

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. 2001-911**

PALAWAN ELECTRIC COOPERATIVE,  
INC. (PALECO),

*Applicant.*

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## **DECISION**

Before this Commission for resolution is the application filed on December 20, 2001 by applicant Palawan Electric Cooperative, Inc. (PALECO) 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 February 1, 2002, were issued setting the case for hearing on March 14 and 15, 2002.

PALECO 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, PALECO published the Notice of Public Hearing in the "*Malaya*" and "*Balita*" on February 15 and 22, 2002 and February 18 and 25, 2002, respectively. In addition thereto, PALECO further caused the publication of the said notice in issue No. 25, Year 8 of the "*Palawan Sun*".

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 Mayors of the City/Municipalities of Puerto Princesa City, Aborlan, Brooke's Point, Cuyo, Magsaysay, Narra, Quezon, Balarasa and Roxas, 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.

At the initial hearing on March 14, 2002, PALECO appeared. No oppositor appeared nor was there any opposition registered.

During said hearing, PALECO submitted proofs of its compliance with the Commission's publication and posting of notice requirements which were duly marked as Exhibits "A" to "C-9", inclusive. Thereafter, PALECO presented its Finance Services Department Manager, Lolita V. Carbonell as its first witness. Ms. Carbonell testified on the schedules submitted and on the matters related to the application. The Commission posed clarificatory questions on Ms. Carbonell. Thereafter, PALECO presented its Engineering and System Planning Division Chief, Mr. Rodrigo Reginio, as its second witness. Mr. Reginio testified on other documents submitted in support of the application. The Commission likewise posed clarificatory questions on Mr. Reginio. In the course of the testimonies of the witnesses, additional documents were presented, identified by reference and marked as Exhibits "D" to "PP-3", inclusive.

During the hearing on March 15, 2002, Ms. Carbonell and Mr. Reginio were recalled to the witness stand and further subjected to clarificatory questions by the Commission.

On April 11, 2002, PALECO submitted its "Formal Offer of Evidence", which was admitted by the Commission for the purpose for which they were being offered.

In the meantime, a review of the records of the case showed that a "Supplemental Petition" was filed by PALECO on January 15, 2002 manifesting that it omitted in its original application certain municipalities within its coverage area, particularly the Municipalities of Taytay, El Nido, Araceli, Balabac,

Bataraza (instead of Balarasa as stated in the original Petition), Rizal and San Vicente.

In view thereof, the Commission was constrained to hold another hearing and thus, issued an Order and a Notice of Public Hearing, both dated February 26, 2003, setting the case for hearing on April 11, 2003.

PALECO was again 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.

The City/Municipal Mayors of Puerto Princesa City, Aborlan, Brooke's Point, Cuyo, Magsaysay, Narra, Quezon, Roxas, Taytay, El Nido, Araceli, Balabac, Bataraza, Rizal and San Vicente, all in the Province of Palawan, were furnished with copies of the Order and the Notice of Public Hearing both dated February 26, 2003, for the appropriate posting thereof on their respective bulletin boards.

Likewise, the OSG, the COA, the National Electrification Administration (NEA) and the Committees on Energy of both Houses of Congress were furnished copies of said Order and Notice of Hearing and were requested to have their respective duly authorized representatives present at the aforesaid initial hearing.

During the hearing on April 11, 2003, only PALECO appeared. No oppositor appeared nor was there any opposition registered. At the outset of the hearing, PALECO submitted proofs of its compliance with the Commission's publication and posting of notice requirements. It submitted copies of the March 10 and 17, 2003 issues of the *Manila Times* which were requested to be marked as (additional) Exhibits "B-17" to "B-20", inclusive. It, likewise, submitted copies of the March 10 and 17, 2003 issues of the *Kabayan* which were marked as Exhibits "B-22" to "B-25", inclusive. PALECO then moved that the marking for exhibits "B-16" and "B-21" be reserved for the Affidavits of Publication issued by the respective publishers of the said newspapers as the affidavits have yet to be submitted. Said reservation was allowed subject to the submission of the affidavit of publications. PALECO also submitted Certificates of Posting from the Offices of the Municipal Mayors of the Municipalities of Aborlan, Narra, Roxas, Taytay, San Vicente, El Nido, Araceli, Agutaya, Cuyo, Magsaysay, Brooke's Point, Bataraza and the City of Puerto Princesa as well as from the Office of the Honorable Rep. Vicente Sandoval which were marked as Exhibits "C-10" to "C-23". PALECO sought that the markings for Exhibits "C-24" and "C-25" be reserved for the Certificates of Posting from the Municipalities of Cagayancillo and Balabac as the same could not be easily obtained due to the difficulty in going to said municipalities. Said reservation of marking was also allowed subject to the submission of the said Certificates of Posting.

