

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. 2001-996**

CAMIGUIN ELECTRIC COOPERATIVE,  
INC. (CAMELCO),

*Applicant.*

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## **DECISION**

Before this Commission for resolution is the application filed on December 20, 2001 by Camiguin Electric Cooperative, Inc. (CAMELCO) for the 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 September 16, 2002 were issued setting the case for initial hearing on November 7, 2002.

CAMELCO 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, CAMELCO published the Notice of Public Hearing in "*The Manila Times*" and "*Kabayan*" both on September 25 and October 2, 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 attached 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 the Municipalities of Catarman, Guinsiliban, Mahinog, Mambajao and Sagay, all in the Province of Camiguin, 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 of this case on November 7, 2002, only the counsel for CAMELCO appeared and entered his appearance. No oppositor appeared nor was there any opposition registered.

During the said hearing, CAMELCO submitted proofs of compliance with the Commission's publication and posting of notice requirements which were duly marked as Exhibits "A" to "C-4", inclusive. Thereafter, CAMELCO presented its first witness, Ms. Leonor Go, CAMELCO's Finance Manager, who testified on the schedules and other documents submitted in support of the application as well as on certain relevant schedules. In the course of her direct testimony, several documents were presented and subsequently marked as Exhibits "D" to "CC", inclusive. The direct examination of said witness having been terminated, the Commission propounded clarificatory questions. In the course thereof, CAMELCO was directed to submit the following documents: a) details on the PhP 22 Million Accounts Payable; b) breakdown of the PhP 5.2 Million Customer Deposits; c) program for the removal of cross-subsidy; and d) explanation on the discrepancy on the figure for payroll.

CAMELCO then presented its second witness, Mr. Arthur Bernardo, CAMELCO's Technical Services Department Manager, who testified on the various technical aspects of the application. The direct examinations of said witness having been terminated, the Commission again propounded clarificatory questions.

On various dates, CAMELCO was directed by the Commission to submit additional documents necessary for the evaluation of the application. Consequently, CAMELCO submitted the aforesaid documents.

On January 20, 2003, CAMELCO submitted its "Formal Offer of Evidence" which was admitted by the Commission for the purposes for which they were offered.

## I. SUMMARY OF CAMELCO'S APPLICATION

### I.A. REVENUE REQUIREMENT

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

| Account Name  | HISTORICAL YEAR       |
|---|-----------------------|
| kWh Sales   | PhP 7,708,305         |
| Purchased Power   | 19,858,556            |
| Payroll   | 3,993,437             |
| Operation and Maintenance<br>(less Purchased Power & Payroll) | 8,671,081             |
| Debt Service  | 12,211,572            |
| Revenue Requirement   | 44,734,646            |
| Less: Other Revenue Items                                     | 0                     |
| Reinvestment Fund <sup>1</sup> (18%)                          | 7,934,450             |
| <b>TOTAL REVENUE REQUIREMENT</b>                              | <b>PhP 52,669,096</b> |

CAMELCO's proposed revenue requirement was PhP 52,669,096 based on historical costs for the year 2000. The Overall Average Tariff Adjustment (OATA) published was PhP 2.4961/kWh based on Schedule A. The same OATA was stated by witness Go, in her testimony on November 7, 2002 (Transcript of Stenographic Notes (TSN) November 7, 2002, pages 18 and 19).

CAMELCO 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 CAMELCO were as follows:

|                                |     |        |                 |
|--------------------------------|-----|--------|-----------------|
| Residential                    |     |        |                 |
| Generation Charge              | Php | 2.5513 | Per kWh         |
| Distribution Charge            |     | 3.6245 | Per kWh         |
| Supply Charges:                |     |        |                 |
| Retail Customer Charge         |     | 35.18  | /Customer/mo.   |
| Metering Charge                |     | 34.32  | /Customer/mo.   |
| Commercial                     |     |        |                 |
| Generation Charge              |     | 2.5511 | Per kWh         |
| Distribution Charge            |     | 2.9458 | Per kWh         |
| Supply Charges:                |     |        |                 |
| Retail Customer Charge         |     | 30.79  | /Customer/mo.   |
| Metering Charge                |     | 40.21  | /Customer/mo.   |
| Public Buildings               |     |        |                 |
| Generation Charge              |     | 2.5506 | Per kWh         |
| Distribution Charge            |     | 3.1214 | Per kWh         |
| Supply Charges:                |     |        |                 |
| Retail Customer Charge         |     | 32.43  | /Customer/mo.   |
| Metering Charge                |     | 37.07  | /Customer/mo.   |
| Street Lights                  |     |        |                 |
| Energy Charge                  |     | 5.1369 | Per kWh         |
| Distribution Facilities Charge |     | 69.50  | Per lamp charge |

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

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

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

### I.B.2. SYSTEM LOSS

Witness Go, in her testimony stated that the system loss rate used in preparing CAMELCO's unbundled rate application was 14% which is the average system loss for the year 2000 (November 7, 2002, TSN, page 22).

