

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. 2001-902

BATANGAS II ELECTRIC COOPERATIVE,
INC. (BATELEC II),

Applicant.

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D E C I S I O N

Before this Commission for resolution is the application filed by applicant Batangas II Electric Cooperative, Inc. (BATELEC II) on December 26, 2001 for the approval of its unbundled rates pursuant to the provision 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 April 23, 2002 were issued setting the case for initial hearing on May 30, 2002.

In the same Order, applicant 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 nationwide 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 therewith, BATELEC II, published the said notice in the "*Malaya*" and "*Balita*" on May 2 and 5, 2002 and May 4 and 11, 2002, respectively.

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 said hearing. Likewise, the Offices of the City/Municipal Mayors within the applicant's franchise area 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 May 30, 2002, the following entered their appearances: Atty. Zenon Suarez as counsel for applicant; and Engr. Roberto Mallilin and Mr. Amado Pacpaco as intervenors representing the industrial customers.

At the same hearing, applicant presented proofs of compliance with the Commission's publication and posting of notice requirements duly marked as Exhibits "A" to "C-17", inclusive. Thereafter, applicant presented its lone

witness, Mr. Evangel Manundo, applicant's General Manager, who testified on the schedules submitted by applicant in support of the application. In the course thereof, several documents were presented and subsequently marked as Exhibits "D" to "WW-1", inclusive. After the termination of the direct examination, intervenors Engr. Mallilin and Mr. Pacpaco conducted their respective cross-examinations of the said witness. In the course thereof, the intervenors made several suggestions on the applicant's unbundling of rates and thus, moved that a collaborative conference be held among the parties together with the ERC staff to settle other minor issues on the application. Said motion was granted by the Commission. Accordingly, parties agreed to schedule a conference after the hearing.

After the cross-examinations by the intervenors, the Commission propounded clarificatory questions on the same witness. Applicant then moved that it be given a period of fifteen (15) days from receipt of the Transcript of Stenographic Notes (TSN) within which to submit its formal offer of evidence. Said motion was granted by the Commission.

In the meantime, a conference was conducted on June 13, 2002 attended by applicant, the intervenors and the ERC staff. At the said conference, intervenor Engr. Mallilin furnished applicant with a copy of his written position paper entitled "Suggested Formats for Unbundled Electric Power Rates Applicable to Distribution Utilities/Electric Cooperatives" containing suggestions on how applicant should unbundled its rates. Relative thereto, applicant manifested that it would submit its comment on the said position paper within fifteen (15) days from the date of conference.

Accordingly, on June 28, 2002, applicant submitted "BATELEC II's Comments to NICAI's Position Paper".

Shown hereunder are the salient points and the corresponding comments made by the intervenors and the applicant, respectively:

INTERVENOR'S POSITION

1. The Distribution Charge should be in terms of "Peso per Kilowatt (P/kW) and not in Peso per kilowatthour" (P/kWh)
2. The Distribution System Charge should be determined based on the delivery voltage level of the customer.

APPLICANT'S COMMENTS

1. The Distribution Charge should be on per kilowatt basis while the Commercial and Industrial customers on per kilowatthour basis because the cost to be recovered consist of fixed and variable costs. The suggestions that the Distribution System Charge should only be on a per kilowatt basis will result to under-recovery of costs because only fixed costs could be recovered. The suggestion will be applicable to electric cooperatives only if and when they are allowed a level of profit or RORB to recover costs incurred other than fixed costs. Since they are, by their corporate character, essentially non-profit entities, the RORB method will not apply. Thus, the suggestion cannot be adopted by applicant because it is not allowed to have a rate of return in its rate components, as it is using the Cash Flow Method.
2. This concern had been addressed using the Minimum Size Method because higher voltage usually requires higher poles and big-sized conductors, and in cooperatives, only high voltage systems use high and big-sized poles and conductors. Since cooperatives are more on distribution rather than sub-transmission, they use minimal quantity of big-sized poles and conductors. Thus, applying the Minimum Size Method, the distribution charge based on delivery voltage to consumers had already been addressed.

