

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. 2001-995

CENTRAL PANGASINAN ELECTRIC
COOPERATIVE, INC., (CENPELCO)
Applicant.

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DECISION

Before this Commission for resolution is the application filed by applicant Central Pangasinan Electric Cooperative, Inc. (CENPELCO) on December 26, 2001 for approval of its unbundled rates pursuant to the provisions of Republic Act No. 9136.

On even date, CENPELCO submitted additional documents in support of the application.

On January 16, 2002, CENPELCO submitted its "Supplemental Compliance" and made narrative explanations on certain schedules in accordance with the submitted checklist.

On February 11, 2002, CENPELCO was directed to submit various data/documents.

On April 5, 2002, CENPELCO submitted its "Manifestation and Compliance" praying among others, that the proposed specific rates or the Overall Average Tariff Adjustment (OATA) in the amount of PhP 0.96423/kWh and the additional documents, be approved and admitted.

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 June 27, 2002, were issued setting the case for initial hearing on August 20, 2002.

On August 9, 2002, CENPELCO submitted its "Revised Compliance" praying that the revised OATA in the amount of PhP 0.6288/kWh together with the revised schedules and other related documents be approved and admitted. In view of the said submission, the August 20, 2002 initial hearing was cancelled.

On October 3, 2002, CENPELCO was directed to submit its revised OATA and Sub-Schedules F-5, H-1 and H-2 of the submitted Schedule A.

On November 18, 2002, CENPELCO was directed to submit additional documents.

On December 16, 2002, CENPELCO submitted its "Second Revised Compliance" praying that the revised OATA in the amount of PhP 0.6143/kWh

together with the second revised schedules and other related documents be approved and admitted.

On January 15, 2003, another Order and Notice of Public Hearing were issued resetting the initial hearing of the case to March 10, 2003.

CENPELCO was directed to cause the re-publication of the Notice of Public Hearing, at its own expense twice (2x) for two (2) successive weeks in two (2) newspapers of general circulation in the country, the last date of publication to be made not later than two (2) weeks before the scheduled date of initial hearing.

The 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 aforementioned initial hearing.

Likewise, the Municipal/City Mayors of Aguilar, Alcala, Basista, Bautista, Bayambang, Binmaley, Bugallon, Labrador, Lingayen, Malasqui, Mangaldan, Mangatarem, San Carlos City, Sual, Urbiztondo, all in the Province of Central Pangasinan were furnished with copies of the Order and the Notice of Public Hearing for the appropriate posting thereof on their respective bulletin boards.

At the initial hearing on March 10, 2003, CENPELCO appeared. No oppositor appeared nor was there any opposition registered.

During said hearing, CENPELCO submitted proofs of its compliance with the Commission's publication and posting of notice requirements which were duly marked as Exhibits "A" to "C-14", inclusive.

Thereafter, CENPELCO presented its first witness, Ms Maritess Radoc, CENPELCO's Officer-In-Charge, Finance Department, who identified and testified in support of the application. In the course thereof, several documents were presented and subsequently marked as Exhibits "D" to "M", inclusive. At the termination of the direct examination, the Commission propounded clarificatory questions on the said witness. Relative thereto, CENPELCO was directed to submit various documents.

CENPELCO then presented its second witness, Mr. Manolo G. Magalong, CENPELCO's Technical Services Department Manager, who testified on the various technical aspects of the application. The direct examination of said witness having been terminated, the Commission propounded clarificatory questions. In the course thereof, CENPELCO's General Manager, Mr. Edgardo Piamonte, was requested to answer some questions from the Commission.

CENPELCO moved that it be given fifteen (15) days from said date of hearing within which to submit the required documents.

On August 25, 2003, CENPELCO submitted its Formal Offer of Evidence.

I. SUMMARY OF CENPELCO'S APPLICATION

I.A. REVENUE REQUIREMENT

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

Account Name	HISTORICAL YEAR	
Purchased Power	PhP	503,465,000
Payroll		55,304,000
Operation and Maintenance (less Purchased Power & Payroll)		26,959,000
Debt Service plus Cash Working Capital		57,248,000
Revenue Requirement	PhP	642,976,000
Reinvestment Fund ¹ (7%)		13,699,000
TOTAL REVENUE REQUIREMENT	PhP	656,675,000

CENPELCO's proposed revenue requirement was PhP 656,675,000 based on historical costs for the year 2000. The Overall Average Tariff Adjustment (OATA) was PhP 0.6143/kWh based on year 2000.

