

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. 2001-961**

AURORA ELECTRIC COOPERATIVE,  
INC. (AURELCO),

*Applicant.*

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## **DECISION**

Before this Commission for resolution is the application filed on December 26, 2001 by applicant Aurora Electric Cooperative, Inc. (AURELCO) for approval of its unbundled rates pursuant to the provisions of Republic Act No. 9136 (RA 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 15, 2002, were issued setting the case for initial hearing on June 10, 2002.

AURELCO 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, AURELCO published the Notice of Public Hearing in the *Malaya* and *Balita* both on May 9 and 16, 2002.

The Office of the Solicitor General (OSG), the Commission on Audit (COA) and the Committees on Energy of both Houses of Congress were furnished with copies of the Order and the Notice of Public Hearing and were requested to have their respective duly authorized representatives present at the aforesaid initial hearing.

Likewise, copies of the said Order and the Notice of Public Hearing were furnished the Municipal Mayors of Baler, Dipaculao, Ma. Aurora, San Luis, Casiguran, Dilasag, Dingalan and Dinalungan, all in the Province of Aurora, for appropriate posting thereof on their respective bulletin boards.

On February 26, 2002, AURELCO submitted its "Additional Compliance" stating that it is reserving its right to submit other documents either in the course of the hearing or as may be required by the Commission and praying that the aforesaid additional compliance be admitted and approved together with the proposed rate requirement as a result of the unbundled rates which reflects its true cost of service per Schedule K thereof.

On June 6, 2002, the Sangguniang Bayan of Maria Aurora submitted Resolution No. 41, entitled "A Resolution Requesting the Energy Regulatory Commission to Transfer the Venue of Public Hearing Concerning the Application of AURELCO for the Approval of the Unbundled Rates Pursuant to the Provisions of R.A. 9136".

Relative thereto, the Commission issued an Order denying the said request due to the proximity of the scheduled hearing and advising it to just submit a formal written opposition to the said application.

During the initial hearing on June 10, 2002, only AURELCO was present. No oppositor appeared nor was there any opposition registered.

At the said hearing, AURELCO submitted proofs of compliance with the Commission's publication and posting of notice of requirements which were duly marked as Exhibits "A" to "C-7", inclusive. Thereafter, AURELCO presented its two (2) witnesses. The first witness, Ms. Lourdes Rotas, AURELCO's Finance Manager, testified in support of the application and identified several documents which were accordingly marked as Exhibits "D" to "BB", inclusive. After the termination of the direct examination, the Commission propounded clarificatory questions on the said witness. In the course thereof, AURELCO was directed to submit additional documents. AURELCO was further directed to examine its employee to customer ratio to cut down on costs.

The second witness, Mr. Simeon de Castro, AURELCO's Engineering Department Manager, testified on the various technical aspects of the application and identified several documents marked as Exhibits "CC" to "CC-5. After the termination of the direct examination, the Commission again propounded clarificatory questions on the said witness. In the course thereof, AURELCO was directed to submit additional data/documents.

AURELCO then manifested that it would submit said data/documents within twenty (20) days from June 7, 2002.

On September 11, 2002, AURELCO submitted its "Post Hearing Compliance".

In the Order dated October 16, 2002, AURELCO was given a non-extendible period of ten (10) days from receipt thereof within which to submit the required data/documents.

On October 26, 2002, AURELCO submitted the documents required by the Commission.

In another Order dated March 12, 2003, AURELCO was further directed to submit, within ten (10) days from receipt thereof, additional data/documents.

On March 17, 2003, AURELCO submitted the documents required by the Commission.

On July 24, 2003, AURELCO filed a "Manifestation and Motion to Revise Overall Tariff Adjustments" praying that its OATA be revised to reflect the true cost of service in the amount of PhP 0.0373/kWh. Relative thereto, the Commission treated the said submission as AURELCO's amended application and thus, issued another Order and Notice of Public Hearing both dated July 31, 2003, setting the same for hearing on October 9, 2003.

At the October 9, 2003 hearing, only AURELCO appeared and filed its "Manifestation and Motion" praying that the affidavits of publications and certificates of posting attached therewith be considered as its compliance with the Commission's directives in its July 24, 2003 Order. No oppositor appeared nor was there any opposition registered therein.

On November 18, 2003, AURELCO filed its "Formal Offer of Evidence" for the purposes for which they were being offered.

