

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. 2001-953

ROMBLON ELECTRIC COOPERATIVE,
INC. (ROMELCO),

Applicant.

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D E C I S I O N

Before this Commission for resolution is the application filed on December 21, 2001 by applicant Romblon Electric Cooperative, Inc. (ROMELCO) for approval of its unbundled rates pursuant to the provisions of Republic Act No. 9136.

On February 11, 2002, the Commission issued an Order directing ROMELCO to indicate the specific rates applied for approval. In compliance with said Order ROMELCO filed on April 17, 2002 its "Manifestation and Compliance". Subsequently on May 24, 2002, ROMELCO filed a "Motion to

Withdraw With Manifestation and Compliance” praying that its previous submission of the rates applied for approval be considered withdrawn and instead, the overall average tariff adjustment of PhP 0.39416/kWh be admitted in lieu thereof.

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 May 31,2002, were issued setting the same for hearing on July 15, 2002.

On June 10, 2002, ROMELCO filed a “Manifestation with Submission of Additional Documents and Compliance” submitting therewith additional data in support of its application.

On July 1, 2002, the Commission issued an Order resetting the initial hearing to August 16, 2002 due to the holding of the Barangay Election on July 15, 2002, and accordingly directed ROMELCO to post and cause the publication of the Notice of Public Hearing attached to said Order, 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, ROMELCO had the Notice of Public Hearing published in “*Kabayan*” and “*Balita*” on July 15 and 22, 2002 and July 26 and 31, 2002, respectively.

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

Likewise, the Office of the Municipal Mayors of Romblon, Cajidiocan, San Fernando, and Magdiwang, all in the Province of Romblon, 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 August 16, 2002, only ROMELCO appeared and entered its appearance. No oppositor appeared nor was there any opposition registered.

During the said hearing, ROMELCO presented proofs of its compliance with the Commission's publication and posting of notice requirements which were duly marked as Exhibits "A" to "C-4", inclusive. Thereafter, it presented its Finance Manager, Ms. Betty Corong, and its Head of Technical Services Department, Mr. Basilio N. Diaz, Jr., as witnesses. Ms. Corong testified on the documents submitted in support of the application. In the course thereof, additional documents were presented and duly marked as Exhibits "D" to "O", inclusive. On the other hand, Mr. Diaz testified on the technical aspect of the application, particularly on ROMELCO's system loss and on various programs for the reduction thereof. Thereafter, the Commission propounded clarificatory questions on the witnesses.

On September 24, 2002, ROMELCO filed “Manifestation with Submission of Post-Hearing Compliance” in compliance with the Commission’s directive given during the August 16, 2002 hearing.

On June 2, 2003, ROMELCO submitted its “Formal Offer of Evidence”, which was admitted by the Commission for the purpose for which they were being offered.

I. SUMMARY OF ROMELCO’S APPLICATION

I.A. REVENUE REQUIREMENT

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

Account Name	TEST YEAR	
Purchased Power	PhP	14,342,978
Payroll		1,884,606
Operation and Maintenance (less Fuel, Purchased Power & Payroll)		5,500,520
Debt Service		1,129,520
Revenue Requirement		22,857,624
Other Revenue Items		0
Reinvestment Fund ¹		3,640,000
TOTAL REVENUE REQUIREMENT	PhP	26,497,624

ROMELCO’s proposed revenue requirement was PhP 26,497,624 based on historical costs for the year 2000. The Overall Average Tariff Adjustment (OATA) published was PhP 0.39416/kWh. This same OATA was

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

stated by witness Corong, in her testimony on August 16, 2003 (Transcript of Stenographic Notes (TSN), August 16, 2003, page 11).

ROMELCO also submitted Audited Financial Statements for the year 2000.