Witness Bernardo confirmed the use of said system loss rate. He further added that increase in system loss from 12% to 14% were due to pilferages, inadequate clearing of right of way, erroneous reading and unregistered streetlights (November 7, 2003, TSN, page 85).

Witness Go stated that CAMELCO prepared a reinvestment program on monitoring and reducing further the system loss. She further mentioned that particularly in the year 2000, CAMELCO allocated about PhP 7.9M for rehabilitation and the construction of lines (November 7, 2002, TSN, page 54).

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

CAMELCO 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          | 34,100,735                     | 35,819,630                     | 1,718,896                                |
| Commercial           | 13,554,883                     | 10,947,236                     | (2,607,647)                              |
| Public Buildings     | 4,179,469                      | 3,595,708                      | (583,762)                                |
| Street Lights        | 834,009                        | 2,306,522                      | 1,472,513                                |
| <b>Total</b>         | <b>52,669,096</b>              | <b>52,669,096</b>              | <b>0</b>                                 |

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

CAMELCO proposed the following level and rate (equal to the existing rate) for marginalized end-users:

|              |                |
|--------------|----------------|
| <b>Level</b> | 8 kWh          |
| <b>Rate</b>  | PhP 6.1758/kWh |

During the hearing of the subject case, witness Go stated that CAMELCO's proposed lifeline level is 0 to 8 kilowatthours which is equivalent to PhP 6.18/kWh (November 07, 2002, TSN, pages 19 and 20).

**I.C. OTHER CHARGES**

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

| <b>PARTICULARS</b>          | <b>RATES</b> |
|-----------------------------|--------------|
| 1. Connection Fees          | PhP 50.00    |
| 2. Membership Fees          | 5.00         |
| 3. Inspection Fees          | 111.23       |
| 4. Transformer Installation | 2,922.00     |
| 5. Transformer Rental       | 460.94       |
| 6. Pole Rental              | 20.00        |
| 7. Extra Service Charge     | 50.00        |
| 8. Calibration              | 25.00        |
| 9. Service Charges          | 20.00        |

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

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

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

The Commission finds CAMELCO'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, CAMELCO is buying power only from the National Power Corporation (NPC).

The Generation and Transmission charges shall reflect the generation charges of the NPC as approved in the Commission's Orders dated February 24, 2003 and May 15, 2003, Case No. 2003-44 [In the Matter of 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 Producers Costs under the Generation Rate Adjustment Mechanism [GRAM]], and the transmission charges of the National Transmission Corporation (TRANSCO) as approved in ERC Orders dated September 6 and

20, 2002, Case No. 2001-901 [In the Matter of the Application for the Approval of the Revised Unbundled Power Rates, National Power Corporation (NPC) – Applicant]. The FOREX component of the NPC's Generation Rate used is as of October 2003 amounting to PhP 0.2506 per kWh. 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 a system loss that is within the allowable cap can recover from its end-users the total cost of the generation and transmission. *Annualization*<sup>2</sup> of the billing determinants was applied.

The adjustment made by the Commission to Purchased Power of PhP 896,546 consisted of the following:

|                                    |     |           |
|------------------------------------|-----|-----------|
| Adjustment to Purchased Power Cost | PhP | 1,262,644 |
| Adjustment to System Loss          |     | (366,098) |
| Total Adjustments                  | PhP | 896,546   |

The adjustment to Purchased Power Cost of PhP 1,262,644 pertains to the difference between the proposed Purchased Power of CAMELCO amounting to PhP 19,858,556 and the Generation and Transmission Charges based on the new rates of NPC and TRANSCO amounting to PhP 21,121,200.

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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.

