG) in order to remove the possibility of allocating a portion of outside services costs to the transmission function.

Third, since the Commission considered Other Revenue Items (ORI), it was necessary to functionalize and allocate these amounts. The functionalization factors for ORI which were determined based on direct assignment are as follows:

Factor Name	Functionalization Factor Description	Total Check	Generation	Transmission	Distribution	Supply	Metering
ORI	Other Revenue Items	1.0000	0.0000	0.0000	0.7008	0.1260	0.1732

BISELCO adopted a demand-customer classification ratio of 65% - 35%. The Commission required BISELCO to submit data and information for more reasonable calculations using the *Minimum-Plant Method*. This method resulted to a 29% - 71% demand-customer allocation on the average.

## **II.B.2. DESIGN and CALCULATION OF CHARGES**

### **II.B.2.a. GENERATION CHARGE**

Consistent with the decision in ERC Case No. 2002 - 01, In the Matter of the Application for Approval of the Unbundled Power Rates and Basic Rate Increase in the Small Island Grids, National Power Corporation – Applicant, dated December 20, 2002, and the Commission’s Orders dated May 15, 2003 under ERC Case No. 2003-156, In the Matter of the Application for the Recovery of Fuel and Independent Power Producer Costs Under the

Generation Rate Adjustment Mechanism (GRAM), the generation charge to be billed to end-users shall be the approved rate per kilowatt-hour including Basic Rate, Fuel Cost Adjustment (FCA) and Foreign Exchange Rate (FOREX). The NPC-SPUG's approved rate will remain fixed until changes are authorized by the Commission pursuant to its Order dated February 24, 2003 as discussed in Section II.A.2. of this Decision. This allows BISELCO's Generation Charge to remain fixed until such time that NPC-SPUG's approved rate is adjusted, thus, eliminates the need for future Purchased Power Adjustment (PPA).

#### **II.B.2.b. SYSTEM LOSS CHARGE**

The Commission defines system loss for utilities to include technical loss, non-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 in the bill to end-users. The System Loss Charge shall vary from one customer class to another depending on their respective contributions to the system loss. However, due to limited information, the Commission is constrained to adopt a uniform allowable System Loss Charge for all end-users of BISELCO.

The allowed system loss is equal to the average system loss for the years 2000, 2001 and 2002 or the system loss cap, whichever is lower. In arriving at this decision, the Commission recognizes that the distribution utility faces some risk of over- or under-recovery in the event its load characteristics change through time. The System Loss Charge results in additional unbundled generation costs to be paid by end-users. When system loss is within the allowable cap, the distribution utility shall recover from the end-users all generation and transmission costs. Thus, system loss in excess of the allowable cap shall not be recovered as calculated in Section II.A.2. of this Decision.

On December 8, 1994, Republic Act No. 7832, otherwise known as the Anti-Pilferage Law, was enacted. In July 1995, the ERB promulgated Implementing Rules and Regulations (IRR) under ERB Case No. 95-05, to implement said law. Section 10 of R.A. 7832 and Rule IX, Section 1 of its IRR provide that the recoverable Technical and Non-Technical System Loss should not exceed the fourteen percent (14%) ceiling allowed for year 2000.

The Commission notes that BISELCO's witnesses presented two (2) different system loss rates: 16.23% and 16.30% (as discussed in Section I.B.2. of this Decision). The Commission believes that the present cap on Technical and Non-Technical System Loss of 14% 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 14% plus 1% cooperative own use (which should

not include personal consumption of BISELCO's Board of Directors, officers and staff ), whichever is lower, shall be deducted from total power cost and to be billed separately as System Loss Charge.

The Commission found that BISELCO's 2000 to 2002 average system loss was 14.82% which is higher than the aforementioned cap of 14%. Hence, the Commission used the system loss cap of 14% in the calculation of BISELCO's revenue requirement.

#### **II.B.2.c. DISTRIBUTION CHARGE**

The distribution charge shall be billed on a fixed rate per kilowatt-hour for all end-users.