I.B. RATE STRUCTURE/DESIGN

The unbundled rates proposed by ROMELCO were as follows:

Residential

Distribution System Charge	PhP	1.6162/kWh
Generation Charge		2.8344/kWh
Retail Customer Charge		25.52/customer/month
Metering Charge		22.48/customer/month

Commercial

Distribution System Charge		1.5064/kWh
Generation Charge		2.8341/kWh
Retail Customer Charge		22.35/customer/month
Metering Charge		25.65/customer/month

Industrial

Distribution System Charge		0.6820/kWh
Generation Charge		2.8423/kWh
Demand Charge		160.46/kW
Retail Customer Charge		21.99/customer/month
Metering Charge		103.01/customer/month

Public Buildings

Distribution System Charge		1.5730/kWh
Generation Charge		2.8380/kWh
Retail Customer Charge		22.31/customer/month
Metering Charge		25.69/customer/month

Street Lights

Distribution Facilities Charge	PhP 48.00/customer/month
Distribution Charge	2.1975/kWh
Energy Charge	2.8302/kWh

Special Light

Distribution System Charge	2.4298/kWh
Generation Charge	2.8212/kWh
Retail Customer Charge	25.28/customer/month
Metering Charge	22.72/customer/month

BAPA

Distribution System Charge	1.4935kWh
Generation Charge	2.8348/kWh
Retail Customer Charge	16.63/customer/month
Metering Charge	31.37/customer/month

I.B.1. FUNCTIONALIZATION, CLASSIFICATION and ALLOCATION

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

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

I.B.2. SYSTEM LOSS

Witness Diaz, in his testimony, stated that ROMELCO's historical system loss were 10.01% (1996), 9.42% (1997), 6.25% (1998), 10.43% (1999) and 10.4% (2000), respectively.

I.B.3. INTER-CLASS CROSS SUBSIDY

ROMELCO 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	16,713,656	17,423,957	710,301
Commercial	5,585,910	5,091,117	(494,793)
Industrial	838,311	765,614	(72,697)
Public Building	2,165,481	1,972,148	(193,333)
Street Lights	734,320	789,109	54,789
Special Light	183,199	215,894	32,695
BAPA	276,747	239,785	(36,962)
Total	26,497,624	26,497,624	0

I.B.4. LIFELINE RATE and LEVEL

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

	Option 1 (At Existing Minimum Bill)
Level	10 kWh
Rate	PhP 4.6885/kWh

During the hearing of the subject case, witness Corong stated that ROMELCO's proposed lifeline rate for marginalized consumers is 10 kilowatt-hours, at PhP 4.6885/kWh with no customer charge (August 16, 2002, TSN, pages 12 and 13).

I.C. OTHER CHARGES

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

PARTICULARS	RATES
Inspection Fee	PhP 30.00
Membership Fee	30.00
Connection Fee	30.00
Recalibration Fee	30.00
Service Fee	30.00
Reconnection Fee	30.00

II. COMMISSION DISCUSSIONS and CONCLUSIONS

II.A. DETERMINATION OF TOTAL REVENUE REQUIREMENT

II.A.1. TEST YEAR

The Commission finds ROMELCO'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 COSTS

At present, ROMELCO is buying power only from National Power Corporation – Small Power Utilities Group (NPC-SPUG). ROMELCO also generates its own power through its generation plant in Sibuyan Island.

The Generation charges shall reflect the NPC-SPUG's generation charge as approved in ERC Order dated December 20, 2002, Case No. 2002-01 [In the Matter of the Application for the Approval of Unbundled Power Rates and Basic Rate Increase in the Small Island Grids, National Power Corporation (NPC) – Applicant]. A separate charge to account for the allowable system loss shall likewise be provided in the bill to end-users (please refer to Section II.B.2.c. for details). Hence, a distribution utility with system loss that is within the allowable caps can recover from its end-users the total cost of generation. *Annualization*² of billing determinants was applied.

The Commission made an upward to Purchased Power of PhP 8,638,165 that pertains to the difference between the proposed Purchased Power of ROMELCO amounting to PhP 14,342,978 (inclusive of Fuel cost of PhP 13,510) and the purchased power cost based on the new rates of NPC-SPUG amounting to PhP 22,981,143.

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.

Records show that ROMELCO's average system loss for the years 2000, 2001 and 2002 were 10.17% and 11.91% for NPC-SPUG and Sibuyan Island, respectively. The Commission allowed the said average system losses in the calculation of ROMELCO's revenue requirement as discussed in Section II.B.2.c. of this Decision.