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## I. SUMMARY OF AURELCO's APPLICATION

### I.A. REVENUE REQUIREMENT

AURELCO's revenue requirement per unbundled application based on Audited Financial Statements for the year 2000 was as follows:

Account Name	TEST YEAR	
Purchased Power	PhP	44,116,000
Payroll		11,323,000
Operation and Maintenance (less Fuel, Purchased Power & Payroll)		15,552,000
Debt Service		9,212,000
Revenue Requirement		80,203,000
Less: Other Revenue Items		0
Reinvestment Fund (8%) <sup>1</sup>		2,540,000
<b>TOTAL REVENUE REQUIREMENT</b>	<b>PhP</b>	<b>82,743,000</b>

AURELCO's proposed revenue requirement was PhP 82,743,000 based on historical costs for the year 2000. The Overall Average Tariff Adjustment (OATA) published was PhP 0.0856/kWh based on Schedule A year 2000. This same OATA was stated by witness Rotas, in her testimony on June 10, 2002 (Transcript of Stenographic Notes (TSN), June 10, 2002, page 20). However, AURELCO submitted an amended OATA based on Audited Financial Statements in the amount of PhP 0.3743/kWh.

AURELCO 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 AURELCO were as follows:

**Residential**

Distribution System Charge	PhP	2.2711/kWh
Generation Charge		3.6704/kWh
Supply Charges		
Retail Customer Charge		39.88/customer/month
Metering Charge		24.36/customer/month

**Small Commercial**

Distribution System Charge		0.8378/kWh
Generation Charge		3.6704/kWh
Supply Charges		
Retail Customer Charge		79.18/customer/month
Metering Charge		50.31/customer/month

**Large Commercial**

Distribution System Charge		0.2557/kWh
Generation Charge		3.6704/kWh
Supply Charges		
Retail Customer Charge		68.75/customer/month
Metering Charge		60.74/customer/month
Demand Charge		217.48/kW NCP

**Industrial**

Distribution System Charge		0.7286/kW NCP
Generation Charges		
Energy Charge		3.6704/kWh
Demand Charge		187.90/kW NCP

**Public Buildings**

Distribution System Charge		1.1704/kWh
Generation Charge		3.6704/kWh
Supply Charges		
Retail Customer Charge		38.79/customer/month
Metering Charge		25.45/customer/month

## Street Lights

Distribution Charge	PhP	1.0886/kWh
Generation Charge		3.6704/kWh
Distribution Facilities Charge		20.00/customer/month

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

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

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

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

Witness De Castro, in his testimony, stated that the average system loss for the year 2000 was 11.50% (June 10, 2002, TSN, page 71).

He further added that the reasons for AURELCO's low system loss were due to installation of new lines and proper maintenance (June 10, 2002, TSN, page 71).

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

AURELCO 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	60,882,458	66,087,398	5,204,940
Small Commercial	7,786,020	6,333,556	(1,452,464)
Large Commercial	75,638	50,729	(24,909)
Industrial	2,794,564	1,895,754	(898,810)
Public Buildings	9,273,786	6,997,121	(2,276,665)
Street Lights	1,930,533	1,378,442	(552,091)
<b>Total</b>	<b>82,743,000*</b>	<b>82,743,000*</b>	<b>0</b>

*\*Rounded-off by AURELCO*

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

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

	<b>Option 1 (At Existing Rates)</b>	<b>Option 2 (At Proposed Customer Charges)</b>
<b>Level</b>	10/kWh	10 kWh
<b>Rate</b>	PhP 6.4244/kWh	PhP 64.24/customer/month

### I.C. OTHER CHARGES

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

<b>PARTICULARS</b>	<b>RATES</b>	
1. Connection Fees	PhP	50.00
2. Membership Fee		5.00

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

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

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

The Commission finds AURELCO'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 the historical test year 2000.

#### **II.A.2. GENERATION and TRANSMISSION COSTS**

At present, AURELCO is buying power from three (3) sources, namely: National Power Corporation (NPC) Main, NPC - Small Power Utilities Group (SPUG) and NEA Management Team (formerly Nueva Ecija III Electric Cooperative, Inc.). The Commission notes that the power charged by NEA Management Team (NMT) is higher than that of NPC. In view thereof, pending the Commission's approval of the purchased power agreement of AURELCO between NMT, the cost of electric service power supplied by NMT shall be pegged at the existing NPC generation rate.