Records show that CAMELCO's average system loss for the years 2000, 2001 and 2002 was 16.50%. The Commission allowed a system loss of 14% in the calculation of CAMELCO's revenue requirement as discussed in Section II.B.2.c. of this Decision. Thus, the Commission made an adjustment to system loss of PhP 366,098 to exclude the excess of actual system loss over the allowable recoverable cap of PhP 3,113,265.

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

|                         |            |                   |
|-------------------------|------------|-------------------|
| Generation Charge       | PhP        | 10,297,896        |
| Transmission Charge     |            | 7,343,941         |
| Recoverable System Loss |            | 3,113,265         |
| <b>Total</b>            | <b>PhP</b> | <b>20,755,102</b> |

CAMELCO's approved generation charge shall remain fixed until changes in NPC'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 Producers Costs under the Generation Rate Adjustment Mechanism (GRAM)], respectively. In which case, CAMELCO shall bill its end-users the new generation rate

charged by NPC. In the meantime, CAMELCO 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 1,758,803 to update it to the current salary level of PhP 5,752,240. The adjustment was due to the implementation of new salary increases based on CAMELCO's reorganization in year 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.

#### **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 CAMELCO to incur only “prudent and reasonable costs” for inclusion in the determination of retail rates. While a distribution utility enjoys the benefit of passing its costs of purchased power and other reasonable costs to the 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 the R.A. 9136 to establish a regime of free and fair competition and full public accountability to achieve greater operational and economic efficiency, enjoins CAMELCO 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.

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

The Commission made a downward adjustment of PhP 754,677 to CAMELCO's Operation and Maintenance Expenses, as follows:

|  |            |                |
|--|------------|----------------|
| Performance/Productivity Incentive in excess of one month allowed by the Commission for inclusion in the rates | PhP        | 507,865        |
| Consumer Prompt Payment Reclassified to Other Revenue Items  |            | 246,812        |
| <b>NET ADJUSTMENT</b>  | <b>PhP</b> | <b>754,677</b> |

The said expenses were excluded for revenue requirement determination. These expenses translate to PhP 0.0644/kWh which the Commission considers material.

For future rate cases, CAMELCO 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. CAMELCO should ensure that procedures are put in place so that all expenditures included in the determination of revenue requirements are adequately documented and that such documentation is reasonably accessible to 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 CAMELCO to improve its financial operations through the development of other sources of revenue. In order to balance the interest of CAMELCO and its end-users and in recognition of the fact that some of the costs incurred in rendering services under ORI have already 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 the total revenue requirement amounts to PhP 678,623.

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

| <b>Particulars</b>  | <b>Amount (PhP)</b> |
|---|---------------------|
| Prompt Payment Discount - NPC, net of Prompt Payment Discount given to customers of PhP 246,812 | 212,150             |
| <b>50% of the above</b>   | <b>106,075</b>      |

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

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

The Commission disallowed the cost of submarine cable and substation amounting to PhP 8,747,272, since this loan is not included in the monthly amortizations of CAMELCO to NEA. Further, this loan was recommended to be assumed by PSALM for loan condonation. The details of CAMELCO loans per NEA Loan Profile are shown below:

| LOANS                  | LOAN PROFILE      |                      |
|------------------------|-------------------|----------------------|
|                        | PER NEA<br>(PhP)  | PER CAMELCO<br>(PhP) |
| Rural Electrification: |                   |                      |
| LOAN A                 | 540,684           | 540,684              |
| LOAN B                 | 8,747,272         | 8,747,272            |
| LOAN C                 | 19,884            | 19,884               |
| LOAN D                 | 1,599,180         | 1,599,180            |
| LOAN E                 | 273,116           | 273,116              |
| <b>Sub Total</b>       | <b>11,180,136</b> | <b>11,180,136</b>    |
| Emergency Loan:        |                   |                      |
| Poles 69kV             | 134,648           | 134,648              |
| Restructured Loan      | 896,788           | 896,788              |
| <b>Sub Total</b>       | <b>1,031,436</b>  | <b>1,031,436</b>     |
| <b>Total</b>           | <b>12,211,572</b> | <b>12,211,572</b>    |
| <b>Less: Loan B</b>    |                   | <b>8,747,272</b>     |
| <b>NET</b>             |                   | <b>3,464,300</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 the EC's end-users. CAMELCO 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 May 07, 2003, granted CAMELCO a Provisional Authority to reduced its rates by PhP 0.1298/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 5,945,925 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 CAMELCO 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 CAMELCO;