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

ROMELCO – Romblon Island

Generation Charge	PhP	15,269,940
Recoverable System Loss		1,798,953
Total	PhP	17,068,893

ROMELCO – Sibuyan Island

Generation Charge	PhP	5,198,212
Recoverable System Loss		714,038
Total	PhP	5,912,250

ROMELCO – Total

Generation Charge	PhP	20,468,152
Recoverable System Loss		2,512,991
Total	PhP	22,981,143

ROMELCO's approved generation charge shall remain fixed until changes in NPC-SPUG's generation rate are approved and authorized by the Commission pursuant to its Order dated February 24, 2003 Case No. 2003-44 [In the Matter of the Adoption of the Generation Rate Adjustment Mechanism

(GRAM) and Incremental Currency Exchange Recovery Adjustment (ICERA)] and 2003-156 [In the Matter of the Application of the Recovery of Fuel and Independent Power Producer Costs under the Generation Rate Adjustment Mechanism (GRAM)]. Any change thereon shall be reflected as deferred charges or credits which shall be recovered through GRAM as discussed in Section II.B.2.b. of this Decision. In the meantime, ROMELCO shall discontinue charging the Purchased Power Adjustment (PPA) upon effectivity of the unbundled rates.

II.A.3. PAYROLL

The Commission made an upward adjustment in ROMELCO's payroll account by PhP 1,344,986 to update it to the current salary level of PhP 3,229,592. The adjustment is due to implemented salary increases, including those related to Wage Order Nos. IV-5, IV-6 and IV-7 on April 02, 1997, April 13, 1998, and September 29, 2000, respectively.

The Commission reviewed the Wage Adjustment Clause (WAC) Formula authorized by the then Energy Regulatory Board through ERB Case Nos. 94-25 and 94-96. The then Board allowed the implementation of the WAC Formula based on three (3) established criteria for it to be classified under automatic adjustment clauses. These are: 1) when such costs are extremely volatile, changing rapidly over a short period of time; 2) when such volatile cost changes represent significant portions of total utility operating expenses; and 3) when such volatile cost changes are beyond the ability of the utility to control.

Analysis shows that the wage adjustments do not warrant an automatic recovery clause. The Commission, therefore, rules that the application of the WAC Formula be discontinued. The growth in kWh sales will be sufficient for the electric cooperatives to absorb increases in salaries/wages mandated by the wage orders.

II.A.4. OPERATION and MAINTENANCE (less Purchased Power and Payroll)

In general, operating expenses allowed are those which are reasonably incurred in connection with business operations to yield revenue or income. These should be required or necessary in the operation of an electric distribution utility, are recurring, and should redound to the service or benefit of end-users.

The Commission enjoins ROMELCO 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 ROMELCO 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.

ROMELCO’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 ROMELCO’s viability. To this end, ROMELCO should view a petition for an increase in rates to be the last recourse. In future filings, ROMELCO 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 finds ROMELCO’s Operation and Maintenance amounting to PhP 5,481,048 acceptable. Expenses related to own generation amounting to PhP 19,472 was not included under O and M expenses, since it is already included in the computation of the Cost of Power.

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

II.A.5. OTHER REVENUE ITEMS

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

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

The total non asset-based ORI which were not deducted from revenue requirement amounted to PhP 1,280,400.

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

Other Revenue Items	Amount (PhP)
Rent from Electric Property (transformer rental, pole rental)	263,076
TOTAL	263,076
50% of the above	131,538

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

II.A.6. DEBT SERVICE

The Commission finds ROMELCO's debt service amounting to PhP 1,129,520 acceptable. The variance noted represents the insurance which was fully paid in 2001 per NEA's records. The details of the adjustment are shown below.

LOANS	PER NEA (PhP)	Per ROMELCO (PhP)	Variance (PhP)
Rural Electrification			
LOAN A	984,272	984,272	0
LOAN B	47,844	47,844	0
LOAN C	97,404	97,404	0
Insurance *	116,649		116,649
TOTAL	1,246,169	1,129,520	116,649

* - Fully Paid 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 EC's end-users. ROMELCO 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.