Thereafter, PALECO moved that it be allowed to adopt the documents it had previously submitted and their respective markings and that it be allowed to adopt the testimonies of the witnesses it had already presented. Said motions were granted subject to the submission of the Affidavits of Publication from the *Manila Times* and the *Kabayan* publications and the Certificates of Posting from the Municipalities of Cagayancillo and Balabac.

On January 19, 2004, PALECO filed its "Formal Offer of Evidence", which was admitted by the Commission for the purpose for which they were being offered.

In its Order dated January 20, 2004, the Commission directed PALECO to submit, within ten (10) days from receipt of said Order, the original copies of the Certificates of Posting from the Municipalities of Balabac and Cagayancillo and the Affidavits of Publication issued by the Editors or Business Managers of the *Kabayan* and *The Manila Times*.

On February 6, 2004, PALECO submitted the documents required by the Commission.

## I. SUMMARY OF PALECO'S APPLICATION

### I.A. REVENUE REQUIREMENT

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

<b>Account Name</b>	<b>TEST YEAR</b>	
Purchased Power	PhP	213,202,080
Payroll		31,119,277
Operation and Maintenance (less Fuel, Purchased Power & Payroll)		56,406,168
Debt Service plus Cash Working Capital		5,988,346
Revenue Requirement		306,715,871
Other Revenue Items		0
Reinvestment Fund <sup>1</sup>		22,749,000
<b>TOTAL REVENUE REQUIREMENT</b>	<b>PhP</b>	<b>329,464,871</b>

PALECO's proposed revenue requirement was PhP 329,464,871 based on historical costs for the year 2000. The Overall Average Tariff Adjustment (OATA) published was PhP 0.2077/kWh. This same OATA was stated by witness Carbonell, in her testimony on March 14, 2002 [Transcript of Stenographic Notes (TSN), March 14, 2002, page 31].

PALECO 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 PALECO were as follows:

## Residential

Energy Charge	PhP	3.9026/kWh
Retail Customer Charge		40.62/customer/month
Metering Charge		46.63/customer/month

## Small Commercial

Energy Charge		3.6859/kWh
Retail Customer Charge		41.98/customer/month
Metering Charge		61.59/customer/month

## Large Commercial

Energy Charge		1,783.43/kWh
Demand Charge		86.03/customer/month

## Industrial

Energy Charge		3.1893/kWh
Demand Charge		98.14/kW
Retail Customer Charge		48.91/customer/month
Metering Charge		143.59/customer/month

## Public Buildings

Energy Charge		3.7464/kWh
Retail Customer Charge		42.74/customer/month
Metering Charge		71.26/customer/month

## Street Lights

Distribution Facilities Charge		326.31/customer/month
Energy Charge		3.4570/kWh

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

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

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

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

Witness Reginio, in his testimony, stated that PALECO's system loss for the year 2000 was 11.5% (March 14, 2002, TSN, page 99).

Witness Reginio further added that included in their preventive maintenance program are the upgrading of the conductors and replacement of damaged and rotten poles (March 14, 2002, TSN, page 104).

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

PALECO 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	156,404,353	177,036,752	20,632,399
Small Commercial	96,204,067	86,413,817	(9,790,250)
Industrial	31,213,283	26,134,495	(5,078,788)
Public Building	38,124,341	33,780,991	(4,343,350)
Street Lights	7,518,827	6,098,816	(1,420,011)
<b>Total</b>	<b>329,464,871</b>	<b>329,464,871</b>	<b>0</b>

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

PALECO 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>	50/kWh	50 kWh
<b>Rate</b>	PhP 4.1281/kWh	PhP 87.25/customer/month