3. The Distribution System Charge should further be unbundled into: (1) Subtransmission System Charge and (2) Distribution System Charge
4. The Distribution System Loss Recovery (DLSR) should be a separate and distinct charge.
5. Distribution Plant Items like poles, line hardwares, line transformers, conductors and wire should be allocated under "Demand" only.
3. This concern has been addressed by the model when applicant classified the Industrial Consumers into Small and Large. However, applicant is re-classifying the Small Industrial into Industrial-Distribution for those consumers connected to the distribution voltage and the Large Industrial into Industrial Subtransmission for consumers connected to the subtransmission voltage, and in addition, commercial or industrial consumers with a load of one (1) megawatt and above.
4. Applicant believes there is no need to have a specific caption for system loss charge as there is already a system loss cap provided by Republic Act No. 7832.
5. This concern had been addressed by applicant using the Minimum Size Method under the Uniform Filing Requirements. The costs to be recovered consist of fixed and variable costs wherein fixed costs were charged under Demand Charge on a per kW basis while variable costs were charged under the Distribution System Charge on a per kWh basis.

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

On July 18, 2002, BATELEC II submitted its "Formal Offer of Evidence" which was admitted by the Commission for the purposes for which they were being offered.

I. SUMMARY OF BATELEC II's APPLICATION

I.A. REVENUE REQUIREMENT

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

Account Name	TEST YEAR	
Fuel	PhP	1,797,000
Purchased Power		1,172,898,000
Payroll		94,073,000
Operation and Maintenance (less Fuel, Purchased Power & Payroll)		68,445,000
Debt Service plus interest on CWC		199,793,000
Revenue Requirement		1,537,007,000
Other Revenue Items		0
Reinvestment Fund (12%) ¹		187,307,000
TOTAL REVENUE REQUIREMENT	PhP	1,724,313,000

BATELEC II's proposed revenue requirement was PhP 1,724,313,000 based on historical costs for the year 2000. The Overall Average Tariff Adjustment (OATA) published was PhP 1.0866/kWh. This same OATA was stated by witness Manundo, in his testimony on May 30, 2002 [Transcript of Stenographic Notes (TSN), May 30, 2002, page 26].

BATELEC II also submitted its Audited Financial Statements for the year 2000.

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

I.B. RATE STRUCTURE/DESIGN

The unbundled rates proposed by BATELEC II were as follows:

Residential

Retail Customer Charge	PhP	55.95/customer/month
Metering Charge		36.65/customer/month
Energy Charge		3.9000/kWh
Distribution Charge		1.9300/kWh

Residential-Commercial

Retail Customer Charge		57.80/customer/month
Metering Charge		39.30/customer/month
Energy Charge		3.9000/kWh
Distribution Charge		1.3700/kWh

Commercial

Retail Customer Charge		68.41/customer/month
Metering Charge		55.03/customer/month
Energy Charge		3.9000/kWh
Distribution Charge w/ demand meter		0.7200/kW
Distribution Charge w/out demand meter		1.1900/kWh
Demand Charge		100.93/kW

Small Industrial

Retail Customer Charge		939.04/customer/month
Metering Charge		1,346.26/customer/month
Energy Charge		3.9000/kWh
Demand Charge		129.94/kW
Distribution Charge		0.4600/kWh

Large Industrial

Retail Customer Charge		10,301.07/customer/month
Metering Charge		15,231.13/customer/month
Energy Charge		3.9000/kWh
Demand Charge		134.61/kW
Distribution Charge		0.4500/kWh

Public Buildings

Retail Customer Charge	PhP	60.65/customer/month
Metering Charge		43.53/customer/month
Energy Charge		3.9000/kWh
Distribution Charge		1.3700/kWh

Street Lights

Distribution Facilities Charge		119.46/customer/month
Energy Charge		3.9000/kWh
Distribution Charge		1.0700/kWh

Communal Water System

Retail Customer Charge		88.69/customer/month
Metering Charge		85.11/customer/month
Energy Charge		3.9000/kWh
Distribution Charge		1.1200/kWh

BAPA

Supply Charge		35.80/customer/month
Metering Charge		33.65/customer/month
Energy Charge		3.9000/kWh
Distribution Charge		0.8900/kWh

I.B.1. FUNCTIONALIZATION, CLASSIFICATION and ALLOCATION

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

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

I.B.2. SYSTEM LOSS

Witness Manundo, in his testimony, stated that BATELEC II's system loss for the year 2000 was 14.00% (May 30, 2002, TSN, page 42).

Witness Manundo further stated that BATELEC II proposed a 5-year development program particularly for system loss reduction. BATELEC II's projected expenditure is about PhP 150M (May 30, 2002, TSN, pages 42 to 44).