II.A.7. REINVESTMENT FUND

The Commission permits a reinvestment fund equivalent to 5% of a cooperative's Gross Revenue to finance expansion and rehabilitation/upgrading of its existing electric power system in accordance with the submitted System Rehabilitation/Upgrading and/or System Loss Reduction Plan. This resulted in a downward adjustment of PhP 1,919,485 in the reinvestment fund account representing the excess over the 5% allowed by the Commission.

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

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

- d) ROMELCO 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 ROMELCO:

	ROMELCO Proposal (PhP)	Adjustments (PhP)	ERC Approval (PhP)
Purchased Power	14,342,978	8,638,165	22,981,143
Payroll	1,884,606	1,344,986	3,229,592
O & M (less PP & Payroll)	5,500,520	(19,472)	5,481,048
Debt Service	1,129,520	0	1,129,520
Reinvestment Fund ³	3,640,000	(1,919,485)	1,720,515
Other Revenue Items	0	(131,538)	(131,538)
Total Rev. Requirement	26,497,624	7,912,654	34,410,280

ROMELCO proposed an OATA of PhP 0.39416/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 7,912,655, approves a Total Revenue Requirement of PhP 34,410,279 equivalent to an OATA⁴ of PhP 0.1384/kWh. The actual impact to end-users will depend on the level of rates currently being charged. This impact is illustrated in Section II.B.6. of this Decision.

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 October 2003.

II.B. RATE STRUCTURE/DESIGN DETERMINATION

II.B.1 FUNCTIONALIZATION, CLASSIFICATION and ALLOCATION

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

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

Second, the factor "Total Operation and Maintenance, Net of Fuel and Purchased Power" (TOMXFP), which is used as a default factor to functionalize costs under outside services, was replaced with the factor "Total Payroll Excluding Administrative and General Payroll" (PAYXAG) in order to remove the possibility of allocating a portion of outside services costs to the transmission function.

Third, since the Commission is now including Other Revenue Items (ORI) not included by ROMELCO in the calculation of its revenue requirement, it was necessary to functionalize and allocate these amounts. The Functionalization factors for ORI which were determined based on direct assignment are as follows:

Factor Name	Functionalization Factor Description	Total Check	Generation	Transmission	Distribution	Supply	Metering
ORI	Other Revenue Items	1.0000	0.0000	0.0000	0.5764	0.2516	0.1720

ROMELCO submitted a classification of distribution costs into demand and customer-related costs using the Minimum Plant Method. This resulted in a 45 - 55% allocation on the average.

II.B.2. DESIGN and CALCULATION OF CHARGES

II.B.2.a. BAPA

The Commission, in the design and calculation of charges, takes note of the existence of the Barangay Power Associations (BAPAs) that were conceptualized by the National Electrification Administration (NEA) for the purpose of strengthening member awareness and involvement in efforts towards the reduction of system loss, improvement of collection efficiency and fortification of the institutional consciousness in the grassroots level. The creation of BAPAs was also necessitated by the growing number of cooperatives' membership which made it impossible for the cooperatives to physically reach out to all end-users.

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

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

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

II.B.2.b. GENERATION CHARGE

Consistent with the decision in ERC Case No. 2002 - 01 [In the Matter of the Application for Approval of the Unbundled Power Rates and Basic Rate Increase in the Small Island Grids, National Power Corporation – Applicant] dated December 20, 2002, the generation charge to be billed to end-users shall be the approved rate per kilowatt-hour including Basic Rate, Fuel Cost Adjustment (FCA) adjustment. The NPC-SPUG's approved rate will remain

fixed until changes are authorized by the Commission pursuant to its Order dated February 24, 2003 as discussed in Section II.A.2. of this Decision. This allows ROMELCO's Generation Charge to remain fixed until such time that NPC-SPUG's approved rate is adjusted. This eliminates the need for future Purchased Power Adjustment (PPA).

II.B.2.c. 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 ROMELCO. The Commission rules that for ROMELCO – Romblon Island, the System Loss Charge for all end-users shall be PhP 0.4367/kWh. For ROMELCO – Sibuyan Island, the System Loss Charge for all end-users shall be PhP 0.5514/kWh.