BISELCO did not propose for distribution wheeling rates. 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 on Rate Schedules be likewise utilized as Distribution Wheeling Charges available to the future contestable market. However, other distribution utilities requesting to wheel power across BISELCO's facilities shall pay wheeling charges equivalent to Distribution Wheeling Charges for Industrial customers.

The Commission's decision to allow a distribution utility to avail of the Distribution Wheeling Charges of another distribution utility is based on the general intent of R.A. 9136 to promote a competitive generation market. Distribution utilities that currently or in the future shall 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 the unbundled generation. Therefore, distribution utilities are prohibited from bundling or tying the sale of generation or purchased power with the sale of unbundled distribution wheeling service.

#### **II.B.2.d. METERING and SUPPLY CHARGES**

The Commission acknowledges that cost-causation rate design principle suggests the recovery of customer-related costs associated with the metering and supply functions through fixed monthly charges. Along with this cost of service principle, however, the Commission also considers rate design impacts across the spectrum of customers within each rate class. Although R.A. 9136 requires the removal of inter-class cross subsidies, the law does not require removal of revenue flows that may be characterized as intra-class cross subsidies. The Commission has the flexibility to consider other factors in determining rate design for a particular class of end-users. Therefore, to mitigate the impact on below-average consumption of residential end-users, the Commission orders BISELCO to use a combination of PhP 5.00 per meter per month and a PhP 0.3512 per kWh rate for the metering function. On the other

hand, the Commission orders BISELCO to use a PhP per kWh rate for the supply function. For the Small Commercial, Large Commercial, Large Load, Industrial, Public Buildings and Street Lights end-users, metering charge shall be billed on a fixed rate per meter per month. In the case of Street Lights customers, the metering charge shall only be billed to BISELCO's metered customers. The supply charge shall be billed on a fixed rate per customer per month for all end-users ( except the Residential ).

### II.B.3. INTER-CLASS CROSS SUBSIDY

#### II.B.3.a. CROSS SUBSIDY RATE CALCULATION

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

	Total	Residential	Small Commercial	Large Commercial	Large Load	Industrial	Public Bldgs.	Street Lights
New Cost-Based Rev. Req.	21,446,544	12,958,614	2,367,424	3,488,034	425,534	414,557	1,359,441	432,940
Existing Rates Revenue	22,554,553	12,852,150	2,619,411	4,184,720	488,629	582,800	1,600,104	226,739
Total Change in Revenue	(1,108,009)	106,464	(251,987)	(696,686)	(63,095)	(168,243)	(240,663)	206,201
Percentage Change in Revenue	(4.91)%							
Normalized Existing Revenue	21,446,544	12,220,779	2,490,730	3,979,142	464,625	554,170	1,521,498	215,600
Inter-Class Cross - Subsidy Amounts (PhP)	0	(737,835)	123,306	491,108	39,091	139,613	162,057	(217,340)
Class Billing Determinants (in kWh)	3,132,155	1,784,781	363,758	581,133	67,856	80,933	222,207	31,487
Inter-Class Cross Subsidy Rates (PhP / kWh)	0	(0.4134)	0.3390	0.8451	0.5761	1.7250	0.7293	(6.9025)

### **II.B.3.b. CROSS SUBSIDY REMOVAL**

Section 74 of R.A. 9136 and Rule 16, Section 5 of its Implementing Rules and Regulations provide that the 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 extended for a maximum period of one (1) year subject to certain conditions.

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, BISELCO will continue to charge the inter-class cross subsidy rates set forth in Section II.B.3.a. above.

### **II.B.4. LIFELINE RATE and LEVEL**

Section 4 (hh) of the 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 its corresponding discount rates.

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 end-users by considering two (2) lighting facilities at 20 watts each and a 50-watt radio that are being used for a reasonable number of hours. In setting the maximum level of lifeline consumption, the Commission may adjust the minimum level of consumption and/or the level of the lifeline discount so as to maximize the benefit to low-income end-users while keeping the costs associated with such subsidy between PhP 0.05 and PhP 0.10 per kWh. Thus, the Commission sets the lifeline consumption maximum level of 20 kWh for BISELCO. 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 BISELCO. The graduated scale is also based on the recognition that individual end-user consumption may likely vary from month to month.