The towns of Dinalungan, Casiguran and Dilasag are being served by the NPC-SPUG while the town of Dingalan is being served by NMT. The rest of the franchise areas are being served by NPC-Main. Hence, the generation rates are different for AURELCO - Mainland & Dingalan and AURELCO – Dinalungan, Casiguran and Dilasag (DICADI) Island.

The Generation Charges shall reflect the generation charge as provisionally authorized by the Commission in the joint filing of National Power Corporation (NPC) and Power Sector Assets and Liabilities Management Corporation (PSALM) in its Orders dated September 29, 2003, Case No. 2003-291 [In the Matter of the Application for the Approval of the Revised Unbundled Generation Tariffs]; the revised methodology designated as the “Long-Run Avoidable Cost” (LRAC) methodology in lieu of the “Return on Rate Base” (RORB) methodology for the determination of the NPC’s and PSALM’s generation rates and 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].

For the Luzon Grid, the Generation Rate is equivalent to the sum of the Annual LRAC Average Rate, and Franchise & Benefits to Host Communities (please refer to Section II.B.2.b. for details). The implementation of NPC’s Generation Rate Adjustment Mechanism (GRAM) and FOREX in the Luzon, Visayas and Panay/Bohol is terminated upon the effectivity of the approved rates based on the LRAC Methodology.

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].

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

The Commission made an upward adjustment of PhP 4,417,000 to the Purchased Power as shown below:

Adjustment to Purchased Power Cost	PhP	4,567,911
Adjustment to System Loss (DICADI Island)		(151,118)
Net Adjustment		4,416,793
<b>Rounded-off to</b>	<b>PhP</b>	<b>4,417,000</b>

The adjustment to Purchased Power Cost of PhP 4,567,911 pertains to the difference between the proposed Purchased Power of AURELCO amounting to PhP 44,116,000 and the Generation and Transmission Charges based on the new rates of NPC and TRANSCO amounting to PhP 48,683,911 (PhP 42,934,590 for the Mainland & Dingalan and PhP 5,749,321 for DICADI Island).

Records show that AURELCO's average system loss for the years 2000, 2001 and 2002 for Mainland and Dingalan was 13.63% which is lower than the cap of 14%.

However, the average system loss of AURELCO - DICADI Island for the years 2000, 2001 and 2002 was 16.26%. The Commission allowed a system loss of 14% in the calculation of AURELCO'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 151,118 which represents the excess of actual system loss over the allowable recoverable cap of PhP 791,838 for AURELCO – DICADI Island.

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

AURELCO – Mainland and Dingalan:

Generation Charge	PhP	27,552,637
Transmission Charge		9,305,187
Recoverable System Loss		6,076,766
<b>Total</b>	<b>PhP</b>	<b>42,934,590</b>

AURELCO – DICADI Island:

Generation Charge	PhP	4,806,365
Transmission Charge		0
Recoverable System Loss		791,838
<b>Total</b>	<b>PhP</b>	<b>5,598,202</b>

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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.

## AURELCO – TOTAL:

Generation Charge	PhP	32,359,002
Transmission Charge		9,305,187
Recoverable System Loss		6,868,604
<b>Total</b>	<b>PhP</b>	<b>48,532,793</b>
<b>Rounded-off to</b>	<b>PhP</b>	<b>48,533,000</b>

AURELCO'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 September 29, 2003, Case No. 2003-291 [In the Matter of the Application for the Approval of the Revised Unbundled Generation Tariffs] 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. Any change thereon, with the exception on power purchased from NMT which shall be limited to that of NPC's rates, shall be reflected as deferred charges or credits which shall be recovered through GRAM and ICERA as discussed in Section II.B.2.b. of this Decision. In the meantime, AURELCO shall discontinue charging the Purchased Power Adjustment (PPA) upon effectivity of the unbundled rates.

**II.A.3. PAYROLL**

The Commission finds AURELCO's payroll amounting to PhP 11,323,000 acceptable.

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 AURELCO to incur only “prudent and reasonable costs” for inclusion in the determination of retail rates. While a distribution utility is allowed to pass through its costs of purchased power and other reasonable costs to the end-users, it is obligated as a public utility to ensure that its costs of operations including payroll are kept at a minimum.

The distribution utility must bear in mind that its very nature is that of a service company for its end-users, with a mandate to advocate and transact judiciously for and in their behalf.