#### **I.C. OTHER CHARGES**

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

<b>PARTICULARS</b>	<b>RATES</b>
1. Reconnection Fee	
a. Residential	PhP 100.00
b. Commercial	250.00
c. Industrial	1,000.00
2. Connection Fee	10.00
3. Inspection Fee	10.00
4. Relocate Meter Fee	42.50
5. Change Meter Fee	30.00
6. Transfer Meter Fee	30.00
7. Transformer Testing Fee	
a. 5-15 KVA	50.00
b. 25-37.5 KVA	75.00
c. 50-75 KVA	100.00
d. 100-167 KVA	150.00
8. Installation of Transformer	
A. Single Transformer Bank	
a) 5-25 KVA	1,500.00
b) 37.5-50 KVA	2,500.00
c) 75-100 KVA	3,500.00
d) 150-333 KVA	4,500.00
e) 500 KVA	5,500.00
B. Two-Transformer Bank	
a) 5-25 KVA	2,050.00
b) 37.5-50 KVA	3,240.00
c) 75-100 KVA	4,750.00
d) 150-333 KVA	6,150.00
e) 500 KVA	7,500.00
C. Three-Transformer Bank	
a) 5-25 KVA	2,600.00
b) 37.5-50 KVA	4,330.00
c) 75-100 KVA	6,000.00
d) 150-333 KVA	7,800.00
e) 500 KVA	9,500.00

## **II. COMMISSION DISCUSSIONS and CONCLUSIONS**

### **II.A. DETERMINATION OF TOTAL REVENUE REQUIREMENT**

#### **II.A.1. TEST YEAR**

The Commission finds PALECO'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 and TRANSMISSION COSTS**

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

The towns of Puerto Princesa, Aborlan, Bataraza, Brooke's Point, Narra and Quezon (PALECO -South) have transmission charges while the rest of the franchise areas (PALECO - North) are not billed with transmission charges. Hence, the generation and transmission rates are different for PALECO – North and PALECO – South.

The Generation and Transmission charges 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.c. for details). Hence, a distribution utility with system loss that is within the allowable caps can recover from its end-users the total cost of generation. *Annualization*<sup>2</sup> of billing determinants was applied.

The Commission made an upward adjustment to Purchased Power Cost of PhP 106,754,588 that pertains to the difference between the proposed Purchased Power of PALECO amounting to PhP 213,202,080 and the Generation and Transmission Charges based on the new rates of NPC and TRANSCO amounting to PhP 319,956,668 (PhP 26,251,545 for PALECO - North and PhP 293,705,123 for PALECO - South).

Records show that PALECO's average system loss for the years 2000, 2001 and 2002 were 11.68% and 11.97% for PALECO – North and PALECO – South, respectively. The Commission allowed the said average system losses in the calculation of PALECO's revenue requirement as discussed in Section II.B.2.c. of this Decision.

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

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

## PALECO – North

Generation Charge	PhP	23,043,370
Recoverable System Loss		3,208,175
<b>Total</b>	<b>PhP</b>	<b>26,251,545</b>

## PALECO – South

Generation Charge	PhP	246,696,497
Transmission Charge		10,267,755
Recoverable System Loss		36,740,871
<b>Total</b>	<b>PhP</b>	<b>293,705,123</b>

## PALECO – Total

Generation Charge	PhP	269,739,867
Transmission Charge (PALECO-South)		10,267,755
Recoverable System Loss		39,949,046
<b>Total</b>	<b>PhP</b>	<b>319,956,668</b>

PALECO'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 Order dated February 24, 2003 Case Nos. 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 of the Recovery of Fuel and Independent Power Producer Costs under the Generation Rate Adjustment Mechanism (GRAM)]. In which case, PALECO shall bill its end-users the new generation rate charged by NPC-SPUG. In the

meantime, PALECO shall discontinue charging the Purchased Power Adjustment (PPA) upon effectivity of the unbundled rates.

### **II.A.3. PAYROLL**

The Commission adjusted the payroll account upwards by PhP 2,869,628 to update it to the current salary level of PhP 33,988,905. The adjustment was due to the implementation of new salary increases based on the approved NEA Scale as a result of PALECO's continued outstanding performance implemented on June 2001.

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 PALECO correctly chose not to apply the WAC formula.

#### **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 an electric distribution utility, are recurring, and should redound to the service or benefit of end-users.

The Commission enjoins PALECO 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 PALECO 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.

PALECO'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 PALECO's viability. To this end, PALECO should view a petition for an increase in rates to be the last recourse. In future filings, PALECO 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.

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The Commission made a downward adjustment of PhP 8,273,013 to PALECO's Operation and Maintenance Expenses as follows:

Amount in the UFR that exceed what is allowed under NEA Guidelines	
Cash Incentive Bonus	6,569,897
Retirement Benefit in excess of one month allowed by the Commission for inclusion in the rates	<u>1,703,116</u>
<b>TOTAL ADJUSTMENT</b>	<b><u>8,273,013</u></b>

For future rate cases, PALECO will continually be required to make full disclosure of all its Operation & Maintenance expenses and be responsible in providing documentation to prove the reasonableness and prudence of all its expenditures. PALECO should ensure that procedures are put in place so that all expenditures 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 revenues earned (net of other expenses) by the electric utilities from activities other than sale of electricity.