15 kWh and below	-	25%
16 kWh	-	20%
17 kWh	-	15%
18 kWh	-	15%
19 kWh	-	10%
20 kWh	-	5%

BISELCO shall apply these discounts to the following residential charges: Generation, 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 20 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 BISELCO, the lifeline discounts result in a Lifeline Rate Subsidy by other end-users equal to PhP 0.0945/kWh.

#### **II.B.5. OTHER CHARGES**

BISELCO's additional submission to this Commission of its existing Other Charges as previously presented was considered in the determination of its revenue requirement. Fifty percent (50%) of the revenues derived from these charges were appropriately deducted from the determination of the revenue requirement allowed to BISELCO. In future cases filed after Other Charges have been established based on cost, the appropriate level of deduction of the revenue derived from these charges maybe revisited.

The Other Charges of BISELCO are hereby pegged at their existing levels until such time that the Commission sets new rates on the same. Further, BISELCO is ordered to make a compliance filing on its Other Charges one (1) year from the date of this Decision using a format to be prescribed by the Commission.

The compliance filing for the approval of Other Charges shall include rates that are cost-based, as well as all supporting cost justifications 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.B.6. ESTIMATED IMPACT ON AN AVERAGE RESIDENTIAL END-USER

A comparison of the estimated impact of all adjustments to the revenue requirement on the monthly bill of an average residential end-user consuming 49 kWh a month using rates based on BISELCO's actual existing rates as of June 2003 against the unbundled rates approved by the Commission is shown below.

Based on Actual Existing Rates			Based on ERC Approved Unbundled Rates			
	PhP/kWh	Amount (PhP)			PhP/kWh	Amount (PhP)
Basic Rate	5.3264	260.99	Generation Charges:		3.7064	181.61
PPA	1.6540	81.05	Generation System Charge	3.7064		
PAR	(0.3000)	(14.70)	Distribution Charge		2.0807	101.95
Univ. Charge			System Loss Charge		0.6337	31.05
Missionary Electrification	0.0168	0.82	Supply Charge		0.3841	18.82
			Metering Charges:			
			Per Customer Per Month			5.00
			Per kWh		0.3512	17.21
			Inter-Class Cross Subsidy		(0.4134)	(20.26)
			Universal Charge			
			**Missionary Electrification Charge		0.0168	0.82
			Lifeline Rate[(Discount)/Subsidy]		0.0945	4.63
			Power Act Reduction		(0.3000)	(14.70)
TOTAL BILL		328.16	TOTAL BILL			326.13
<b>PhP/kWh</b>		<b>6.6971</b>	<b>PhP/kWh</b>			<b>6.6557</b>
**Missionary Electrification Charge will change from PhP 0.0168/kWh to PhP 0.0373/kWh pursuant to ERC Decision dated June 26, 2003 on ERC Case No. 2002-165.						
* No effect of rate reduction due to Loan Condonation yet ( Section II.A.6. of this Decision ) and Universal Charge - Environmental Fund of PhP 0.0025/kWh.						