CENPELCO also submitted 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 CENPELCO were as follows:

Residential		
Distribution Charge	PhP 0.9193	/kWh
Generation Charge	4.3809	/kWh
Supply Charges		
Retail Customer Charge	26.16	/Customer/mo.
Metering Charge	13.84	/Customer/mo.
Commercial		
Distribution Charge	0.4667	/kWh
Generation Charge	4.3809	/kWh
Supply Charges		
Retail Customer Charge	29.54	/Customer/mo.
Metering Charge	20.46	/Customer/mo.
Industrial		
Generation Charge		
Energy	4.3809	/kWh
Demand	39.01	/kWh
Supply Charges		
Retail Customer Charge	59.46	/Customer/mo.
Metering Charge	140.54	/Customer/mo.
Irrigation		
Distribution Charge	0.6079	/kWh
Generation Charge	4.3809	/kWh
Supply Charges		
Retail Customer Charge	91.46	/Customer/mo.
Metering Charge	58.54	/Customer/mo.
Public Buildings		
Distribution Charge	0.4664	/kWh
Generation Charge	4.3009	/kWh
Supply Charges	23.17	/Customer/mo.
Retail Customer Charge	16.83	/Customer/mo.
Metering Charge		
Street Lights		
Energy Charge	3.7307	/kWh
Distribution Facilities Charge	150.00	/Customer/mo.

I.B.1. FUNCTIONALIZATION, CLASSIFICATION and ALLOCATION

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

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

I.B.2. SYSTEM LOSS

Witness Magalong, in his testimony, stated that the system loss for the year 2000 was 25.29% .

CENPELCO's system loss for the years 1996, 1997, 1998, 1999 and 2000 were 28.59%, 28.60%, 27.09%, 26.76% and 25.29%, respectively. Furthermore, said witness also mentioned various programs to be implemented to reduce gradually their system loss like improvement of right-of-way clearing, upgrading of system, massive calibration/ testing and maintenance of kWh meters, rehabilitation of old distribution lines, aggressive anti-pilferage campaigns, installation of power capacitors, additional substations, continuously conducting transformer load management, feeder load management, metering correction, right of way clearing, and computerization of meter reading.

Based on their estimates for the years 2002 – 2006, CENPELCO allocated about PhP 250,000,000.

I.B.3. INTER-CLASS CROSS SUBSIDY

CENPELCO 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	516,450,415	533,625,193	17,174,778
Commercial	80,374,636	69,828,494	(10,546,142)
Industrial	25,889,696	20,900,670	(4,989,026)
Irrigation	17,553	17,785	232
Public Buildings	29,552,571	25,615,291	(3,937,280)
Street Lights	4,185,801	6,111,246	1,925,445
Special Lighting	204,141	576,134	371,993
Total	656,674,813	656,674,813	0

Note: The revenues (adjusted and proposed) reflected in Schedule H-1 of the UFR do not reconcile with Schedule A.

I.B.4. LIFELINE RATE and LEVEL

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

Level	12kWh
Rate	PhP 8.6336/kWh

During the hearing of the subject case, witness Radoc stated that CENPELCO's proposed lifeline level is 0 to 12 kilowatt-hours at PhP 8.6336/kWh.

I.C. OTHER CHARGES

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

PARTICULARS	/kWh Consumption	RATES (PhP)
1. Reconnection Fee		
Residential/Public Bldg./	0-12	50.00
Streetlights	13-50	75.00
	51-100	90.00
	101-above	115.00
Commercial	0-15	65.00
	16-50	115.00
	51-100	165.00
	101-above	215.00
Industrial	10-15	500.00
	16-50	600.00
	51 HP above	700.00
BAPA		600.00
2. Special Lighting	Good for one night consumption	464,554.37
3. Service Drop - Selling Price	Per Meter	18.00
Acquired Cost	Per Meter	13.00
Other Income	Per Meter	5.00
4. Others		
Inspection Fee – one visit		1,500,758.78
Service Fee		130.00
Calibration Fee		150.00
Coop Share-New Connections		50.00
Special Lightings		
1-2 lights		130.00
3-5 lights		260.00
6-9 lights		390.00
above 10 lights		500.00
Transformer Testing Fee		
5 KVA - 25 KVA		500.00