“Reasonable costs” may be defined as the cost of those goods and services which, while may not be the lowest in price, need to be incurred with consideration of quality, efficiency, reliability and security, which are characteristics of the service that should be delivered by the distribution utility. “Prudent costs” demand that the utility ensures that its purchases of goods and services are at their minimum, without sacrificing the foregoing characteristics. When making a purchase or executing a contract, it cannot simply rely on its right to pass on its costs to its end-users.

As such, the Commission, in fulfillment of the policy of R.A. 9136 to establish a regime of free and fair competition and full public accountability to achieve greater operational and economic efficiency, enjoins AURELCO 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.

AURELCO’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 AURELCO’s viability. To this end, AURELCO should view a petition for an increase in rates to be the last recourse. In future filings, AURELCO 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 6,157,000 to AURELCO's Operation and Maintenance Expenses as follows:

Amounts in the UFR that exceed what is allowed under NEA Guidelines		
Anniversary & Loyalty Award	365,000	
Christmas Bonus in Excess	292,714	
Productivity Pay in Excess	789,771	
Earned Leave	211,973	
Coop's Electric Energy Consumption already included in the computation of system loss charge – double count	<u>430,567</u>	2,090,025
Decrease in Total Distribution Costs to reduce the resulting computed OATA to the amount actually applied for by the cooperative		<u>4,067,414</u>
<b>TOTAL ADJUSTMENT</b>		<b><u>6,157,439</u></b>
<b>Rounded-off to</b>		<b><u>6,157,000</u></b>

The above amount of PhP 6,157,000 was excluded for revenue requirement determination. The disallowed expenses translate to PhP 0.1694/kWh.

For future rate cases, AURELCO 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. AURELCO 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 revenues earned (net of other expenses) by the electric utilities from activities other than sale of electricity.

The Commission encourages AURELCO to improve its financial operations through the development of other sources of revenue. In order to balance the interest of AURELCO 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 1,164,799.

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 788,517	498,075
Pole Rental	81,009
<b>TOTAL</b>	<b>579,084</b>
<b>50% of the above</b>	<b>289,542</b>
<b>Rounded-off to</b>	<b>290,000</b>

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

#### **II.A.7. DEBT SERVICE**

The Commission made a downward adjustment of PhP 1,881,000 to assure that the debt service included in AURELCO's revenue requirement is consistent with NEA's records. The details of the adjustment are shown below.

<b>LOANS</b>	<b>Per NEA (PhP)</b>	<b>Per AURELCO (PhP)</b>	<b>Variance (PhP)</b>
Rural Electrification:			
LOAN A	716,880	716,880	0
LOAN B	687,815	687,815	0
LOAN C	667,332	667,332	0
LOAN D	910,164	910,164	0
LOAN E	2,192,424	2,192,424	0
LOAN F	776,936	776,936	0
WB – Construction	1,175,436	1,175,436	0
WB – Logistical		1,881,000	(1,881,000)
EL – Concessional	149,704	149,704	0
Solar Energy Program	54,060	54,060	0
<b>Total</b>	<b>7,330,751</b>	<b>9,211,751</b>	<b>(1,881,000)</b>

Note: Logistical Loan was fully paid as of June 26, 2001.

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. AURELCO 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 June 4, 2003, granted AURELCO a Provisional Authority to reduce its rates by PhP 0.3000/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 AURELCO'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 an upward adjustment of PhP 1,475,000, in the reinvestment fund account.

One of the main purposes of providing the 5% Reinvestment Fund is for the end-users of AURELCO 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 AURELCO;

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

- d) AURELCO 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 AURELCO:

Account Name	AURELCO Proposal	Adjustments	ERC Approval
Purchased Power	44,116,000	4,417,000	48,533,000
Payroll	11,323,000	0	11,323,000
Operation & Maintenance (less Purchased Power & Payroll)	15,552,000	(6,157,000)	9,395,000
Debt Service	9,212,000	(1,881,000)	7,331,000
Reinvestment Fund (5%)	2,540,000	1,475,000	4,015,000
Other Revenue Items	0	(290,000)	(290,000)
<b>Total Revenue Requirement</b>	<b>82,743,000</b>	<b>(2,436,000)</b>	<b>80,307,000</b>

AURELCO proposed an OATA of PhP 0.3743/kWh using rates of year 2000 (as discussed in Section I.A. of this Decision). The OATA is a measurement tool based on the formula: [(Total Revenue Requirement less Existing Revenue) divided by kWh sales]. This measurement is not meant to refer to any specific customer class.