The allowed system loss is equal to the average of system losses for the years 2000, 2001 and 2002 or the system loss cap, whichever is lower. In arriving at this decision, the Commission recognizes that the distribution utility faces some risk of over or under-recovery in the event its load characteristics

change through time. The system loss results in additional unbundled generation costs to be paid by end-users. When system loss is within the allowable cap, the distribution utility is able to recover from the end-users all generation and transmission costs. Thus, system loss in excess of the allowable cap shall not be recovered from the end-users as calculated in Section II.A.2. of this Decision.

On December 8, 1994, Republic Act No. 7832, otherwise known as the Anti-Pilferage Law, was enacted. In July 1995, the ERB promulgated the Implementing Rules and Regulations (IRR) under ERB Case No. 95-05, to implement said law. Section 10 of R.A. 7832 and Rule IX, Section 1 of its IRR provide that the recoverable Technical and Non-Technical System Loss should not exceed the fourteen percent (14%) ceiling allowed for year 2000.

The Commission believes that the present cap on Technical and Non-Technical System Loss of 14% should continue to be used. This would, however, be subject to change upon the approval of a new policy by the Commission. The average Technical and Non-Technical System Loss or cap of 14% plus 1% cooperative own use (which should not include personal consumption of ROMELCO'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 ROMELCO's 2000 to 2002 average system loss were 10.17% and 11.91% for the Romblon Island and Sibuyan Island, respectively, which were lower than the aforementioned cap of 14%.

Hence, the Commission used the system loss of 10.17% for Romblon Island and 11.91% for Sibuyan Island in the calculation of ROMELCO's revenue requirement.

II.B.2.d. DISTRIBUTION CHARGE

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

ROMELCO did not propose for distribution wheeling rates. However, the Commission believes that wheeling rates are parallel to the cost of service functionalized under Distribution. Thus, the Commission orders that the Distribution Charge provided on Rate Schedules be likewise utilized as Distribution Wheeling Charges available to the future contestable market. Other distribution utilities requesting to wheel power across ROMELCO's facilities shall pay wheeling charges equivalent to Distribution Wheeling Charges for Industrial customers.

The Commission's decision to allow a distribution utility to avail of the Distribution Wheeling Charges of another distribution utility is based on the general intent of R.A. 9136 to promote a competitive generation market. Distribution utilities that currently or in the future shall rely in full or in part on the distribution facilities of another distribution utility should not be held captive by the other distribution utility in the purchase of unbundled generation.

Therefore, distribution utilities are prohibited from bundling or tying the sale of generation or purchased power with the sale of unbundled distribution wheeling service.

II.B.2.e. METERING and SUPPLY CHARGES

The Commission acknowledges that cost-causation rate design principle suggests the recovery of customer-related costs associated with the metering and supply functions through fixed monthly charges. Along with this cost-of-service principle, however, the Commission also considers rate design impacts across the spectrum of customers within each rate class. Although R.A. 9136 requires the removal of inter-class cross subsidies, the law does not require removal of revenue flows that may be characterized as intra-class cross subsidies. The Commission has the flexibility to consider other factors in determining rate design for a particular class of end-users. Therefore, to mitigate the impact on below-average consumption of residential end-users, the Commission orders ROMELCO to use a combination of PhP 5.00 per meter per month and a PhP 0.3810 per kWh rate for the metering function and orders ROMELCO to use a PhP per kWh rate for the supply function. For Commercial, Public Buildings, and Special Lights end-users, metering charge shall be billed a fixed rate per meter per month. The Street Lights end-users do not have metering charge. The supply charge shall be billed on a fixed rate per customer per month for all end-users (except the Residential).