37.5 KVA – 75 KVA		750.00
100 KVA and over		1,000.00
Settlement Fee		5,000.00
Pole Rental	Per Pole	108.00
5. Penalty Charges	0-100	20.00
	100-500	50.00
	501-1000	100.00
	1001-5000	200.00
	5001	500.00
6. Meter Box – Selling Price	Per Pc.	400.00
Acquired Cost	Per Pc.	315.00
Other Income	Per Pc.	85.00
7. Rent from Electric Property		41,848.00

II. COMMISSION DISCUSSIONS and CONCLUSIONS

II.A. DETERMINATION OF TOTAL REVENUE REQUIREMENT

II.A.1. TEST YEAR

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

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 Order dated September 29, 2003, Case No. 2003-291 [In the Matter of the Application for the Approval of the Revised Unbundled Generation Tariffs] and 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.

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 shall reflect 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*² of the billing determinants was applied.

The downward adjustment made by the Commission to Purchase Power of PhP 39,684,000 consisted of the following:

Adjustment to Purchased Power Cost	PhP	39,555,000
Adjustment to Systems Loss		(79,239,000)
Net Adjustments	PhP	(39,684,000)

The adjustment to Purchased Power Cost of PhP 39,555,000 pertains to the difference between the proposed Purchased Power of CENPELCO amounting to PhP 503,465,000 and the Generation and Transmission Charges based on the new rates of NPC and TRANSCO amounting to PhP 543,020,000

Records show that CENPELCO's 2000-2002 average system loss was 26.53%. The Commission allowed a system loss of 14% in the calculation of CENPELCO's revenue requirement as discussed in Section II.B.2.d. of this Decision. Thus, the Commission made an adjustment to system loss of PhP 79,239,000 which represents the excess of actual system loss over the allowable recoverable cap of PhP 65,687,000 for CENPELCO .

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.

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

Generation Charge	PhP	292,557,000
Transmission Charge		105,537,000
Recoverable System Loss		65,687,000
Total	PhP	463,781,000

CENPELCO's approved generation charge shall remain fixed until changes in NPC's generation rate are approved and authorized by the Commission pursuant to its Order dated September 29, 2003, Case No. 2003-291 [In the Matter of the Application for the Approval of the Revised Unbundled Generation Tariffs]. In which case, CENPELCO shall bill its end-users the new generation rate charged by NPC. In the meantime, CENPELCO shall discontinue charging the Purchased Power Adjustment (PPA) upon effectivity of the unbundled rates.

II.A.3. PAYROLL

The Commission made an upward adjustment to the payroll account by PhP 2,632,000 to update it to the current salary level of PhP 57,936,000. The adjustment was due to the implementation of new salary increases based on the approved NEA Salary Scale.

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 CENPELCO to incur only "prudent and reasonable costs" for inclusion in the determination of retail rates. While a distribution utility enjoys the benefit of passing its costs of purchased power and other reasonable costs to the end-user, it is obligated as a public utility to ensure that its costs of operations, including payroll, are kept at a minimum. The distribution utility must bear in mind that its very nature is that of a service company for its end-users, with a mandate to advocate and transact judiciously for and in their behalf.

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

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

CENPELCO’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 CENPELCO’s viability. To this end, CENPELCO should view a petition for an increase in rates to be the last recourse. In future filings, CENPELCO 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 an upward adjustment of PhP 4,371,000 to provide Provision for Retirement Benefits which was not included in CENPELCO's application .

For future rate cases, CENPELCO 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. CENPELCO 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 REVENUES 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 CENPELCO to improve its financial operations through the development of other related sources of revenue. However, in order to balance the interest of CENPELCO and its end-user and in recognition of the fact that some of the cost incurred in rendering services under ORI have already been included in the determination of revenue requirement, 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 18,350,527.