The Commission, after considering adjustments of PhP 2,436,000, approves a total revenue requirement of PhP 80,307,000 and approves AURELCO's OATA<sup>3</sup> of PhP 0.3743/kWh for which it asked for. 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**

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

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<sup>3</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 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 AURELCO 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:

<b>Factor Name</b>	<b>Functionalization Factor Description</b>	<b>Total Check</b>	<b>Generation</b>	<b>Transmission</b>	<b>Distribution</b>	<b>Supply</b>	<b>Metering</b>
ORI	Other Revenue Items	1.0000	0.0000	0.0000	0.0789	0.8987	0.0224

AURELCO submitted a classification of distribution costs into demand and customer-related cost using the Minimum-Plant Method. This method resulted in a 75%-25% 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 at 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 September 29, 2003, Case No. 2003-291 [In the Matter of the Application for the Approval of the Revised Unbundled Generation Tariffs] and 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], respectively, the revised generation charge to be billed to end-users shall be the approved rate per kilowatt-hour including Benefits to Host Communities for NPC - Main.

For AURELCO, the LRAC rates for the following billing cycle is as follows:

Annual LRAC Average Rate/kWh	Franchise & Benefits to Host Communities	TOTAL GENERATION RATE/Kwh
<b>PhP 2.4717</b>	<b>PhP 0.0245</b>	<b>PhP 2.4962</b>

The implementation of NPC's Generation Rate Adjustment Mechanism (GRAM) and FOREX in the Luzon, Visayas and Panay/Bohol is terminated upon the effectivity of the approved rates based on the LRAC Methodology. On the other hand, the generation charge to be billed to end-users shall be the approved rate per kilowatt-hour including Basic Rate, Fuel Cost Adjustment (FCA) and Foreign Exchange Rate (FOREX) for NPC-SPUG. Moreover, the approved generation rates of NPC - Main and NPC-SPUG will remain fixed until changes are authorized by the Commission pursuant to the afore-stated Orders dated September 29, 2003, upon its filing of the last GRAM and ICERA petition to recover the deferred generation charge and FOREX for the test periods February to September 2003 and February 24, 2003, respectively. This allows AURELCO's Generation Charges (for the Mainland & Dingalan and DICADI Island) to remain fixed and any change thereon, with the exception of power purchased from NMT which shall be limited to that of NPC's rates, shall be reflected as deferred charges or credits which shall be recovered through GRAM and ICERA pursuant to the Commission's Order dated February 24, 2003 as discussed in Section II.A.2. of this Decision. This eliminates the need for future Purchased 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 AURELCO 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 AURELCO (Mainland and Dingalan) 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	Public Buildings	Street Lights
<b>October 2003 – September 2004</b>					
Transmission System Charge PhP/kWh	0.8503	0.8249	0.7845	0.8122	0.9366
<b>October 2004 – September 2005</b>					
Transmission System Charge PhP/kWh	1.0090	0.9789	0.9309	0.9637	1.1115
<b>October 2005 – September 2006</b>					
Transmission System Charge PhP/kWh	1.1676	1.1328	1.0772	1.1153	1.2862

AURELCO - DICADI Island is being served by NPC-SPUG. Distribution utilities sourcing power from NPC-SPUG have no transmission-related charge except for the areas of Mindoro and Palawan. Therefore, AURELCO – DICADI Island end-users should not be billed a transmission charge.

#### **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 AURELCO – Mainland and Dingalan, the System Loss Charge for all end-users shall be PhP 0.5505/kWh. For AURELCO – DICADI Island, the System Loss Charge for all end-users shall be PhP 0.6106/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 AURELCO'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 AURELCO's 2000 - 2002 average system losses were 13.63% and 16.26% for the Mainland & Dingalan and DICADI Island, respectively. Hence, the Commission considered 13.63% for the former and the system loss cap of 14% for the latter in the calculation of AURELCO's revenue requirement.

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

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

AURELCO did not propose for distribution wheeling rates. The Commission believes that wheeling rates are parallel to the cost of service functionalized under Distribution. Thus, the Commission orders that the Distribution Charge provided on Rate Schedules be likewise utilized as Distribution Wheeling Charges available to the future contestable market.