All BAPA residential end-users will be charged with rates used for the Residential Class. ROMELCO 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.f. SIBUYAN ISLAND RATES

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

However, ROMELCO's own generator serves as back-up power source for Sibuyan Island only. ROMELCO is authorized to bill an unbundled Generation Charge of PhP 4.0143 per kWh and a System Loss charge of PhP 0.5514 per kWh to customers of Sibuyan Island. In addition, Sibuyan 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/ BAPA	Commercial	Industrial	Public Bldg.	Street Lights	Special Lights
New Cost-Based Rev. Req.	34,410,280	23,573,639	6,168,346	858,152	2,422,597	1,130,373	257,173
Existing Rates Revenue	33,660,753	21,414,324	6,993,129	1,065,196	2,726,047	1,222,023	240,034
Total Change in Revenue	749,527	2,159,315	(824,783)	(207,044)	(303,450)	(91,650)	17,139
Percentage Change in Revenue	2.23%						
Normalized Existing Revenue	34,410,280	21,891,158	7,148,846	1,088,915	2,786,749	1,249,233	245,379
Inter-Class Cross - Subsidy Amounts (PhP)	0	(1,682,481)	980,500	230,763	364,152	118,860	(11,794)
Class Billing Determinants (in kWh)	5,414,808	3,451,402	1,118,090	170,308	439,364	196,957	38,687
Inter-Class Cross Subsidy Rates (PhP / kWh)	0	(0.4875)	0.8769	1.3550	0.8288	0.6035	(0.3049)

II.B.3.b. CROSS SUBSIDY REMOVAL

Section 74 of R.A. 9136 and Rule 16, Section 5 of its Implementing Rules and Regulations provide that the ERC shall issue a scheme for phasing out all cross subsidies including subsidies within Grids, between Grids, and between classes of end-users. The phasing-out period shall not exceed three (3) years from the establishment of the Universal Charge, which may be extended for a maximum period of one (1) year subject to certain conditions.

In the instant case, the Commission will order the cross subsidy removal process at a later date following the establishment of the Universal Charge. Until such time, ROMELCO will continue to charge the inter-class cross subsidy rates set forth in Section II.B.3.a. above.

II.B.4. LIFELINE RATE and LEVEL

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

In determining the minimum lifeline level of consumption to be provided to the marginalized end-users, the Commission calculated the probable load requirement of typical low-income end-users by considering two (2) lighting facilities at 20 watts each and a 50-watt radio that are being used for a reasonable number of hours. In setting the maximum level of lifeline consumption, the Commission may adjust the minimum level of consumption and/or level of the lifeline discount so as to maximize the benefit to low-income end-users while keeping the costs associated with such subsidy between PhP 0.05 and PhP 0.10 per kWh. Thus, the Commission sets the lifeline consumption maximum level of 20 kWh for ROMELCO. 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 ROMELCO. The graduated scale is also based on the recognition that individual end-user consumption may likely vary from month to month.

15 kWh and below	-	30%
16 kWh	-	25 %
17 kWh	-	20 %
18 kWh	-	15 %
19 kWh	-	10 %
20 kWh	-	5 %

ROMELCO shall apply these discounts to the following residential charges: Generation, Transmission, Distribution, Supply, Metering, and System Loss. In a given billing period, an end-user at any of the above-consumption levels shall be given the specified corresponding discount on each of these rate components. An end-user with a level of consumption exceeding 20 kWh in a particular billing period shall not be entitled to any discounted lifeline rate for said period.

The cost of subsidy to lifeline end-users shall be passed on to all non-lifeline end-users except for the Sale for Resale end-users. For ROMELCO, the lifeline discounts result in a Lifeline Rate Subsidy by other end-users equal to PhP 0.0769/kWh.

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

ROMELCO 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

ROMELCO's additional submission to this Commission of its existing Other Charges as previously presented were considered in the determination of its revenue requirement. Fifty Percent (50%) of the revenues derived from these charges were appropriately deducted from the revenue requirement allowed to ROMELCO. 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 ROMELCO are hereby pegged at their existing levels until such time that the Commission sets new rates on the same. Further, ROMELCO is ordered to make a compliance filing on its Other Charges one (1) year from the date of this Decision using a format to be prescribed by the Commission.

The compliance filing for the approval of Other Charges shall include rates that are cost-based, as well as all supporting cost justification for the rates, including but shall not be limited to the amount of actual time and wages of employees performing each task encompassed by each type of Other Charges.