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

Particulars	Amount (PhP)	
Prompt Payment Discounts from NPC	PhP	762,932
Rent from Electric Property		41,848
Total		804,780
50% of the above		402,390
Rounded Off	PhP	402,000

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

II.A.6. DEBT SERVICE

The Commission made a downward adjustment of PhP 12,000 to assure that the debt service account included in CENPELCO's revenue requirements is consistent with NEA's records. The Commission disallowed the interest cost associated with Cash Working Capital as calculated by CENPELCO due to lack of justification. The details of the adjustment are shown below:

TYPE OF LOANS	Per NEA (2000)	PER CENPELCO (2000)	Variance
RURAL ELECTRIFICATION			
Loan A	1,702,011	1,702,011	0
Loan B	667,445	667,444	1
Loan C	656,695	656,696	(1)
Loan D	1,292,972	1,292,972	0
Loan E	622,744	622,744	0
Loan F	316,604	316,604	0
Loan G	2,674,696	2,674,696	0
Loan H	334,344	258,036	76,308
Restructured Loan	12,978,428	12,978,428	0
WBank - A	7,434,364	7,434,364	0
WBank - B	2,020,836	2,020,836	0
EL - Concessional	1,684,364	0	1,684,364
EL - Relending	1,496,864	1,496,864	0
Earthquake	10,924	10,924	0
GSIS - Insurance	563,004	0	563,004
WBank - RERP-LOG	1,196,492	147,156	1,049,336
WBank - RERP-RE	4,980,868	459,516	4,521,352
Total	40,633,655	32,739,291	7,894,364
Arrearages as of September 1999	16,602,122	16,602,122	-
Total Amortization for the Year 2000	57,235,777	49,341,413	7,894,364
Add: Cash Working Capital	0	7,906,587	(7,906,587)
Total Debt Service	57,235,777	57,248,000	(12,223)
Rounded Off	57,236,000	57,248,000	(12,000)

Thus, the total allowable amount of debt service in the determination of the revenue requirement should be PhP 57,236,000.

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 the ECs' end-users. CENPELCO applied for a rate reduction pursuant to 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 October 20, 2003, granted CENPELCO a Provisional Authority to reduce its rates by PhP 0.0981/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 an upward adjustment of PhP 18,418,000 to the reinvestment fund account .

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

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

- d) CENPELCO 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 CENPELCO:

Account Name	CENPELCO Proposal	Adjustments	Per ERC
Purchased Power	503,465,000	(39,684,000)	463,781,000
Payroll	55,304,000	2,632,000	57,936,000
O & M (less PP & Payroll)	26,959,000	4,731,000	31,690,000
Debt Service	57,248,000	(12,000)	57,236,000
Reinvestment Fund ³	13,699,000	18,418,000	32,117,000
Other Revenue Items	-	(402,000)	(402,000)
Total Rev. Requirement	656,675,000	(14,317,000)	642,358,000

CENPELCO proposed an OATA of PhP 0.6143/kWh using rates of year 2000. The OATA is a measurement tool based on the formula: (Total Revenue Requirement less Existing Revenue) divided by kWh sales. This measurement is not meant to refer to any specific customer class.

The Commission, after considering adjustments of (PhP 14,317,000) approves a total revenue requirement of PhP 642,358,000 based on the year 2000, equivalent to an OATA⁴ of PhP 0.0964/kWh for CENPELCO. The actual impact to end-users will depend on the level of rates currently being charged. The difference in the computation of OATA between CENPELCO and the Commission is primarily due to the power cost component of the existing revenue. CENPELCO's OATA is based on the existing approved power and distribution rates plus the average Purchased Power Adjustment (PPA) for the year. The approved OATA was computed using existing approved distribution rates (inclusive

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

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

of WAC, if any) and unbundled power cost as of December 2003. The actual impact to end-users will depend on the level of rates currently being charged. This impact is illustrated in Sec. 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 CENPELCO were the default factors provided for in the UFR issued by the Commission on October 30, 2001. In the case of CENPELCO, 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 CENPELCO for functionalization and allocation were modified, to wit:

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

Second, the factor "Total Operation and Maintenance, Net of Fuel and Purchased Power" (TOMXFP), which was used as a default factor to functionalize costs under outside services, was replaced with the factor "Total Payroll Excluding

Administrative and General Payroll” (PAYXAG) in order to remove the possibility of allocating a portion of Outside Services costs to transmission function.