The Commission encourages PALECO to improve its financial operation through the development of other sources of revenue in order to balance the interest of PALECO and its end-user. In recognition of the fact that some of the cost incurred in rendering services under ORI have been included in the determination of revenue requirements, the Commission has adopted the following policy. The ORI that arises from activities not related to the business of the cooperative nor involves the use of its assets will not be deducted from the revenue requirement of the cooperative. The ORI that arises out of related business activities or is asset-based will be shared by the cooperative and the end-user by including 50% in revenue requirement.

The total non asset-based ORI which were not deducted from revenue requirement amounted to PhP 16,004,723.

The ORI subjected to the 50% rule was computed as follows:

<b>Other Revenue Items</b>	<b>Amount (PhP)</b>
Prompt Payment Discount – NPC	6,185,597
Pole/Transformer Rental	590,931
Genset/Boom Truck Rental	53,000
<b>TOTAL</b>	<b>6,829,528</b>
<b>50% of the above</b>	<b>3,414,764</b>

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

## II.A.6. DEBT SERVICE

The Commission made a downward adjustment of PhP 81,335 to assure that the debt service included in PALECO's revenue requirement is consistent with NEA's records. The Commission disallowed the interest cost associated with cash working capital as calculated by PALECO due to lack of justification. The details of the adjustment are shown below:

<b>LOANS</b>	<b>PER NEA (PhP)</b>	<b>Per PALECO (PhP)</b>	<b>Variance (PhP)</b>
Rural Electrification			
LOAN A	404,151	404,151	0
LOAN B	1,245,264		1,245,264
LOAN C <sub>1</sub>	332,244	332,244	0
LOAN C <sub>2</sub>	999,764	999,764	0
LOAN C <sub>3</sub>	946,944	946,944	0
<b>Sub Total</b>	<b>3,928,367</b>	<b>2,683,103</b>	<b>1,245,264</b>
Dendro-Thermal Loans:			
Tree Plantation-Aborlan	583,252		583,252
Tree Plantation-P. Princesa	261,441		261,441
<b>Sub Total</b>	<b>844,693</b>		<b>844,693</b>
<b>Other Loan:</b>			
<b>Loan from Provincial Government</b>	1,133,951	1,133,951	0
<b>Interest on Cash Working Capital</b>		2,171,292	(2,171,292)
<b>Sub Total</b>		<b>3,305,243</b>	<b>(2,171,292)</b>
<b>GRAND TOTAL</b>	<b>5,907,011</b>	<b>5,988,346</b>	<b>(81,335)</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. PALECO 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.

The Commission in its Order dated September 22, 2003, granted PALECO a Provisional Authority to reduce its rates by PhP 0.0692/kWh effective on the next billing cycle after receipt of the said Order. The said reduction in rates is likewise shown on the rate schedule provided in the Disposition of this Decision.

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

The Commission permits a reinvestment fund equivalent to 5% of a cooperative'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 1,455,791 in the reinvestment fund account representing the excess over the 5% allowed by the Commission.

One of the main purposes of providing the 5% Reinvestment Fund is for the end-users of PALECO 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 PALECO;
  
- c) PALECO 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 PALECO to appear and show cause why it should continue collection of the reinvestment fund; and

- d) PALECO shall submit a new System Rehabilitation/Upgrading and/or System Loss Reduction Plan covering the period 2004 to 2008, no later than 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 a comparison of the approved revenue requirement with that proposed by PALECO:

	<b>PALECO Proposal (PhP)</b>	<b>Adjustments (PhP)</b>	<b>ERC Approval (PhP)</b>
Purchased Power	213,202,080	106,754,588	319,956,668
Payroll	31,119,277	2,869,628	33,988,905
O & M (less PP & Payroll)	56,406,168	(8,273,013)	48,133,155
Debt Service	5,988,346	(81,335)	5,907,011
Reinvestment Fund <sup>3</sup>	22,749,000	(1,455,791)	21,293,209
Other Revenue Items	0	(3,414,764)	(3,414,764)
<b>Total Rev. Requirement</b>	<b>329,464,871</b>	<b>96,399,313</b>	<b>425,864,184</b>