II.B.6. ESTIMATED IMPACT ON AN AVERAGE RESIDENTIAL END-USER

A comparison of the estimated impact of all adjustments to the revenue requirement on the monthly bill of an average residential end-user consuming 65 kWh a month for ROMELCO – Romblon Island and 36 kWh a month for ROMELCO – Sibuyan Island, using rates based on ROMELCO's actual existing rates as of October 2003 against the unbundled rates approved by the Commission, is shown below.

For ROMELCO's Customers in Romblon Island:

Based on Actual Existing Rates			Based on ERC Approved Unbundled Rates			
	PhP/kWh	Amount (PhP)			PhP/kWh	Amount (PhP)
Basic Rate	4.0054	260.35	Generation Charges:		3.7064	240.92
PPA	2.0973	136.33	Distribution Charge		1.4841	96.47
WAC	0.1172	7.62	System Loss Charge		0.4367	28.39
PAR	(0.3000)	(19.50)	Supply Charge		0.6191	40.24
Universal Charge:			Metering Charges:			
Missionary Electrification	0.0373	2.42	Per Meter Per Month			5.00
Environmental Share	0.0025	0.16	Per kWh		0.3810	24.76
			Inter-Class Cross Subsidy		(0.4875)	(31.69)
			Universal Charge:			
			Missionary Electrification		0.0373	2.42
			Environmental Share		0.0025	0.16
			Lifeline Rate[(Discount)/Subsidy]		0.0769	5.00
			Power Act Reduction		(0.3000)	(19.50)
TOTAL BILL		387.38	TOTAL BILL			392.17
PhP/kWh		5.9597	PhP/kWh			6.0334
Loan Condonation Rate Reduction Case for evaluation by the Legal Service pending the Resolution of the Unbundling Case.						

For ROMELCO's Customers in Sibuyan Island:

Based on Actual Existing Rates			Based on ERC Approved Unbundled Rates			
	PhP/kWh	Amount (PhP)			PhP/kWh	Amount (PhP)
Basic Rate	4.0054	114.20	Generation Charges:		4.0143	144.51
PPA	2.0973	75.50	Distribution Charge		1.4841	53.43
WAC	0.1172	4.22	System Loss Charge		0.5514	19.85
PAR	(0.3000)	(10.80)	Supply Charge		0.6191	22.29
Universal Charge:			Metering Charges:			
Missionary Electrification	0.0373	1.34	Per Meter Per Month			5.00
Environmental Share	0.0025	0.09	Per kWh		0.3810	13.72
			Inter-Class Cross Subsidy		(0.4875)	(17.55)
			Universal Charge:			
			Missionary Electrification		0.0373	1.34
			Environmental Share		0.0025	0.09
			Lifeline Rate[(Discount)/Subsidy]		0.0769	2.77
			Power Act Reduction		(0.3000)	(10.80)
TOTAL BILL		214.55	TOTAL BILL			234.65
PhP/kWh		5.9597	PhP/kWh			6.5180
Loan Condonation Rate Reduction Case for evaluation by the Legal Service pending the Resolution of the Unbundling Case.						

DISPOSITION

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

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

For ROMELCO's Customers in Romblon Island:

	Res.	Com.	Industrial	Public Bldg.	Street Lights	Special Lights
Generation Charges:						
Generation System Charge PhP/kWh	3.7064	3.7064	3.7064	3.7064	3.7064	3.7064
System Loss Charge PhP/kWh	0.4367	0.4367	0.4367	0.4367	0.4367	0.4367
Distribution Charges:						
Demand Charge PhP/kW						
Distribution System Charge PhP/kWh	1.4841	0.9770	0.8664	0.9921	1.3252	1.5537
Supply Charges:						
Retail Customer Charge PhP/Customer/ Mo.		35.61	35.61	35.61	17.07	35.61
Supply System Charge PhP/kWh	0.6191					
Metering Charges:						
Retail Customer Charge PhP/Meter/ Mo.	5.00	27.08	47.78	27.08		27.08
Metering System Charge PhP/kWh	0.3810					
Inter-Class Cross Subsidy Charge PhP/kWh	(0.4875)	0.8769	1.3550	0.8288	0.6035	(0.3049)
Universal Charge:						
Missionary Electrification Charge PhP/kWh	0.0373	0.0373	0.0373	0.0373	0.0373	0.0373
Environmental Share PhP/kWh	0.0025	0.0025	0.0025	0.0025	0.0025	0.0025
Lifeline Rate (Discount)/Subsidy PhP/kWh	0.0769	0.0769	0.0769	0.0769	0.0769	0.0769
Power Act Reduction PhP/kWh	(0.3000)					
Loan Condonation Rate Reduction Case for evaluation by the Legal Service pending the Resolution of the Unbundling Case.						