- c) CAMELCO 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 CAMELCO to appear and show cause why it should continue collection of the reinvestment fund; and

- d) CAMELCO 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 approved revenue requirement with that proposed by CAMELCO:

|                                   | <b>CAMELCO Proposal</b> | <b>Adjustments</b>  | <b>ERC Approval</b> |
|-----------------------------------|-------------------------|---------------------|---------------------|
| Purchased Power PhP               | 19,858,556              | 896,546             | 20,755,102          |
| Payroll                           | 3,993,437               | 1,758,803           | 5,752,240           |
| O & M (less PP & Payroll)         | 8,671,081               | (754,677)           | 7,916,404           |
| Debt Service                      | 12,211,572              | (8,747,272)         | 3,464,300           |
| Reinvestment Fund <sup>3</sup>    | 7,934,450               | (5,945,925)         | 1,988,525           |
| Other Revenue Items               | 0                       | (106,075)           | (106,075)           |
| <b>Total Rev. Requirement PhP</b> | <b>52,669,096</b>       | <b>(12,898,600)</b> | <b>39,770,496</b>   |

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

CAMELCO proposed an OATA of PhP 2.4961/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:  $[(\text{Total Revenue Requirement less Existing Revenue}) \div \text{kWh sales}]$ . This measurement is not meant to refer to any specific customer class.

The Commission, after considering adjustments of PhP 12,898,600 approves a Total Revenue Requirement of PhP 39,770,496 equivalent to an OATA<sup>4</sup> of PhP 0.1369/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.

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

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

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

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

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 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 transmission function.

Third, since the Commission is now including Other Revenue Items (ORI) not included by CAMELCO 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       | 0.0000       | 1.0000 | 0.0000   |

CAMELCO submitted allocation of distribution costs into demand and customer-related cost using the *Minimum Plant Method*. This method resulted in a 35% - 65% 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. 2001-901, In the Matter of the Application for Approval of the Revised Unbundled Power Rates, National Power Corporation – Applicant, dated June 26, 2002 and the Commission's Orders dated September 6 and 20, 2002, the generation charge to be billed to end-users shall be the approved rate per kilowatt-hour including Benefits to Host Communities and Franchise Charge and Foreign Exchange Rate Adjustment (FOREX). The FOREX component of the NPC's Generation Rate used pertains to the supply month of October 2003 amounting to PhP 0.2506 per kWh. The NPC's approved rate will remain fixed until changes are authorized by the Commission pursuant to its Order dated May 15, 2003 as discussed in Section II.A.2. of this Decision. This allows CAMELCO's Generation Charge to remain fixed until such time that NPC's approved rates are adjusted. This eliminates the need for future Purchased Power Adjustment (PPA).

### II.B.2.b. TRANSMISSION CHARGE

The Commission's Decision in ERC Case No. 2001-901 dated June 26, 2002 and Order dated September 20, 2002 set the transmission charges for the TRANSCO without automatic adjustments. Since the transmission rates to be paid by CAMELCO 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 CAMELCO have been calculated based on the approved TRANSCO rates which include cross subsidy elements to be phased out over a three-year period. The following transmission charges will apply to all end-users consistent with the gradual phase-out of the intra-grid cross subsidies:

| Transmission Charges                 | Residential | Commercial | Public Bldgs. | Street Lights |
|--------------------------------------|-------------|------------|---------------|---------------|
| <b>October 2003 – September 2004</b> |             |            |               |               |
| Demand Charge PhP/kW                 |             |            |               |               |
| Transmission System Charge PhP/kWh   | 0.9299      | 0.9478     | 0.9542        | 0.8320        |
| <b>October 2004 – September 2005</b> |             |            |               |               |
| Demand Charge PhP/kW                 |             |            |               |               |
| Transmission System Charge PhP/kWh   | 0.9972      | 1.0164     | 1.0232        | 0.8922        |
| <b>October 2005 – September 2006</b> |             |            |               |               |
| Demand Charge PhP/kW                 |             |            |               |               |
| Transmission System Charge PhP/kWh   | 1.0646      | 1.0850     | 1.0924        | 0.9525        |

### II.B.2.c. 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 CAMELCO.

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 not only results in additional unbundled generation costs but also additional unbundled transmission 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 CAMELCO's Board of Directors, officers and staff), whichever is lower, shall be deducted from the total power cost and to be billed separately as System Loss Charge.