PALECO proposed an OATA of PhP 0.2077/kWh using rates of year 2000 (as discussed in Section I.A. of this Decision). 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 96,399,313 approves a Total Revenue Requirement of PhP 425,864,184 based on the year 2000 equivalent to an OATA of PhP 0.0281/kWh for PALECO. The difference in the computation of OATA between PALECO and the Commission is primarily due to the power cost component of the existing revenue. PALECO's OATA is based on existing approved power and distribution rates plus the average Purchased Power Adjustment (PPA) for the year. The approved OATA was computed using existing approved distribution rates and unbundled power cost as of December 2003. The actual impact to end-users will depend on the level

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

of rates currently being charged. This impact is illustrated in Section II.B.6. of this Decision.

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

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

All the functionalization and allocation factors used by PALECO were the default factors provided for in the UFR issued by the Commission on October 30, 2001. In the case of PALECO, 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 PALECO for functionalization and allocation were modified, to wit:

First, the use of the 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 is used as a default factor to functionalize costs under outside services, was replaced with the factor "Total Payroll Excluding Administrative and General Payroll" (PAYXAG) in order to remove the possibility of allocating a portion of outside services costs to the transmission function.

Third, since the Commission is now including Other Revenue Items (ORI) not included by PALECO in the calculation of its revenue requirement, 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	0.0518	0.9265	0.0217

PALECO submitted a classification of distribution costs into demand and customer-related costs using the Minimum Plant Method. This resulted in a 74% - 26% allocation on the average.

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

### **II.B.2.a. BAPA**

The Commission, in the design and calculation of charges, takes note of the existence of the Barangay Power Associations (BAPAs) that were conceptualized by the National Electrification Administration (NEA) for the purpose of strengthening member awareness and involvement in efforts towards the reduction of system loss, improvement of collection efficiency and fortification of the institutional consciousness in the grassroots level. The creation of BAPAs was also necessitated by the growing number of

cooperatives' membership which made it impossible for the cooperatives to physically reach out to all end-users.

The cooperatives are responsible for the energization of the BAPAs while the latter are responsible for the maintenance of the electric lines and other installed equipment, and the reading and billing of respective member end-users. The cooperatives, in this regard, are mandated to grant various incentives to BAPAs, such as three percent (3%) prompt payment discount, rebates on kWh sold, system loss allowance, honorarium for working BAPA officers, annual cash rewards for outstanding BAPAs and livelihood projects.

The Commission further acknowledges that cooperatives that have instituted BAPAs in their respective franchise areas incur costs with respect to the generation and distribution of power. With reference to the supply and metering functions, the cooperatives generally sustain minimal costs because they only read and bill the BAPAs' mother meters.

In the design and calculation of charges, the Commission did not consider the BAPA as a customer class.

#### **II.B.2.b. 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 NPC-SPUG's approved rate per kilowatt-hour. 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 PALECO's Generation Charge to remain fixed until such time that NPC-SPUG's approved rate is adjusted. This eliminates the need for future Purchased Power Adjustment (PPA).

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

The Commission's Order in ERC Case No. 2002-01 dated December 20, 2002 set the transmission charges for the NPC-SPUG without automatic adjustments. Since the transmission rates to be paid by PALECO – South are fixed, it is the decision of the Commission to likewise fix the unbundled transmission rates billed to end-users. The transmission charges approved for billing by PALECO - South have been calculated based on the approved transmission rates for NPC-SPUG.

Transmission Charges		Residential	Commercial	Industrial	Public Bldg.	Street Lights
Demand Charge	PhP/kW					
Transmission System Charge	PhP/kWh	0.1481	0.1481	0.1481	0.1481	0.1481

**II.B.2.d. 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 PALECO. The Commission rules that for PALECO – North, the System Loss Charge for all end-users shall be PhP 0.5160/kWh. For PALECO – South, the System Loss Charge for all end-users shall be PhP 0.5299/kWh.

The allowed system loss is equal to the average of system losses 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 results in additional unbundled generation costs to be paid by end-users. When system loss is within the allowable cap, the distribution utility is able to recover from the end-users all generation and transmission costs. Thus, system loss in excess of the allowable cap shall not be recovered from the end-users 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 the 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 believes that the present cap on Technical and Non-Technical System Loss of 14% should continue to be used. This would, however, be subject to change upon the approval of a new policy by the Commission. The average Technical and Non-Technical System Loss or cap of 14% plus 1% cooperative own use (which should not include personal consumption of PALECO'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 PALECO's 2000 to 2002 average system loss were 11.68% and 11.97% for the PALECO – North and PALECO - South, respectively, which were lower than the aforementioned cap of 14%. Hence, the Commission used the system loss of 11.68% for PALECO – North and 11.97% for PALECO - South in the calculation of PALECO's revenue requirement.