I.B.3. INTER-CLASS CROSS SUBSIDY

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

CUSTOMER TYPE	ADJUSTED EXISTING (PhP)	PROPOSED EXISTING (PhP)	INTER-CLASS CROSS SUBSIDIES (PhP)
Residential	699,040,770	794,522,430	95,481,660
Rescom	6,594,700	6,310,660	(281,040)
Commercial	387,774,590	324,831,310	(62,943,280)
Small Industrial	126,307,160	108,789,310	(17,517,840)
Large Industrial	290,390,420	302,068,800	11,678,390
Public Building	27,804,750	25,300,190	(2,504,560)
Street Lights	19,029,390	15,322,190	(3,707,190)
Communal Water System	79,339,200	69,101,450	(10,237,750)
BAPA	88,032,320	78,066,940	(9,965,380)
Total	1,724,313,290	1,724,313,290	0

I.B.4. LIFELINE RATE and LEVEL

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

	Option 1 (At Existing Minimum Bill)	Option 2 (At Proposed Customer Charges)
Level	20 kWh & below	50 kWh & below
Rate	PhP 5.4600/kWh	PhP 2.6800/kWh

I.C. OTHER CHARGES

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

PARTICULARS	RATES (PhP)
1. Reconnection Fees	
Residential	100.00
Commercial	200.00
2. Membership Fee	5.00
3. Inspection Fee (Commercial only)	50.00
4. Dismantling & Installation Fee	20.00/KVA
5. Calibration Fees	
Residential	50.00
Commercial	80.00
6. Relocation of Meter	25.00
7. Relocation of Service Drop	25.00

II. COMMISSION DISCUSSIONS and CONCLUSIONS

In reaching its conclusions herein, the Commission took into consideration the documents, data, comments and issues submitted by the applicant, oppositors and other interested parties who manifested their respective positions on this present application.

II.A. DETERMINATION OF TOTAL REVENUE REQUIREMENT

II.A.1. TEST YEAR

The Commission finds BATELEC II'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, BATELEC II is buying power from two (2) sources, namely: National Power Corporation (NPC) Main and NPC - Small Power Utilities Group (SPUG).

Tingloy is being served by the NPC-SPUG while the rest of the franchise areas are being served by NPC-Main. Hence, the generation rates are different for BATELEC II - Mainland and BATELEC II – Tingloy.

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 January 26, 2004, 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 2003-574 [In the Matter of the Application for the Recovery of Fuel and Independent Power Producer Costs Under the Generation Rate Adjustment Mechanism (GRAM)], respectively; Case No. 2002-01 dated December 20, 2002 [In the Matter of the Application for the Approval of the Unbundled Rates and Basic Rate Increase in the Small Island Grids, National Power Corporation (NPC) – Applicant] 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 ICERA component of the NPC's Generation Rate used is PhP 0.2207 per kWh. A separate charge to account for the allowable system loss shall likewise be provided (please refer to Section II.B.2.d. 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 generation and transmission. *Annualization*² of billing determinants was applied.

The Commission made an upward adjustment of PhP 8,158,000 to the Purchased Power as shown below:

Adjustment to Purchased Power Cost	PhP	19,713,189
Adjustment to System Loss		(11,555,377)
Net Adjustment	PhP	8,157,812
Rounded-off to	PhP	8,158,000

The adjustment to Purchased Power Cost of PhP 19,713,189 pertains to the difference between the proposed Purchased Power of BATELEC II amounting to PhP 1,172,898,000 and the Generation and Transmission Charges based on the new rates of NPC and TRANSCO amounting to PhP 1,192,611,189 (PhP 1,191,109,686 for the Mainland and PhP 1,501,503 for Tingloy).

Records show that BATELEC II's average system loss for the years 2000, 2001 and 2002 for Mainland was 14.83% which is higher than the cap of 14%. The Commission allowed a system loss of 14% for Mainland in the calculation of BATELEC II's revenue requirement as discussed in Section II.B.2.d. of this Decision. Thus, the Commission made a total adjustment to system loss of PhP 11,515,879 which represents the excess of actual system loss over the allowable recoverable cap of PhP 167,676,331 for BATELEC II - Mainland.

² 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.

The average system loss of BATELEC II – Tingloy for the years 2000, 2001 and 2002 was 16.26% which is higher than the cap of 14%. The Commission allowed a system loss of 14% for Tingloy in the calculation of BATELEC II's revenue requirement as discussed in Section II.B.2.d. of this Decision. Thus, the Commission made a total adjustment to system loss of PhP 39,498 which represents the excess of actual system loss over the allowable recoverable cap of PhP 207,818 for BATELEC II - Tingloy.