For ROMELCO's Customers in Sibuyan Island:

	Res.	Com.	Public Bldg.	Street Lights	Special Lights
Generation Charges:					
Generation System Charge PhP/kWh	4.0143	4.0143	4.0143	4.0143	4.0143
System Loss Charge PhP/kWh	0.5514	0.5514	0.5514	0.5514	0.5514
Distribution Charges:					
Demand Charge PhP/kW					
Distribution System Charge PhP/kWh	1.4841	0.9770	0.9921	1.3252	1.5537
Supply Charges:					
Retail Customer Charge PhP/Customer/ Mo.		35.61	35.61	17.07	35.61
Supply System Charge PhP/kWh	0.6191				
Metering Charges:					
Retail Customer Charge PhP/Meter/ Mo.	5.00	27.08	27.08		27.08
Metering System Charge PhP/kWh	0.3810				
Inter-Class Cross Subsidy Charge PhP/kWh	(0.4875)	0.8769	0.8288	0.6035	(0.3049)
Universal Charge:					
Missionary Electrification Charge PhP/kWh	0.0373	0.0373	0.0373	0.0373	0.0373
Environmental Share PhP/kWh	0.0025	0.0025	0.0025	0.0025	0.0025
Lifeline Rate (Discount)/Subsidy PhP/kWh	0.0769	0.0769	0.0769	0.0769	0.0769
Power Act Reduction PhP/kWh	(0.3000)				
Loan Condonation Rate Reduction Case for evaluation by the Legal Service pending the Resolution of the Unbundling Case.					

2. To direct ROMELCO 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 shall be reflected as deferred charges or credits which shall be recovered through GRAM;
 - b) Discontinue the application of Wage Adjustment Clause (WAC) formula upon effectivity of the approved unbundled rates;
 - c) Bill P 0.0373/kWh representing the missionary electrification portion of the Universal Charge in accordance with the Decision of the Commission in ERC Case No. 2002-165 (In the Matter of the Petition for the Availment 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-user's bill even if the rate elements currently have a value of zero or have not yet been determined by the Commission;

- f) Inform the end-users within its franchise area of the said approved unbundled rates not later than thirty (30) days after receipt of this Decision;

- g) Submit for verification and confirmation purposes on or before the twentieth (20th) day of the month following the effectivity of the approved unbundled rates and every month thereafter:
 - 1) five (5) sample bills for each end-user class; 2) copy of bills from the generation and transmission companies; and
 - 3) Monthly Financial and Statistical Reports (MFSRs), complete with all related schedules;

- h) Make a formal application with the Commission for the approval of existing or future contracts with any entity for the wholesale purchases of power not yet approved by the Commission;

- i) Make a formal application to continue the use of Other Charges within one (1) year from date of this Decision using a format to be prescribed by the Commission;

- j) File a progress report on the reinvestment fund no later than one (1) year after the date of this Decision and every year thereafter, using the prescribed formats provided in Annexes B and C of this Decision. The report shall include detailed accounting of actual collections and deposits (including interest/dividend income), specific transactions and withdrawals for all disbursements, and actual current system losses;

- k) Submit a new System Rehabilitation/Upgrading and/or System Loss Reduction Program covering the period 2004 to 2008, no later than one (1) year after the date of this Decision using a format to be prescribed by the Commission; and

- l) Institute policies and procedures for cost-cutting and transparent and competitive procurement of goods and services and submit a report thereon to the Commission within six (6) months from receipt of this Decision.

SO ORDERED.

Pasig City, December 29, 2003.

MANUEL R. SANCHEZ
Chairman

OLIVER B. BUTALID
Commissioner

CARLOS R. ALINDADA
Commissioner

LETICIA V. IBAY
Commissioner

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