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

Factor Name	Functionalization Factor Description	Total Check	Generation	Transmission	Distribution	Supply	Metering
ORI	Other Revenue Items	1.0000	0.0000	0.0000	0.4452	0.4022	0.1526

CENPELCO proposed a methodology for the classification of certain distribution costs into demand-related and customer-related costs. However, the Commission did not consider such methodology since it does not conform with the calculation of the Minimum Plant Method. The Commission therefore, required CENPELCO to submit data and information for more reasonable calculations using the said method. However, CENPELCO failed to submit such data therefore, the Commission adopted demand and customer allocation of 59% - 41% 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 is 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 changes, the Commission did not consider the BAPA as a customer class.

II.B.2.b. GENERATION CHARGE

Consistent with the Commission's Order 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 generation charge to be billed to end-users shall be the approved rate per kilowatt-hour including Benefits to Host Communities.

For CENPELCO, the LRAC rates for the following billing cycle are as follows:

Annual LRAC Average Rate/kWh	Franchise & Benefits to Host Communities	DAA Rate/kWh
PhP 2.4717	PhP 0.0245	(PhP 0.0065)

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, as discussed in Section II.A.2. of this Decision. Moreover, the approved generation rate will remain fixed until changes are authorized by the Commission pursuant to the afore-stated Order 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. This allows CENPELCO's Generation Charge to remain fixed until such time that NPC's approved rates are adjusted. This eliminates the need for future Purchased Power Adjustment (PPA).

II.B.2.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 CENPELCO 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 CENPELCO have been calculated based on the approved TRANSCO rates, which include cross subsidy elements to be phased out over a three-year period. The following transmission charges will apply to all end-users consistent with the gradual phase-out of the intra-grid subsidy.

Transmission Charges	Resd'l/ BAPA	Comm'l	Ind'l	Irrigation	Public Bldgs.	Street Lights	Special Lighting
October 2003 – September 2004							
Demand Charge PhP/kW			18.15				
Transmission System Charge PhP/kWh	0.8995	0.8713	0.8119	1.2307	0.8871	0.9310	0.7461
October 2004 – September 2005							
Demand Charge PhP/kW			18.15				
Transmission System Charge PhP/kWh	1.0593	1.0262	0.9855	1.4494	1.0447	1.0964	0.8786
October 2005 – September 2006							
Demand Charge PhP/kW			18.15				
Transmission System Charge PhP/kWh	1.2192	1.1810	1.1591	1.6681	1.2023	1.2618	1.0112

II.B.2.d. SYSTEM LOSS CHARGE

The Commission defines system loss for utilities to include technical loss, non-technical loss, and administrative loss or the utility's use of power for its own operations.

The Commission approves the recovery of allowed system loss through the establishment of a separate System Loss Charge in the bill to end-users. The System Loss Charge shall vary from one customer class to another depending on their respective contributions to the system loss. However, due to limited information, the Commission is constrained to adopt a uniform allowable System Loss Charge for all end-users of CENPELCO.

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

On December 8, 1994, Republic Act No. 7832, otherwise known as the Anti-Pilferage Law, was enacted. In July 1995, the ERB promulgated Implementing Rules and Regulations (IRR) under ERB Case No. 95-05, to implement said law. Section 10 of R.A. 7832 and Rule IX, Section 1 of 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. This would, however, be subject to change upon the approval of a new policy by the Commission. The average Technical and Non-Technical System Loss or cap of 14% plus 1% cooperative own use (which should not include personal consumption of CENPELCO'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 CENPELCO's 2000 to 2002 average was 26.53% which is higher than the aforementioned cap of 14%. Hence, the Commission, used the system loss cap of 14% in the calculation of CENPELCO of its revenue requirement. This would however be subject to change upon the approval of a new policy relative thereto by the Commission.

II.B.2.e. DISTRIBUTION CHARGE

The distribution charges shall be billed on a fixed rate per kilowatthour for all end-users. For end-users with demand meters, the distribution shall be billed using combination of fixed rate per kilowatt (kW) and fixed rate per kilowatthour (kWh).

CENPELCO did not propose for distribution wheeling rates. The Commission however 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 CENPELCO's facilities shall pay wheeling charges equivalent to Distribution Wheeling Charges for Industrial end-users.

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 CENPELCO to use

a combination of a PhP 5.00 per customer per month and a PhP 0.2634 per kWh rate for the metering function and a PhP per kWh rate for the supply function. All other end-users shall be billed a fixed monthly supply and meter charge for supply and meter function. Unmetered customer class shall not be billed metering charge.