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

BATELEC II – Main Grid

Generation Charge	PhP	739,105,512
Transmission Charge		272,811,964
Recoverable System Loss		167,676,331
Total	PhP	1,179,593,807

BATELEC II – Tingloy

Generation Charge	PhP	1,254,187
Recoverable System Loss		207,818
Total	PhP	1,462,005

BATELEC II – Total

Generation Charge	PhP	740,359,699
Transmission Charge (Mainland)		272,811,964
Recoverable System Loss		167,884,149
Total	PhP	1,181,055,812
Rounded-off to	PhP	1,181,056,000

BATELEC II's approved generation charges shall remain fixed until changes in the generation rates of NPC-Main and NPC-SPUG are approved and authorized by the Commission pursuant to its Orders dated January 26, 2004, Case No. 2003-574 [In the Matter of the Application for the Recovery of Fuel and Independent Power Producer Costs Under the Generation Rate Adjustment Mechanism (GRAM)] and February 24, 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)], respectively. In which case, BATELEC II shall bill its end-users the new generation rate charged by NPC – Main and NPC – SPUG. In the meantime, BATELEC II shall discontinue charging the Purchased Power Adjustment (PPA) upon effectivity of the unbundled rates.

II.A.3. PAYROLL

The Commission made a net upward adjustment in BATELEC II's payroll account by PhP 3,703,000, consisting of an upward adjustment due to salary increase amounting to PhP 4,001,000 and a downward adjustment due to the exclusion of the Power Production Payroll Expense amounting to PhP 298,000 because the same was already part of the cost of purchased power.

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

The Commission enjoins BATELEC II 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 maybe not 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 BATELEC II 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.

BATELEC II'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 BATELEC II's viability. To this end, BATELEC II should view a petition for an increase in rates to be the last recourse. In future filings, BATELEC II 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 1,666,000 to BATELEC II's Operation and Maintenance Expenses as follows:

Coop's Electric Energy Consumption already included in the computation of system loss charge – double count	1,620,000
Expenses related to generation already included in the computation of Cost of Power	46,000
TOTAL ADJUSTMENT	PhP 1,666,000

The said expenses were excluded for revenue requirement determination. These expenses translate to PhP 0.0054/kWh.

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

II.A.5. OTHER REVENUE ITEMS

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

The Commission encourages BATELEC II to improve its financial operations through the development of other sources of revenue. In order to balance the interest of BATELEC II 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 8,446,000.

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

Particulars	Amount (PhP)
Pole Rental	282,000
50% of the above	141,000

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

II.A.6. DEBT SERVICE

The Commission made a downward adjustment of PhP 81,917,000 to assure that the debt service included in BATELEC II's revenue requirement is consistent with NEA's records. The Commission disallowed the loan arrearages and interest cost associated with cash working capital as calculated by BATELEC II due to lack of justification. The details of the adjustment are shown below:

LOANS	PER NEA (PhP)	Per BATELEC II (PhP)	Variance (PhP)
RURAL ELECTRIFICATION			
LOAN A	1,794,019	1,794,019	0
LOAN B	695,042	695,042	0
LOAN C	484,924	484,924	0
LOAN D	2,553,288	2,553,288	0
LOAN E	3,538,752	3,538,752	0
LOAN F	491,964	491,964	0
LOAN G	29,088,416	29,088,416	0
OTHER LOANS:			
Concessional	118,980	118,980	0
STL-Insurance		3,906,343	(3,906,343)
OECF:			
Construction	8,183,256	8,473,960	(290,704)
Logistical	6,480	6,480	0
Restructured Loan #3	2,419,464	2,419,464	0
Restructured Loan #4	7,490,204	7,490,204	0
Building Loan	16,707		16,707
OTHERS:			
Loans from DBP	22,510,219	22,510,219	0
Money Placement	38,484,352	38,484,352	0
Loan Arrearages		31,627,047	(31,627,047)
Interest on CWC		46,110,240	(46,110,240)
TOTAL	117,876,067	199,793,694	(81,917,627)
Rounded-off to	117,876,000	199,794,000	(81,917,000)

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. BATELEC II 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 March 10, 2003, granted BATELEC II a Provisional Authority to reduce its rates by PhP 0.24098/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 110,289,000 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 BATELEC II 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 BATELEC II;
- c) BATELEC II 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 BATELEC II to appear and show cause why it should continue collection of the reinvestment fund; and

- d) BATELEC II 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 BATELEC II:

	BATELEC II Proposal (PhP)	Adjustments (PhP)	ERC Approval (PhP)
Purchased Power	1,172,898,000	8,158,000	1,181,056,000
Fuel	1,797,000	(1,797,000)	0
Payroll	94,073,000	3,703,000	97,776,000
O & M (less PP & Payroll)	68,445,000	(1,666,000)	66,779,000
Debt Service plus Interest on CWC	199,793,000	(81,917,000)	117,876,000
Reinvestment Fund ³	187,307,000	(110,289,000)	77,018,000
Other Revenue Items	0	(141,000)	(141,000)
Total Rev. Requirement	1,724,313,000	(183,949,000)	1,540,364,000

BATELEC II proposed an OATA of PhP 1.0866/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.