**II.B.2.e. DISTRIBUTION CHARGE**

The distribution charge shall be billed on a fixed rate per kilowatt-hour for Residential, Commercial, Public Buildings and Street Lights end-users. In the case of Industrial end-users, distribution charge shall be billed using a combination of a fixed rate per kilowatt (kW) and fixed rate per kilowatt-hour (kWh).

PALECO did not propose for distribution wheeling rates. However, 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. Other distribution utilities requesting to wheel power across PALECO'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 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.f. 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 PALECO to use a combination of PhP 5.00 per meter per month and a PhP 0.3952 per kWh rate for the metering function and orders PALECO to use a PhP per kWh rate for the supply function. For Commercial, Industrial, Public Buildings and Street Lights end-users, metering charge shall be billed a fixed rate per meter per month. However, unmetered Street Lights customer class will not be billed a metering charge. The supply charge shall be billed on a fixed rate per customer per month for all end-users (except the Residential).

All BAPA residential end-users will be charged with rates used for the Residential Class. PALECO will draw the various incentives it will provide the BAPA for the revenues that will be generated from the Supply and Metering Charges from BAPA end-users.

### 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	Commercial	Industrial	Public Bldg.	Street Lights
New Cost-Based Rev. Req.	425,864,184	217,736,946	117,966,022	36,976,487	45,596,484	7,588,245
Existing Rates Revenue	423,739,756	202,245,341	124,721,412	39,299,746	48,734,127	8,739,130
Total Change in Revenue	2,124,428	15,491,605	(6,755,390)	(2,323,259)	(3,137,643)	(1,150,885)
Percentage Change in Revenue	0.50%					
Normalized Existing Revenue	425,864,184	203,259,302	125,346,705	39,496,776	48,978,457	8,782,944
Inter-Class Cross - Subsidy Amounts (PhP)		(14,477,644)	7,380,683	2,520,289	3,381,973	1,194,699
Class Billing Determinants (in kWh)	75,547,060	36,156,582	22,099,632	7,016,016	8,712,485	1,562,345
Inter-Class Cross Subsidy Rates (PhP / kWh)		(0.4004)	0.3340	0.3592	0.3882	0.7647

#### 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, PALECO 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 minimum 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 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 35 kWh for PALECO. 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 PALECO. 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	-	50%
16 - 20 kWh	-	40 %
21 - 25 kWh	-	35 %
26 - 30 kWh	-	30 %
31 kWh	-	25 %
32 kWh	-	20 %
33 kWh	-	15 %
34 kWh	-	10 %
35 kWh	-	5 %

PALECO 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 35 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 except for the Sale for Resale end-users. For PALECO, the lifeline discounts result in a Lifeline Rate Subsidy by other end-users equal to PhP 0.0638/kWh.

The Commission believes that BAPAs' marginalized residential end-users should likewise enjoy the benefit of lifeline rates. For this purpose, the Commission integrated the household connections of BAPAs into the Residential customer class.

PALECO shall coordinate with its Barangay Power Associations to gather information on the number of kWh falling under the different lifeline levels and corresponding discount rates for proper billing and implementation of lifeline benefits on the same. Each association will accordingly implement/provide lifeline benefits to its deserving BAPA end-users.

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

PALECO's additional submission to this Commission of its existing Other Charges as previously presented were considered in the determination of its revenue requirement. Fifty Percent (50%) of the revenues derived from these charges were appropriately deducted from the revenue requirement allowed to PALECO. 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 may be revisited.

The Other Charges of PALECO are hereby pegged at their existing levels until such time that the Commission sets new rates on the same. Further, PALECO 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 justification for the rates, including but shall not be 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 94 kWh a month for PALECO – North and PALECO – South, using rates based on PALECO's actual existing rates as of December 2003 against the unbundled rates approved by the Commission, is shown below.