The Commission found that CAMELCO's 2000 to 2002 average system loss was 16.50% which is higher than the aforementioned cap of 14%. Hence, the Commission used the system loss cap of 14% in the calculation of CAMELCO's revenue requirement.

#### **II.B.2.d. 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.

CAMELCO 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. However, other distribution utilities requesting to wheel power across

CAMELCO's facilities shall pay wheeling charges equivalent to Distribution Wheeling Charges for Commercial 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 generated or purchased power with the sale of unbundled distribution wheeling service.

#### **II.B.2.e. 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 CAMELCO to use a combination of PhP 5.00 per meter

per month and a PhP 0.4071 per kWh rate for the metering function and orders CAMELCO to use a PhP per kWh rate for the supply function. For Commercial and Public Building end-users, metering charge shall be billed a fixed rate per meter per month. However, the 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).

### 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  | Public Bldgs. | Street Lights |
|-------------------------------------|-----------|------------|-------------|-------------|---------------|---------------|
| New Cost-Based Rev. Req.            | PhP       | 39,770,496 | 27,445,005  | 8,020,077   | 2,696,059     | 1,609,355     |
| Existing Rates Revenue              | PhP       | 38,690,491 | 23,884,149  | 9,648,832   | 2,995,353     | 2,162,157     |
| Total Change in Revenue             | PhP       | 1,080,005  | 3,560,856   | (1,628,755) | (299,294)     | (552,802)     |
| Percentage Change in Revenue        |           | 2.79%      |             |             |               |               |
| Normalized Existing Revenue         | PhP       | 39,770,496 | 24,550,850  | 9,918,169   | 3,078,966     | 2,222,511     |
| Inter-Class Cross - Subsidy Amounts | PhP       |            | (2,894,155) | 1,898,092   | 382,907       | 613,156       |
| Class Billing Determinants (in kWh) |           | 7,891,108  | 4,895,809   | 1,938,105   | 613,992       | 443,202       |
| Inter-Class Cross Subsidy Rates     | PhP / kWh |            | (0.5911)    | 0.9794      | 0.6236        | 1.3835        |

#### 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.

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

In the instant case, the Commission will order the cross subsidy removal process at a later date following the establishment of the Universal Charge. Until such time, CAMELCO 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 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 CAMELCO. 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 CAMELCO. 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 | - | 45% |
| 16 kWh           | - | 40% |
| 17 kWh           | - | 30% |
| 18 kWh           | - | 20% |
| 19 kWh           | - | 10% |
| 20 kWh           | - | 5%  |

CAMELCO 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 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 CAMELCO, the lifeline discounts result in a Lifeline Rate Subsidy by other end-users equal to PhP 0.0855/kWh.

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

CAMELCO'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 CAMELCO. 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 CAMELCO are hereby pegged at their existing levels until such time that the Commission sets new rates on the same. Further, CAMELCO 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 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 58 kWh a month using rates based on CAMELCO's actual existing rates as of October 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                     | 3.5742   | 207.30        | Generation Charges:                   | 1.3050   | 75.69         |
| PPA                            | 0.7363   | 42.71         | Generation System Charge              | 1.0262   |               |
| WAC                            | 0.2391   | 13.87         | Benefits to Host Communities Charge   | 0.0282   |               |
| PAR                            | (0.3000) | (17.40)       | FOREX                                 | 0.2506   |               |
| Loan Condonation               | (0.1298) | (7.53)        | Transmission Charge                   | 0.9299   | 53.93         |
| Universal Charge               |          |               | System Loss Charge                    | 0.3945   | 22.88         |
| Missionary                     | 0.0373   | 2.16          | Distribution Charge                   | 1.8704   | 108.48        |
| Environmental                  | 0.0025   | 0.15          | Supply Charge                         | 0.6062   | 35.16         |
|                                |          |               | Metering Charges:                     |          |               |
|                                |          |               | Retail Customer Charge per Month      |          | 5.00          |
|                                |          |               | Metering System Charge                | 0.4071   | 23.61         |
|                                |          |               | Inter-Class Cross Subsidy             | (0.5911) | (34.28)       |
|                                |          |               | Universal Charge:                     |          |               |
|                                |          |               | Missionary Electrification Charge     | 0.0373   | 2.16          |
|                                |          |               | Environmental Charge                  | 0.0025   | 0.15          |
|                                |          |               | Lifeline Rate [(Discount)/Subsidy]    | 0.0855   | 4.96          |
|                                |          |               | Power Act Reduction                   | (0.3000) | (17.40)       |
|                                |          |               | Loan Condonation                      | (0.1298) | (7.53)        |
| <b>TOTAL BILL</b>              |          | <b>241.26</b> | <b>TOTAL BILL</b>                     |          | <b>272.81</b> |
| <b>PhP/kWh</b>                 |          | <b>4.1596</b> | <b>PhP/kWh</b>                        |          | <b>4.7036</b> |