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

The Commission, after considering adjustments of (PhP 183,949,000) approves a Total Revenue Requirement of PhP 1,540,364,000 based on the year 2000 equivalent to an OATA of PhP 0.0342/kWh for BATELEC II.

There is a difference in the computation of OATA published by the electric cooperative and the OATA approved by the Commission. The published OATA pertains to the difference between BATELEC II's proposed revenues and the actual revenues [consisting of the approved power cost component plus the average Purchased Power Adjustment (PPA) for the year 2000 and the approved distribution costs]. On the other hand, the OATA approved by the Commission pertains to the difference between the approved revenue requirement and the calculated actual revenues, both computed at current purchased power costs level. Hence, the resulting OATA accounts only for the distribution component from which BATELEC II directly benefits.

The actual impact to end-users will depend on the level of rates currently being charged. This impact (as illustrated in Section II.B.6. of this Decision) appears to be higher than the approved OATA because it includes the impact on the power cost which is merely a pass through cost by the cooperative.

II.B. RATE STRUCTURE/DESIGN DETERMINATION

II.B.1 FUNCTIONALIZATION, CLASSIFICATION and ALLOCATION

All the functionalization and allocation factors used by BATELEC II were the default factors provided for in the UFR issued by the Commission on October 30, 2001. In the case of BATELEC II, 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 BATELEC II 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 BATELEC II 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	1.0000	0.0000	0.0000

BATELEC II submitted a classification of distribution costs into demand and customer-related costs using the Minimum Plant Method. This resulted in a 40% - 60% 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 Commission's Orders dated January 26, 2004, Case No. 2003-574 [In the Matter of the Application for the Recovery of Fuel and Independent Power Producer Costs Under the Generation Rate Adjustment Mechanism (GRAM)], ERC Case No. 2002-01 [In the Matter of the Application for the Approval of the Unbundled Rates and Basic Rate Increase in the Small Island Grids, National Power Corporation (NPC) – Applicant], the revised generation charge to be billed to end-users shall be the approved rate

per kilowatt-hour including Franchise Benefits to Host Communities and Incremental Currency Exchange Rate Adjustment (ICERA). The ICERA component of NPC's Generation charge used is PhP 0.2207 per kWh. The NPC- Main and NPC-SPUG's approved generation rate will remain fixed until changes are authorized by the Commission pursuant to the afore-stated Order dated February 24, 2003 as discussed in Section II.A.2. of this Decision. This eliminates the need for future Purchase Power Adjustment (PPA).

II.B.2.c. 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 BATELEC II 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 BATELEC II have been calculated based on the approved TRANSCO rates which include cross subsidy elements to be phased out over the 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	Industrial	Comm. Water	Public Bldg.	Street Lights
October 2003 – September 2004						
Demand Charge PhP/kW			22.00			
Transmission System Charge PhP/kWh	0.8499	0.7563	0.9200	0.8631	0.8685	0.8822
October 2004 – September 2005						
Demand Charge PhP/kW			22.00			
Transmission System Charge PhP/kWh	0.9912	0.8819	1.0948	1.0065	1.0128	1.0288
October 2005 – September 2006						
Demand Charge PhP/kW			22.00			
Transmission System Charge PhP/kWh	1.1323	1.0076	1.2695	1.1499	1.1571	1.1754

Note: BATELEC II – Tingloy shall have no Transmission Charges.

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. The Commission rules that for BATELEC II – Mainland, the System Loss Charge for all end-users shall be PhP 0.5419/kWh. For BATELEC II – Tingloy, the System Loss Charge for all end-users shall be PhP 0.6141/kWh.

The allowed system loss is equal to the average of actual 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 shall recover from the end-users all generation and transmission costs. Thus, system loss in excess of the allowable caps shall not be recovered from the end-users as discussed 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 the 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 in the calculation of revenue requirements at this time. This would, however, be subject to change upon the approval of a new policy by the Commission. The actual Technical and Non-Technical System Loss or cap of 14% plus 1% cooperative own use (which should not include the personal consumption of BATELEC II'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 BATELEC II's 2000 - 2002 average system losses were 14.83% and 16.26% for the Mainland and Tingloy, respectively. Hence, the Commission considered the system loss cap of 14.00% for the Mainland and for Tingloy in the calculation of BATELEC II'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, Communal Water System, Public Buildings and Street Lights. 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).