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

II.B.3. INTER-CLASS CROSS SUBSIDY

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

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

	Total	Resd'l	Comm'l	Ind'l	Irrigation	Public Bldgs.	Street Lights	Special Lighting
New Cost-Based Rev. Req.	642,358,000	523,045,000	69,285,000	19,496,000	24,000	24,928,000	4,905,000	675,000
Existing Rates Revenue	631,028,000	496,335,000	79,169,000	22,235,000	13,000	28,589,000	3,889,000	798,000
Total Change in Revenue	11,330,000	26,710,000	(9,884,000)	(2,739,000)	11,000	(3,661,000)	1,016,000	(123,000)
Percentage Change in Revenue	1.80%							
Normalized Existing Revenue	642,358,000	505,245,000	80,590,000	22,635,000	13,000	29,103,000	3,959,000	813,000
Inter-Class Cross - Subsidy Amounts (PhP)	0	(17,799,000)	11,306,000	3,138,000	(11,000)	4,175,000	(946,000)	137,000
Class Billing Determinants (kWh)	117,507,080	92,592,211	14,632,670	4,071,952	2,506	5,333,404	725,516	148,821
Inter-Class Cross Subsidy Rates (PhP / kWh)		(0.1922)	0.7726	0.7707	(4.3649)	0.7828	(1.3041)	0.9236

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 TRANSCO in its Decision dated June 26, 2002, Case No. 2001-901, which impacts the unbundled transmission rates for CENPELCO'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, CENPELCO will continue to charge the inter-class cross subsidy rates set forth in Section II.B.3.a. above.

II.B.4. LIFELINE RATE and LEVEL

Section 4 (hh) of the R.A. 9136 defines Lifeline Rate as the subsidized rate given to low-income captive market end-users who cannot afford to pay at full cost. Pursuant to Section 73 of R.A. 9136, the Commission hereby sets the level of lifeline consumption and its corresponding discount rates.

In determining the lifeline level of consumption to be provided to the marginalized end-users, the Commission calculated the probable load requirement of typical low-income end-users by considering two (2) lighting facilities at 20 watts each and a 50-watts 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 25 kWh for CENPELCO. 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 CENPELCO. The graduated scale is also based on the recognition that individual end-user consumption may likely vary from month to month.

15	kWh	-	35%
16	kWh	-	30%
17	kWh	-	25%
18	kWh	-	20%
19	kWh	-	15%
20	kWh	-	10%
21-25	kWh	-	5%

CENPELCO 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 25 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 CENPELCO the lifeline discounts result in a Lifeline Rate Subsidy by other end-users equal to PhP 0.0726 /kWh.

The Commission believes that BAPA marginalized residential end-users should likewise enjoy the benefit of lifeline rates. For this purpose, the Commission accepts CENPELCO's proposal to integrate the household connections of BAPAs into the Residential customer class.

CENPELCO shall coordinate with its Barangay Power Associations to gather information on the number of kWh falling under the different lifeline level 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

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

The Other Charges of CENPELCO are hereby pegged at their existing levels until such time that the Commission sets new rates on the same. Further, CENPELCO 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 84 kWh a month using rates based on CENPELCO's actual existing rates as of December 2003 against the unbundled rates approved by the Commission is shown below.

Based on Actual Existing Rates			Based on ERC Approved Unbundled Rates			
	PhP/kWh	Amount (PhP)			PhP/kWh	Amount (PhP)
Basic Rate	3.7060	311.30	Generation Charges:		2.4897	209.13
PPA	1.5846	133.11	Generation System Charge	2.4717		
WAC	0.0708	5.9472	Benefits to Host Communities Charge	0.0245		
PAR	(0.3000)	(25.20)	FOREX	(0.0065)		
Univ. Charge			Transmission Charge		0.8995	75.56
Missionary Electrification	0.0373	3.1332	System Loss Charge		0.5590	46.96
Environmental Charge	0.0025	0.2100	Distribution Charge		0.8533	71.68
Loan Condonation	(0.0981)	(8.2404)	Supply Charge		0.5149	43.25
			Metering Charges:			
			Retail Customer Charge per Month			5.00
			Metering System Charge		0.2634	22.13
			Inter-Class Cross Subsidy		(0.1922)	(16.14)
			Universal Charge:			
			Missionary Electrification Charge		0.0373	3.1332
			Environmental Charge		0.0025	0.2100
			Lifeline Rate [(Discount)/Subsidy]		0.0726	6.0984
			Power Act Reduction		(0.3000)	(25.20)
			Loan Condonation		(0.0981)	(8.2404)
TOTAL BILL		420.26	TOTAL BILL			433.57
PhP/kWh		5.0031	PhP/kWh			5.1615