Other distribution utilities requesting to wheel power across AURELCO'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 generated or purchased power with the sale of unbundled distribution wheeling service.

The Commission also notes that AURELCO proposed for the split of their Commercial customer into small and large. However, the Commission finds it not appropriate at this time until inter-class cross subsidies are fully removed.

#### **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 (including those connected to BAPAs), the Commission orders AURELCO to use a combination of PhP 5.00 per meter per month and a PhP 0.3553 per kWh rate for the metering function and orders AURELCO to use a PhP per kWh rate for the supply function. For Commercial, Industrial and Public Buildings end-users, metering charge shall be billed a fixed rate per meter per month. Street Lights end-users shall have no metering charge. The supply charge shall be billed on a fixed rate per customer per month for all end-users (except the Residential).

All BAPA residential end-users of AURELCO-Mainland will be charged with rates used for the Residential Class. AURELCO 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. DICADI ISLAND RATES**

The Commission acknowledges that the revenue requirement for the operation of DICADI Island was included in the unbundling of rates application of AURELCO.

However, since the system of DICADI Island is not interconnected to the Mainland and it sources its power from NPC-SPUG, AURELCO is authorized to bill an Unbundled Generation Charge not to exceed the NPC-SPUG Generation Charge of PhP 3.7064 per kWh and a System Loss charge of PhP 0.6106 per kWh to customers of DICADI Island. In addition, DICADI Island customers 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	Public Bldg.	Street Lights
New Cost-Based Revenue Requirement.	PhP	80,307	62,789	6,840	1,980	7,277	1,421
Existing Rates Revenue	PhP	75,690	55,807	7,326	2,290	8,545	1,722
Total Change in Revenue	PhP	4,617	6,982	(486)	(310)	(1,268)	(301)
Percentage Change in Revenue		6.10%					
Normalized Existing Revenue	PhP	80,307	59,211	7,772	2,430	9,066	1,828
Inter-Class Cross Subsidy Amounts	PhP	0	(3,578)	933	450	1,789	407
Class Billing Determinants	MWh	12,335	9,101	1,185	374	1,394	281
Inter-Class Cross Subsidy Rates	PhP/kWh		(0.3932)	0.7872	1.2029	1.2840	1.4452

*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 the Implementing Rules and Regulations thereof 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 AURELCO'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, AURELCO 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 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-user by considering two (2) lighting facilities at 20 Watts each and a 50-Watt radio that are being used for a reasonable number of hours. In setting the maximum level of lifeline

consumption, the Commission may adjust the minimum level of consumption and/or the level of the lifeline discount so as to maximize the benefit to low-income end-users while keeping the costs associated with such subsidy between PhP 0.05 and PhP 0.10 per kWh. Thus, the Commission sets the lifeline consumption maximum level of 15 kWh for AURELCO. 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 AURELCO. The graduated scale is also based on the recognition that individual end-user consumption may likely vary from month to month.

10 kWh and below	-	30%
11 kWh	-	25%
12 kWh	-	20%
13 kWh	-	15%
14 kWh	-	10%
15 kWh	-	5%

AURELCO 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 15 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 AURELCO, the lifeline discounts result in a Lifeline Rate Subsidy by other end-users equal to PhP 0.0859/kWh.

AURELCO 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**

AURELCO'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 AURELCO. In future cases filed after Other Charges have been established based on cost, the appropriate level of deduction of the revenue derived from these charges may be revisited.

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

The compliance filing for the approval of Other Charges shall include rates that are cost-based, as well as all supporting cost justifications for the rates, including but 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 58 kWh a month for AURELCO – Mainland and Dingalan end-users and 24 kWh a month for AURELCO – DICADI end-users, using rates based on AURELCO’s actual existing rates as of October 2003 against the unbundled rates approved by the Commission, is shown below.