BATELEC II 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 BATELEC II's facilities shall pay wheeling charges equivalent to Distribution Wheeling Charges for Industrial customers.

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

II.B.2.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 BATELEC II to use a combination of PhP 5.00 per meter per month and a PhP 0.1810 per kWh rate for the metering function and orders BATELEC II to use a PhP per kWh rate for the supply function. For Commercial, Industrial, Communal Water System, Public Building and Street Lights end-users, metering charge shall be billed a fixed rate per meter per month. 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. BATELEC II 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.2.g. BATELEC II - TINGLOY RATES

The Commission acknowledges that the revenue requirement for the operation of Tingloy was included in the unbundling of rates application of BATELEC II.

BATELEC II is authorized to bill an unbundled Generation Charge of PhP 3.7064 per kWh and a System Loss charge of PHP 0.6141 per kWh to end-users of Tingloy. In addition, BATELEC II - Tingloy end-users shall not be billed any transmission charge. As for all other charges, it shall apply the same unbundled rates specified for each customer class in this Decision.

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	Communal Water System	Public Bldg.	Street Lights
New Cost-Based Rev. Req.	1,540,364	763,491	312,977	365,347	62,508	22,590	13,451
Existing Rates Revenue	1,529,768	686,462	347,450	389,292	68,132	23,547	14,885
Total Change in Revenue	10,596	77,029	(34,473)	(23,945)	(5,624)	(957)	(1,434)
Percentage Change in Revenue	0.69%						
Normalized Existing Revenue	1,540,364	691,217	349,857	391,988	68,604	23,710	14,988
Inter-Class Cross - Subsidy Amounts (PhP)	0	(72,274)	36,880	26,641	6,096	1,120	1,537
Class Billing Determinants (in kWh)	309,756	138,885	69,872	79,241	13,982	4,764	3,012
Inter-Class Cross Subsidy Rates (PhP/kWh)		(0.5204)	0.5278	0.3362	0.4360	0.2351	0.5102

Note: The Peso amounts presented in the above table are in thousand pesos.

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 BATELEC II's end-users. This impact is reflected in the three-year schedule for unbundled transmission charges provided in Section II.B.2.c. 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, BATELEC II 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 45 kWh for BATELEC II. 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 BATELEC II. 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	-	45%
21 - 25 kWh	-	40%
26 - 30 kWh	-	35%
31 - 35 kWh	-	20%
36 - 40 kWh	-	10%
41 - 45 kWh	-	5%

BATELEC II 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 45 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 BATELEC II, the lifeline discounts result in a Lifeline Rate Subsidy by other end-users equal to PhP 0.0571/kWh.

The Commission believes that BAPA's 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.

BATELEC II 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

BATELEC II'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 determination of the revenue requirement allowed to BATELEC II. 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 BATELEC II are hereby pegged at their existing levels until such time that the Commission sets new rates on the same. Further, BATELEC II 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 on the revenue requirement on the monthly bill of an average residential end-user consuming 118 kWh a month for BATELEC II – Mainland end-users and 39 kWh a month for BATELEC II – Tingloy end-users, using rates based on BATELEC II's actual existing rates as of January 2004 against the unbundled rates approved by the Commission, is shown below.

For BATELEC II's end-users in the Mainland:

Based on Actual Existing Rates			Based on ERC Approved Unbundled Rates			
	PhP/kWh	Amount (PhP)			PhP/kWh	Amount (PhP)
Basic Rate	3.2093	378.70	Generation Charges:			
PPA	1.8312	216.08	Generation System Charge-Main		2.1435	252.93
WAC	0.0500	5.90	Benefits to Host Communities Charge		0.0245	2.89
PAR	(0.3000)	(35.40)	ICERA		0.2207	26.04
Universal Charge:			Transmission Charge		0.8499	100.29
Missionary Electrification	0.0373	4.40	Distribution Charge		1.3785	162.66
Environmental Charge	0.0025	0.30	System Loss Charge		0.5419	63.94
Loan Condonation	(0.2410)	(28.44)	Supply Charge		0.4238	50.01
			Metering Charges:			
			Per Meter Per Month			5.00
			Per kWh		0.1810	21.36
			Inter-Class Cross Subsidy		(0.5204)	(61.41)
			Lifeline Rate [(Discount)/Subsidy]		0.0571	6.74
			Power Act Reduction		(0.3000)	(35.40)
			Universal Charge:			
			Missionary Electrification		0.0373	4.40
			Environmental Charge		0.0025	0.30
			Loan Condonation		(0.24098)	(28.44)
TOTAL BILL		541.54	TOTAL BILL			571.32
PhP/kWh		4.5893	PhP/kWh			4.8417