**For PALECO's end-users in Agutaya, Cuyo, Magsaysay, Roxas, Taytay, El Nido, Araceli, Balabac, Cagayancillo, Rizal and San Vicente Municipalities (PALECO – North):**

Based on Actual Existing Rates			Based on ERC Approved Unbundled Rates		
	PhP/kWh	Amount (PhP)		PhP/kWh	Amount (PhP)
Basic Rate	3.6109	339.42	Generation Charges:	3.7064	348.40
PPA	1.7766	167.00	Distribution Charge	0.9500	89.30
PAR	(0.3000)	(28.20)	System Loss Charge	0.5160	48.50
Universal Charge:			Supply Charge	0.4001	37.61
Missionary Electrification	0.0373	3.51	Metering Charges:		
Environmental Share	0.0025	0.23	Per Meter Per Month		5.00
Loan Condonation	(0.0692)	(6.50)	Per kWh	0.3952	37.15
			Inter-Class Cross Subsidy	(0.4004)	(37.64)
			Universal Charge:		
			Missionary Electrification	0.0373	3.51
			Environmental Share	0.0025	0.23
			Lifeline Rate[(Discount)/Subsidy]	0.0638	6.00
			Power Act Reduction	(0.3000)	(28.20)
			Loan Condonation	(0.0692)	(6.50)
<b>TOTAL BILL</b>		<b>475.46</b>	<b>TOTAL BILL</b>		<b>503.36</b>
<b>PhP/kWh</b>		<b>5.0581</b>	<b>PhP/kWh</b>		<b>5.3549</b>

**For PALECO's end-users in Puerto Princesa City, Aborlan, Bataraza, Brooke's Point, Narra and Quezon Municipalities (PALECO – South):**

Based on Actual Existing Rates			Based on ERC Approved Unbundled Rates		
	PhP/kWh	Amount (PhP)		PhP/kWh	Amount (PhP)
Basic Rate	3.6109	339.42	Generation Charges:	3.5583	334.48
PPA	1.7766	167.00	Transmission Charge	0.1481	13.92
PAR	(0.3000)	(28.20)	Distribution Charge	0.9500	89.30
Universal Charge:			System Loss Charge	0.5299	49.81
Missionary Electrification	0.0373	3.51	Supply Charge	0.4001	37.61
Environmental Share	0.0025	0.23	Metering Charges:		
Loan Condonation	(0.0692)	(6.50)	Per Meter Per Month		5.00
			Per kWh	0.3952	37.15
			Inter-Class Cross Subsidy	(0.4004)	(37.64)
			Universal Charge:		
			Missionary Electrification	0.0373	3.51
			Environmental Share	0.0025	0.23
			Lifeline Rate[Discount]/Subsidy]	0.0638	6.00
			Power Act Reduction	(0.3000)	(28.20)
			Loan Condonation	(0.0692)	(6.50)
<b>TOTAL BILL</b>		<b>475.46</b>	<b>TOTAL BILL</b>		<b>504.67</b>
<b>PhP/kWh</b>		<b>5.0581</b>	<b>PhP/kWh</b>		<b>5.3688</b>

## DISPOSITION

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

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

**For PALECO's end-users in Agutaya, Cuyo, Magsaysay, Roxas, Taytay, El Nido, Araceli, Balabac, Cagayancillo, Rizal and San Vicente Municipalities (PALECO – North):**

		Res.	Com.	Industrial	Public Bldg.	Street Lights
<b>Generation Charges:</b>						
Generation System Charge	PhP/kWh	3.7064	3.7064	3.7064	3.7064	3.7064
<b>System Loss Charge</b>	PhP/kWh	0.5160	0.5160	0.5160	0.5160	0.5160
<b>Distribution Charges:</b>						
Demand Charge	PhP/kWh			22.00		
Distribution System Charge	PhP/kWh	0.9500	0.7969	0.7712	0.8882	0.6071
<b>Supply Charges:</b>						
Retail Customer Charge	PhP/Customer/Mo.		34.04	34.04	34.04	33.21
Supply System Charge	PhP/kWh	0.4001				
<b>Metering Charges:</b>						
Retail Customer Charge	PhP/Meter/Mo.	5.00	95.67	551.15	37.58	37.58
Metering System Charge	PhP/kWh	0.3952				
<b>Inter-Class Cross Subsidy Charge</b>	PhP/kWh	(0.4004)	0.3340	0.3592	0.3882	0.7647
<b>Universal Charge:</b>						
Missionary Electrification Charge	PhP/kWh	0.0373	0.0373	0.0373	0.0373	0.0373
Environmental Share	PhP/kWh	0.0025	0.0025	0.0025	0.0025	0.0025
<b>Lifeline Rate (Discount)/Subsidy</b>	PhP/kWh	0.0638	0.0638	0.0638	0.0638	0.0638
<b>Power Act Reduction</b>	PhP/kWh	(0.3000)				
<b>Loan Condonation</b>	PhP/kWh	(0.0692)	(0.0692)	(0.0692)	(0.0692)	(0.0692)
<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>Loan Condonation.</b> Pursuant to Order on ERC Case No. 2003-144 dated September 22, 2003.						