## DISPOSITION

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

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

|  |                  | Residential | Commercial | Public Building | Street Lights |
|--|------------------|-------------|------------|-----------------|---------------|
| <b>Generation Charges:</b>   |                  |             |            |                 |               |
| Generation System Charge   | PhP/kWh          | 1.0262      | 1.0262     | 1.0262          | 1.0262        |
| Franchise & Benefits to Host Communities Charge  | PhP/kWh          | 0.0282      | 0.0282     | 0.0282          | 0.0282        |
| FOREX Adjustment Charge  | PhP/kWh          | 0.2506      | 0.2506     | 0.2506          | 0.2506        |
| <b>Transmission Charges:</b>   |                  |             |            |                 |               |
| Demand Charge  | PhP/kWh          |             |            |                 |               |
| Transmission System Charge   | PhP/kWh          | 0.9299      | 0.9478     | 0.9542          | 0.8320        |
| <b>System Loss Charge</b>  | PhP/kWh          | 0.3945      | 0.3945     | 0.3945          | 0.3945        |
| <b>Distribution Charges:</b>   |                  |             |            |                 |               |
| Demand Charge  | PhP/kWh          |             |            |                 |               |
| Distribution System Charge   | PhP/kWh          | 1.8704      | 1.2782     | 1.3850          | 1.0719        |
| <b>Supply Charges:</b>   |                  |             |            |                 |               |
| Retail Customer Charge   | PhP/Customer/Mo. |             | 33.19      | 32.94           | 14.44         |
| Supply System Charge   | PhP/kWh          | 0.6062      |            |                 |               |
| <b>Metering Charges:</b>   |                  |             |            |                 |               |
| Retail Customer Charge   | PhP/Meter/ Mo.   | 5.00        | 26.95      | 26.95           |               |
| Metering System Charge   | PhP/kWh          | 0.4071      |            |                 |               |
| <b>Inter-Class Cross Subsidy Charge</b>  | PhP/kWh          | (0.5911)    | 0.9794     | 0.6236          | 1.3835        |
| <b>Universal Charge:</b>   |                  |             |            |                 |               |
| Missionary Electrification Charge  | PhP/kWh          | 0.0373      | 0.0373     | 0.0373          | 0.0373        |
| Environmental Charge   | PhP/kWh          | 0.0025      | 0.0025     | 0.0025          | 0.0025        |
| <b>Lifeline Rate (Discount)/Subsidy</b>  | PhP/kWh          | 0.0855      | 0.0855     | 0.0855          | 0.0855        |
| <b>Loan Condonation*</b>   | PhP/kWh          | (0.1298)    | (0.1298)   | (0.1298)        | (0.1298)      |
| <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.<br><b>*Loan Condonation.</b> Pursuant to Order on ERC Case No. 2003-121 dated May 7, 2003. |                  |             |            |                 |               |

2. To direct CAMELCO to comply with the following:
  - a) Discontinue charging the PPA upon effectivity of the approved unbundled rates; CAMELCO shall automatically bill its end-users the new Generation Rate charged by NPC as approved and authorized by the Commission;
  - b) Discontinue the application of the WAC formula and its implementation upon effectivity of this Decision;
  - c) 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 Availments from the Universal Charge the Share for Missionary Electrification, NPC-SPUG, Applicant);
  - d) 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);

- e) 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 value of zero or have not yet been determined by the Commission;
  
- f) 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;
  
- g) 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-users class;
  - 2) copy of bills from the generation and transmission companies; and
  - 3) Monthly Financial and Statistical Reports (MFSRs), complete with all related schedules;
  
- h) 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;

- i) 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;
- j) 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 & 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, actual current system losses;
- k) 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
- l) 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, December 3, 2003.

**MANUEL R. SANCHEZ**  
Chairman

**OLIVER B. BUTALID**  
Commissioner

**CARLOS R. ALINDADA**  
Commissioner

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