For BATELEC II's end-users in Tingloy:

Based on Actual Existing Rates			Based on ERC Approved Unbundled Rates		
	PhP/kWh	Amount (PhP)		PhP/kWh	Amount (PhP)
Basic Rate	3.2093	125.16	Generation Charge:		
PPA	1.8312	71.42	Gen. System Charge	3.7064	144.55
WAC	0.0500	1.95	Distribution Charge	1.3785	53.76
PAR	(0.3000)	(11.70)	System Loss Charge	0.6141	23.95
Universal Charge:			Supply Charge	0.4238	16.53
Missionary Electrification	0.0373	1.45	Metering Charges:		
Environmental Charge	0.0025	0.10	Per Meter Per Month		5.00
Loan Condonation	(0.2410)	(9.40)	Per kWh	0.1810	7.06
			Inter-Class Cross Subsidy	(0.5204)	(20.30)
			Lifeline Rate [(Discount)/Subsidy]		(25.09)
			Power Act Reduction	(0.3000)	(11.70)
			Universal Charge:		
			Missionary Electrification	0.0373	1.45
			Environmental Charge	0.0025	0.10
			Loan Condonation	(0.24098)	(9.40)
TOTAL BILL		178.98	TOTAL BILL		185.92
PhP/kWh		4.5893	PhP/kWh		4.7672

DISPOSITION

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

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

For BATELEC II's end-users in the Mainland:

		Res.	Comm.	Industrial	Comm. Water	Public Bldg.	Street Lights
Generation Charges:							
Generation System Charge	PhP/kWh	2.1435	2.1435	2.1435	2.1435	2.1435	2.1435
Franchise & Benefits to Host Communities Charge	PhP/kWh	0.0245	0.0245	0.0245	0.0245	0.0245	0.0245
ICERA	PhP/kWh	0.2207	0.2207	0.2207	0.2207	0.2207	0.2207
Transmission Charges:							
Demand Charge	PhP/kWh			22.00			
Transmission System Charge	PhP/kWh	0.8499	0.7563	0.9200	0.8631	0.8685	0.8822
System Loss Charge:	PhP/kWh	0.5419	0.5419	0.5419	0.5419	0.5419	0.5419
Distribution Charges:							
Demand Charge	PhP/kWh			22.00			
Distribution System Charge	PhP/kWh	1.3785	0.6463	0.4844	0.6383	0.7870	0.5881
Supply Charges:							
Retail Customer Charge	PhP/Cust./Mo.		55.66	23.02	70.58	49.79	44.80
Supply System Charge	PhP/kWh	0.4238					
Metering Charges:							
Retail Customer Charge	PhP/Meter/Mo.	5.00	94.69	212.61	25.21	20.91	36.77
Metering System Charge	PhP/kWh	0.1810					
Inter-Class Cross Subsidy Charge:	PhP/kWh	(0.5204)	0.5278	0.3362	0.4360	0.2351	0.5102
Lifeline Rate (Discount)/Subsidy	PhP/kWh	0.0571	0.0571	0.0571	0.0571	0.0571	0.0571
Universal Charge:							
Missionary Electrification Charge	PhP/kWh	0.0373	0.0373	0.0373	0.0373	0.0373	0.0373
Environmental Charge	PhP/kWh	0.0025	0.0025	0.0025	0.0025	0.0025	0.0025
Power Act Reduction:	PhP/kWh	(0.3000)					
Rate Reduction due to Condonation of loan :	PhP/kWh	(0.24098)	(0.24098)	(0.24098)	(0.24098)	(0.24098)	(0.24098)
Lifeline Rate (Discount)/Subsidy To be based on Residential Rate in a graduated scale as provided in Section II.B.4. of this Decision.							
Rate Reduction Due to Loan Condonation as per ERC Order dated March 10, 2003 on ERC Case No. 2002-343							

For BATELEC II's end-users in Tingloy:

		Residential	Street Lights
Generation Charges:			
Generation System Charge	PhP/kWh	3.7064	3.7064
System Loss Charge:			
	PhP/kWh	0.6141	0.6141
Distribution Charges:			
Demand Charge	PhP/kWh		
Distribution System Charge	PhP/kWh	1.3785	0.5881
Supply Charges:			
Retail Customer Charge	PhP/Cust./Mo.		44.80
Supply System Charge	PhP/kWh	0.4238	
Metering Charges:			
Retail Customer Charge	PhP/Meter/Mo.	5.00	36.77
Metering System Charge	PhP/kWh	0.1810	
Inter-Class Cross Subsidy Charge:			
	PhP/kWh	(0.5204)	0.5102
Lifeline Rate (Discount)/Subsidy			
	PhP/kWh	0.0571	0.0571
Universal Charge:			
Missionary Electrification Charge	PhP/kWh	0.0373	0.0373
Environmental Charge	PhP/kWh	0.0025	0.0025
Power Act Reduction:			
	PhP/kWh	(0.3000)	
Rate Reduction due to Condonation of loan :			
	PhP/kWh	(0.24098)	(0.24098)
Lifeline Rate (Discount)/Subsidy To be based on Residential Rate in a graduated scale as provided in Section II.B.4. of this Decision			
Rate Reduction Due to Loan Condonation as per ERC Order dated March 10, 2003 on ERC Case No. 2002-343			

2. To direct BATELEC II to comply with the following:

- a) Discontinue charging the PPA upon effectivity of the approved unbundled rates. BATELEC II shall automatically bill its end-users the new Generation Rate charged by NPC - Main and 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-users bill even if the rate elements currently have a value of zero or have not yet been determined by the Commission;
- e) Discontinue the application of the Wage Adjustment Clause (WAC) formula upon effectivity of the approved unbundled rates;
- 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 (20th) 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;
- 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 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;

- 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, February 4, 2004.

RODOLFO B. ALBANO
Chairman

OLIVER B. BUTALID
Commissioner

CARLOS R. ALINDADA
Commissioner

LETICIA V. IBAY
Commissioner

JESUS N. ALCORDO
Commissioner

Copy furnished:

1. ATTY. ZENON S. SUAREZ
Counsel for Applicant
4/F Casman Bldg.,
1198 Quezon Avenue, Quezon City
2. Engr. Roberto Q. Mallillin
NAPOCOR Industrial Consumers Association, Inc. (NICAI)
G/F Alegria Bldg., 2229 Chino Roces Street,
Makati City
3. Batangas II Electric Cooperative, Inc.
4217 Antipolo Del Norte, Lipa City
4. Mr. Florencio R. Altura
Officer-in-Charge
Batangas II Electric Cooperative, Inc.
4217 Antipolo Del Norte, Lipa City
5. Office of the Solicitor General
134 Amorsolo Street, Legaspi Village
1229 City of Makati
6. Commission on Audit
Commonwealth Avenue
1121 Quezon City
7. Senate Committee on Energy
GSIS Building, Roxas Boulevard
1300 Pasay City
8. House Committee on Energy
1126 Batasan Hills, Quezon City
9. Fr. Francisco G. Silva
Administrator
National Electrification Administration (NEA)
1101 NIA Road, Diliman, Quezon City
10. Power Sector Assets & Liabilities Management Corporation
(PSALM)
2nd Floor, SGV II Building
1226 Ayala Avenue, Makati City
11. Hon. Ernesto C. Pablo
Representative-Party List
APEC
Room 604, North Wing Building
House of Representatives
1126 Batasan Hills, Quezon City

12. The City Mayor
4217 Lipa City
13. The City Mayor
4232 Tanauan City
14. The Municipal Mayor
4203 Tingloy, Batangas
15. The Municipal Mayor
4233 Malvar, Batangas
16. The Municipal Mayor
4219 Balete, Batangas
17. The Municipal Mayor
4223 Mataas na Kahoy, Batangas
18. The Municipal Mayor
4222 Cuenca, Batangas
19. The Municipal Mayor
4205 Alitagtag, Batangas
20. The Municipal Mayor
4202 Mabini, Batangas
21. The Municipal Mayor
4229 Lobo, Batangas
22. The Municipal Mayor
4228 Taysan, Batangas
23. The Municipal Mayor
4224 Padre Garcia, Batangas
24. The Municipal Mayor
4225 Rosario, Batangas
25. The Municipal Mayor
4221 Laurel, Batangas
26. The Municipal Mayor
4220 Talisay, Batangas
27. The Municipal Mayor
4226 San Juan, Batangas
28. The Municipal Mayor
4227 San Jose, Batangas