## DISPOSITION

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

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

	Residential	Small Commercial	Large Commercial	Large Load	Industrial	Public Bldgs.	Street Lights
<b>Generation Charges:</b>							
Generation System Charge PhP/kWh	3.7064	3.7064	3.7064	3.7064	3.7064	3.7064	3.7064
<b>System Loss Charge</b> PhP/kWh	0.6337	0.6337	0.6337	0.6337	0.6337	0.6337	0.6337
<b>Distribution Charges:</b>							
Demand Charge PhP/kW							
Distribution System Charge PhP/kWh	2.0807	1.4895	1.0344	1.7716	0.5375	1.4364	9.1278
<b>Supply Charges:</b>							
Retail Customer Charge PhP/Customer/ Mo.		21.62	36.60	297.53	83.15	24.08	14.35
Supply System Charge PhP/kWh	0.3841						
<b>Metering Charges:</b>							
Retail Customer Charge PhP/Meter/ Mo.	5.0000	55.15	223.21	603.97	246.86	31.38	21.80
Metering System Charge PhP/kWh	0.3512						
<b>Inter-Class Cross Subsidy Charge</b> PhP/kWh	(0.4134)	0.3390	0.8451	0.5761	1.7250	0.7293	(6.9025)
<b>Universal Charge:</b>							
Missionary Electrification Chrg. PhP/kWh	0.0373	0.0373	0.0373	0.0373	0.0373	0.0373	0.0373
Environmental Share PhP/kWh	0.0025	0.0025	0.0025	0.0025	0.0025	0.0025	0.0025
<b>Lifeline Rate (Discount)/Subsidy</b> PhP/kWh	0.0945	0.0945	0.0945	0.0945	0.0945	0.0945	0.0945
<b>Power Act Reduction</b> PhP/kWh	(0.3000)						
<b>Lifeline Rate (Discount) Subsidy</b> To be based on residential rate in a graduated scale as provided in Section II.B.4. of this Decision.							
<b>Missionary Electrification Charge</b> will change from PhP 0.0168/kWh to PhP 0.0373/kWh pursuant to ERC Decision dated June 26, 2003 on ERC Case No. 2002-165.							

2. To order BISELCO to comply with the following:
  - a) Discontinue charging the PPA upon effectivity of the approved unbundled rates; BISELCO shall automatically bill its end-users the new Generation Rate Charged by NPC-SPUG as approved and authorized by the Commission;
  - b) Bill 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. 2002-165 (In the Matter of the Petition for the Availment from the Universal Charge the Share for Missionary Electrification, NPC-SPUG, Applicant);
  - c) Bill PhP 0.0025/kWh representing the environmental portion of the Universal Charge in accordance with the Decision of the Commission 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-SPUG, Applicant);

- d) Bill its respective end-users using a billing format which contains at least the rate elements provided in Annex A of this Decision upon effectivity of the approved unbundled rates. The rate elements provided in Annex A should appear on the end-users bill even if the rate elements currently have a rate of zero or have not yet been determined by the Commission;
  
- e) Inform the end-users within its franchise area of the said approved unbundled rates not later than thirty (30) days after receipt of this Decision;
  
- f) Submit for verification and confirmation purposes on or before the twentieth (20<sup>th</sup>) day of the month following the effectivity of the approved unbundled rates and every month thereafter: 1) five (5) sample bills for each end-user class; 2) copy of bills from the generation and transmission companies; and 3) Monthly Financial and Statistical Reports (MFSRs), complete with all related schedules;
  
- g) Make a formal application with the Commission for the approval of existing or future contracts with any entity for the wholesale purchases of power not yet approved by the Commission;

- h) Make a formal application to continue the use of Other Charges within one (1) year from date of this Decision using a format to be prescribed by the Commission;
  
- i) File a progress report on the reinvestment fund one (1) year after the date of this Decision and every year thereafter, using the prescribed formats provided in Annexes B & C of this Decision. The report shall include detailed accounting of actual collections and deposits (including interest/dividend income), specific transactions and withdrawals for all disbursements, and actual current system losses;
  
- j) Submit a new System Rehabilitation/Upgrading and/or System Loss Reduction Program covering the period 2004 to 2008, one (1) year after the date of this Decision using a format to be prescribed by the Commission; and
  
- k) Institute policies and procedures for cost-cutting and transparent and competitive procurement of goods and services and submit a report thereon to the Commission within six (6) months from receipt of this Decision.

**SO ORDERED.**

Pasig City, July 14, 2003.

**MANUEL R. SANCHEZ**  
Chairman

**OLIVER B. BUTALID**  
Commissioner

**MARY ANNE B. COLAYCO**  
Commissioner

**CARLOS R. ALINDADA**  
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