DISPOSITION

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

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

	Resd'l	Comm'l	Ind'l	Irrigation	Public Building	Street Lights	Special Lighting
Generation Charges:							
Generation System Charge P/kWh	2.4717	2.4717	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	0.0245	0.0245
FOREX Adjustment Charge PhP/kWh	(0.0065)	(0.0065)	(0.0065)	(0.0065)	(0.0065)	(0.0065)	(0.0065)
Transmission Charges:							
Demand Charge PhP/kW			18.15				
Transmission System Charge PhP/kWh	0.8995	0.8713	0.8119	1.2307	0.8871	0.9310	0.7461
System loss Charge PhP/kWh	0.5590	0.5590	0.5590	0.5590	0.5590	0.5590	0.5590
Distribution Charges:							
Demand Charge PhP/kW			18.15				
Distribution System Charge PhP/kWh	0.8533	0.6031	0.5582	5.1443	0.5649	2.6461	0.5315
Supply Charges:							
Retail Customer Charge PhP/Cust./Mo.		37.52	53.13	36.96	37.80	22.86	36.11
Supply System Charge PhP/kWh	0.5149	-	-	-	-	-	-
Metering Charges:							
Retail Customer Charge PhP/Meter/Mo.	5.0000	24.02	46.60	29.12	19.53	18.56	-
Metering System Charge PhP/kWh	0.2634	-	-	-	-	-	-
Inter-Class Cross Subsidy PhP/kWh	(0.1922)	0.7726	0.7707	(4.3649)	0.7828	(1.3041)	0.9236
Universal Charge:							
Missionary Elect. Charge PhP/kWh	0.0373	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	0.0025
Lifeline Rate (Disct)/Subsidy PhP/kWh	0.0726	0.0726	0.0726	0.0726	0.0726	0.0726	0.0726
Loan Condonation PhP/kWh	(0.0981)	(0.0981)	(0.0981)	(0.0981)	(0.0981)	(0.0981)	
Power Act Reduction PhP/kWh	(0.3000)						

2. To direct CENPELCO to comply with the following:
 - a) Discontinue charging the PPA upon effectivity of the approved unbundled rates. CENPELCO shall automatically bill its end-

users the new Generation Rate charged by NPC as approved and authorized by the Commission;

- b) Discontinue the application of the Wage Adjustment Clause (WAC) formula upon effectivity of the approved unbundled rates;
- c) 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 Availments from the Universal Charge the Share for Missionary Electrification, NPC-SPUG, Applicant];
- d) Bill PhP 0.0025/kWh representing the Environmental portion of the Universal Charge in accordance with the Decision of the Commission in ERC Case No. 2002-194 [In the Matter of the Petition for the Availment from the Universal Charge the Environmental Share/Charge for the Rehabilitation and Management of Watershed Areas, NPC, Applicant];
- e) Bill its respective end-users using a billing format which contains at least the rate elements, provided in Annex A of this Decision upon effectivity of the approved unbundled rates. The rate elements provided in Annex A should appear on the end-users bill even if the rate elements currently have a value of zero or have not yet been determined by the Commission;

- f) Inform the end-users within its franchise area of the said approved unbundled rates no 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 & C of this Decision. The report shall include detailed accounting of actual collections and deposits (including interest

and/or dividend income), specific transactions and withdrawals for all disbursements, actual current system losses;

- k) Submit a new System Rehabilitation/Upgrading and/or System Loss Reduction Program covering the period 2004 to 2008, not 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, January 28, 2004.

RODOLFO B. ALBANO
Chairman

OLIVER B. BUTALID
Commissioner

CARLOS R. ALINDADA
Commissioner

LETICIA V. IBAY
Commissioner

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