#### For AURELCO’s end-users in the Mainland and Dingalan:

Based on Actual Existing Rates			Based on ERC Approved Unbundled Rates			
	PhP/kWh	Amount (PhP)			PhP/kWh	Amount (PhP)
Basic Rate	4.5660	264.83	Generation Charges:		2.4962	144.78
PPA	1.1521	66.82	Generation System Charge-Main	2.4717		
WAC	0.2385	13.83	Benefits to Host Communities Charge	0.0245		
PAR	(0.3000)	(17.40)	Transmission Charge		0.8503	49.32
Universal Charge:			Distribution Charge		1.7520	101.62
Missionary Electrification	0.0373	2.16	System Loss Charge		0.5505	31.93
Environmental Share	0.0025	0.15	Supply Charge		0.7398	42.91
Loan Condonation	(0.3000)	(17.40)	Metering Charges:			
			Per Meter Per Month			5.00
			Per kWh		0.3553	20.61
			Inter-Class Cross Subsidy		(0.3932)	(22.81)
			Lifeline Rate [(Discount)/Subsidy]		0.0859	4.98
			Power Act Reduction		(0.3000)	(17.40)
			Universal Charge:			
			Missionary Electrification		0.0373	2.16
			Environmental Charge		0.0025	0.15
			Loan Condonation		(0.3000)	(17.40)
<b>TOTAL BILL</b>		<b>312.99</b>	<b>TOTAL BILL</b>			<b>345.85</b>
<b>PhP/kWh</b>		<b>5.3964</b>	<b>PhP/kWh</b>			<b>5.9629</b>

**For AURELCO's end-users in Dinalungan, Casiguran and Dilasag:**

Based on Actual Existing Rates			Based on ERC Approved Unbundled Rates		
	PhP/kWh	Amount (PhP)		PhP/kWh	Amount (PhP)
Basic Rate	4.5660	109.58	Generation Charge:	3.7064	88.95
PPA	1.1521	27.65	Transmission Charge	0.0000	0.0000
WAC	0.2385	5.72	Distribution Charge	1.7520	42.05
PAR	(0.3000)	(7.20)	System Loss Charge	0.6106	14.65
Universal Charge:			Supply Charge	0.7398	17.76
Missionary Electrification	0.0373	0.90	Metering Charges:		
Environmental Charge	0.0025	0.06	Per Meter Per Month		5.00
Loan Condonation	(0.3000)	(7.20)	Per kWh	0.3553	8.53
			Inter-Class Cross Subsidy	(0.3932)	(9.44)
			Lifeline Rate [(Discount)/Subsidy]	0.0859	2.06
			Power Act Reduction	(0.3000)	(7.20)
			Universal Charge:		
			Missionary Electrification	0.0373	0.90
			Environmental Charge	0.0025	0.06
			Loan Condonation	(0.3000)	(7.20)
<b>TOTAL BILL</b>		<b>129.51</b>	<b>TOTAL BILL</b>		<b>156.12</b>
<b>PhP/kWh</b>		<b>5.3963</b>	<b>PhP/kWh</b>		<b>6.5050</b>

## DISPOSITION

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

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

**For AURELCO's end-users in the Mainland and Dingalan:**

		Residential	Commercial	Industrial	Public Bldg.	Street Lights
<b>Generation Charges:</b>						
Generation System Charge	PhP/kWh	2.4717	2.4717	2.4717	2.4717	2.4717
Franchise & Benefits to Host Communities Charge	PhP/kWh	0.0245	0.0245	0.0245	0.0245	0.0245
<b>Transmission Charges:</b>						
Demand Charge	PhP/kWh					
Transmission System Charge	PhP/kWh	0.8503	0.8249	0.7845	0.8122	0.9366
<b>System Loss Charge:</b>	PhP/kWh	0.5505	0.5505	0.5505	0.5505	0.5505
<b>Distribution Charges:</b>						
Demand Charge	PhP/kWh					
Distribution System Charge	PhP/kWh	1.7520	1.1888	1.0642	1.0317	0.8466
<b>Supply Charges:</b>						
Retail Customer Charge	PhP/Cust./Mo.		45.05	58.73	35.37	35.44
Supply System Charge	PhP/kWh	0.7398				
<b>Metering Charges:</b>						
Retail Customer Charge	PhP/Meter/Mo.	5.00	39.18	60.55	21.43	
Metering System Charge	PhP/kWh	0.3553				
<b>Inter-Class Cross Subsidy Charge:</b>	PhP/kWh	(0.3932)	0.7872	1.2029	1.2840	1.4452
<b>Lifeline Rate (Discount)/Subsidy</b>	PhP/kWh	0.0859	0.0859	0.0859	0.0859	0.0859
<b>Universal Charge:</b>						
Missionary Electrification Charge	PhP/kWh	0.0373	0.0373	0.0373	0.0373	0.0373
Environmental Charge	PhP/kWh	0.0025	0.0025	0.0025	0.0025	0.0025
<b>Power Act Reduction:</b>	PhP/kWh	(0.3000)				
<b>Rate Reduction due to Condonation of loan :</b>	PhP/kWh	(0.3000)	(0.3000)	(0.3000)	(0.3000)	(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						
Rate Reduction Due to Loan Condonation as per ERC Order dated June 4, 2003 on ERC Case No. 2003-88.						