**For PALECO's end-users in Puerto Princesa City, Aborlan, Bataraza, Brooke's Point, Narra and Quezon Municipalities (PALECO – South):**

		Res.	Com.	Industrial	Public Bldg.	Street Lights
<b>Generation Charges:</b>						
Generation System Charge	PhP/kWh	3.5583	3.5583	3.5583	3.5583	3.5583
<b>System Loss Charge</b>	PhP/kWh	0.5299	0.5299	0.5299	0.5299	0.5299
<b>Transmission Charges:</b>						
Demand Charge	PhP/kWh					
Transmission System Charge	PhP/kWh	0.1481	0.1481	0.1481	0.1481	0.1481
<b>Distribution Charges:</b>						
Demand Charge	PhP/kWh			22.00		
Distribution System Charge	PhP/kWh	0.9500	0.7969	0.7712	0.8882	0.6071
<b>Supply Charges:</b>						
Retail Customer Charge	PhP/Customer/Mo.		34.04	34.04	34.04	33.21
Supply System Charge	PhP/kWh	0.4001				
<b>Metering Charges:</b>						
Retail Customer Charge	PhP/Meter/Mo.	5.00	95.67	551.15	37.58	37.58
Metering System Charge	PhP/kWh	0.3952				
<b>Inter-Class Cross Subsidy Charge</b>	PhP/kWh	(0.4004)	0.3340	0.3592	0.3882	0.7647
<b>Universal Charge:</b>						
Missionary Electrification Charge	PhP/kWh	0.0373	0.0373	0.0373	0.0373	0.0373
Environmental Share	PhP/kWh	0.0025	0.0025	0.0025	0.0025	0.0025
<b>Lifeline Rate (Discount)/Subsidy</b>	PhP/kWh	0.0638	0.0638	0.0638	0.0638	0.0638
<b>Power Act Reduction</b>	PhP/kWh	(0.3000)				
<b>Loan Condonation</b>	PhP/kWh	(0.0692)	(0.0692)	(0.0692)	(0.0692)	(0.0692)
<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>Loan Condonation.</b> Pursuant to Order on ERC Case No. 2003-144 dated September 22, 2003.						

2. To direct PALECO to comply with the following:
  - a) Discontinue charging the PPA upon effectivity of the approved unbundled rates. PALECO shall automatically bill its end-users the new Generation Rate charged by NPC-SPUG as approved and authorized by the Commission;
  - b) Bill P 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, 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-user's bill even if the rate elements currently have a value 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 no later than one (1) year after the date of this Decision and every year thereafter, using the prescribed formats provided in Annexes B and 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, no later than 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, January 28, 2004.

**RODOLFO B. ALBANO**  
Chairman

**OLIVER B. BUTALID**  
Commissioner

**CARLOS R. ALINDADA**  
Commissioner

**LETICIA V. IBAY**  
Commissioner

**JESUS N. ALCORDO**  
Commissioner

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12. The Municipal Mayor  
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13. The Municipal Mayor  
5320 Agutaya, Palawan
14. The Municipal Mayor  
5305 Brooke's Point, Palawan
15. The Municipal Mayor  
5318 Cuyo, Palawan
16. The Municipal Mayor  
5319 Magsaysay, Palawan
17. The Municipal Mayor  
5303 Narra, Palawan
18. The Municipal Mayor  
5304 Quezon, Palawan
19. The Municipal Mayor  
5308 Roxas, Palawan
20. The Municipal Mayor  
5312 Taytay, Palawan
21. The Municipal Mayor  
5313 El Nido, Palawan
22. The Municipal Mayor  
5311 Araceli, Palawan
23. The Municipal Mayor  
5307 Balabac, Palawan
24. The Municipal Mayor  
5306 Bataraza, Palawan
25. The Municipal Mayor  
5321 Cagayancillo, Palawan
26. The Municipal Mayor  
Rizal, Palawan
27. The Municipal Mayor  
5309 San Vicente, Palawan