**For AURELCO's end-users in Dinalungan, Casiguran and Dilasag:**

		Residential	Commercial	Industrial	Public Bldg.	Street Lights
<b>Generation Charges:</b>						
Generation System Charge	PhP/kWh	3.7064	3.7064	3.7064	3.7064	3.7064
Franchise & Benefits to Host Communities Charge	PhP/kWh					
FOREX Adjustment Charge	PhP/kWh					
<b>System Loss Charge:</b>	PhP/kWh	0.6106	0.6106	0.6106	0.6106	0.6106
<b>Transmission Charges:</b>						
Demand Charge	PhP/kWh					
Transmission System Charge	PhP/kWh					
<b>Distribution Charges:</b>						
Demand Charge	PhP/kWh					
Distribution System Charge	PhP/kWh	1.7520	1.1888	1.0642	1.0317	0.8466
<b>Supply Charges:</b>						
Retail Customer Charge	PhP/Cust./Mo.		45.05	58.73	35.37	35.44
Supply System Charge	PhP/kWh	0.7398				
<b>Metering Charges:</b>						
Retail Customer Charge	PhP/Meter/Mo.	5.00	39.18	60.55	21.43	
Metering System Charge	PhP/kWh	0.3553				
<b>Inter-Class Cross Subsidy Charge:</b>	PhP/kWh	(0.3932)	0.7872	1.2029	1.2840	1.4452
<b>Lifeline Rate (Discount)/Subsidy</b>	PhP/kWh	0.0859	0.0859	0.0859	0.0859	0.0859
<b>Universal Charge:</b>						
Missionary Electrification Charge	PhP/kWh	0.0373	0.0373	0.0373	0.0373	0.0373
Environmental Charge	PhP/kWh	0.0025	0.0025	0.0025	0.0025	0.0025
<b>Power Act Reduction:</b>	PhP/kWh	(0.3000)				
<b>Rate Reduction due to Condonation of loan :</b>	PhP/kWh	(0.3000)	(0.3000)	(0.3000)	(0.3000)	(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						
Rate Reduction Due to Loan Condonation as per ERC Order dated June 4, 2003 on ERC Case No. 2003-88.						

2. To direct AURELCO to comply with the following:

- a) Discontinue charging the PPA upon effectivity of the approved unbundled rates. Any change in the cost of power purchased, with the exception on power purchased from NMT which shall be limited to that of NPC's rates, shall be reflected as deferred charges or credits which shall be recovered through GRAM and ICERA;

- b) Bill PhP 0.0373/kWh representing the missionary electrification portion of the Universal Charge in accordance with the Decision of the Commission in ERC Case No. 2002-165 (In the Matter of the Petition for the Availment from the Universal Charge the Share for Missionary Electrification, NPC-SPUG, Applicant);
  
- c) Bill PhP 0.0025/kWh representing the environmental portion of the Universal Charge in accordance with the Decision of the Commission in ERC Case No. 2002-194 (In the Matter of the Petition for the Availment from the Universal Charge the Environmental Share/Charge for the Rehabilitation and Management of Watershed Areas, NPC, 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 (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 and 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, December 29, 2003.

**MANUEL R. SANCHEZ**  
Chairman

**OLIVER B. BUTALID**  
Commissioner

**CARLOS R. ALINDADA**  
Commissioner

**LETICIA V. IBAY**  
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Representative – Party List  
Room 604, North Wing Bldg.  
House of Representatives  
Constitution Hills, Quezon City 1126
11. The Municipal Mayor  
Baler, Aurora 3200

12. The Municipal Mayor  
Dipaculao, Aurora 3203
13. The Municipal Mayor  
Ma. Aurora, Aurora 3202
14. The Municipal Mayor  
San Luis, Aurora 3201
15. The Municipal Mayor  
Casiguran, Aurora 3204
16. The Municipal Mayor  
Dilasag, Aurora 3205
17. The Municipal Mayor  
Dingalan, Aurora 3207
18. The Municipal Mayor  
Dinalungan, Aurora 3206