

Republic of the Philippines  
**ENERGY REGULATORY COMMISSION**  
San Miguel Avenue, Pasig City

IN THE MATTER OF THE APPLICATION  
FOR AUTHORITY TO REVISE/UNBUNDLE  
RATES IN ACCORDANCE WITH SEC. 36  
OF R. A. 9136, WITH PRAYER FOR  
PROVISIONAL AUTHORITY.

ERC CASE NOS. (2001-895)  
2002-09

- and -

APPLICATION FOR APPROVAL OF THE  
SOUND VALUE APPRAISAL OF APPLICANT'S  
PROPERTIES AND EQUIPMENT.

ERC CASE NO. 2001-480  
(ERB CASE NO. 98-73)

LA UNION ELECTRIC COMPANY, INC. (LUECO)  
*Applicant.*

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**D E C I S I O N**

Before this Commission for resolution are the "Application" and "Supplemental Application" filed on December 26, 2001 and January 14, 2002, respectively by applicant La Union Electric Company, Inc. (LUECO) for approval of its unbundled rates pursuant to the provisions of Republic Act No. 9136.

Having found said applications sufficient in form and substance with the required fees having been paid, an Order and a Notice of Public Hearing both dated April 10, 2002 were issued setting the case for hearing on May 29, 2002.

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

compliance with the said directive, LUECO published the Notice of Public Hearing in the *Malaya* and the *Philippine Star* both on April 24, 2002 and May 2, 2002.

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

Likewise, the Offices of the Municipal/City Mayors of San Juan, Bauang and San Fernando, Province of La Union, were furnished with copies of the Order and the Notice of Public Hearing for the appropriate posting thereof on their respective bulletin boards.

During the initial hearing of this case on May 29, 2002, the counsel for LUECO and Engrs. Robert M. Mallillin and Amado Pacpaco, representatives of intervenor NAPOCOR Industrial Consumers Association, Inc. (NICAI) and other Industrial Consumers of Electricity, appeared.

At the said hearing, LUECO presented its proofs of compliance with the Commission's publication and posting of notice requirements duly marked as Exhibits "A" to "C-2", inclusive. Thereafter, LUECO presented Mr. Lovino T. Torricer and Mr. Jerry V. Parlan, its Chief Accountant and Operation Manager, respectively, as witnesses. They testified on the documents/data submitted in support of the application. In the course of their testimonies, documents were presented and marked as Exhibits "D" to "AA-12", inclusive. A cross-examination was conducted by Engr. Mallillin while clarificatory questions were propounded by the Commission. LUECO then was directed to submit its Re-Audited Financial Statement as its earlier submitted Audited Financial Statement did not conform to the prescribed format.

On January 17, 2003, LUECO submitted said Re-Audited Financial Statements. Subsequently, on various dates, LUECO submitted several schedules required by the Commission.

On July 15, 2003, LUECO submitted its "Formal Offer of Exhibits".

## **I. LUECO's PROPOSAL**

LUECO proposes to adopt and hereby applies for approval of the following rate schedule which embody the unbundling of its rates in accordance with the sectors or functions identified in Section 5 of RA 9136. These rates were developed on the basis of the data and calculations as contained in the schedules prescribed in the Uniform Filing Requirements (UFR) as per ERC Order dated October 30, 2001, as follows:

### Rate Schedule

- Residential Retail Service
- Residential Distribution Wheeling Service
- Secondary Retail Service (X-1) (< or = to 5 kW)
- Secondary Distribution Wheeling Service (< or = 5 kW)
- Secondary Retail Service (X-2) (> 5 kW)
- Secondary Distribution Wheeling Service (> 5 kW)
- Primary Retail Service (Industrial)
- Primary Distribution Wheeling Service
- Lighting Retail Service (Flat Rate)
- Lighting Wheeling Service
- Hospital Retail Service
- Hospital Wheeling Service

### **I.A. Revenue Requirement**

LUECO in its application calculated its Total Revenue Requirement based on test year 2000. The revised rate schedules have been formulated using a total revenue requirement that consists of (a) the total cost of service, (b) total return on rate base, applying for 15.23% Weighted Average Cost of Capital (WACC). LUECO's calculation was based on the appraised or sound value of assets, as underlying basis for the formulation and design of the Revised Rate Schedules. The submitted historical cost of assets, as required in the UFR, was solely for informational purposes, and not as basis for ratemaking.

On the basis of the submitted schedule (Schedule B), the proposed total Revenue Requirement amounted to PhP 385,051,440, computed as follows:

TABLE 1

Account Name	Total Company	Non Elec.	Electric Only	Electric Adjustment	Adjusted Electric
Fuel	0	0	0	0	0
Purchased Power	299,631,820		299,631,820	(32,553,239)	267,078,581
Payroll	17,465,969		17,465,969	0	17,465,969
Operation & Maint.	23,472,933		23,472,933	(9,471,831)	14,001,102
Depreciation & Amor.	26,312,088		26,312,088	0	26,312,088
Taxes	1,319,608		1,319,608	0	1,319,608
OtherExpense (System Loss)	0		0	30,135,390	30,135,390
Return On Rate Base	28,738,702		28,738,702	0	28,738,702
Revenue Requirement	396,941,120		396,941,120	(11,889,680)	385,051,440
Less: Other Revenue Items	0		0	0	0
Total Revenue Requirement	396,941,120		396,941,120	(11,889,680)	385,051,440

LUECO's adjustments in the computation of its revenue requirements are as follows:

1. The Purchased Power cost component was adjusted to reflect the allowed system loss cap of 9.5% and actual company use of 0.64% and the effective purchased power cost amounting to PhP 3.5325 per kWh as of January 2003;
2. Taxes other than Income Tax was already taken out in the computation of Operation and Maintenance Expense. This comprises of Franchise Tax, Real Property Tax and Other Taxes/Fees.
3. System Loss was classified under Other Expense account.

#### **I.A.1. Operating Revenue**

LUECO's actual operating revenues amounting to PhP 372,671,936 for the year 2000 was adjusted to reflect the increase in power cost and increase/decrease in kWh sold and franchise tax. The adjusted operating revenue of PhP 363,477,706 was computed as follows:

TABLE 2

	Residential	(Comml.) X-1	(Comml.) X-2	Hospital	Industrial	Flat Rate	TOTAL
Total Revenues	166,719,437	77,305,269	72,655,178	8,939,812	42,765,409	4,286,831	372,671,936
PPA Collection	53,994,122	24,948,935	23,446,621	3,006,301	12,250,183	1,420,168	119,066,330
Power Cost Incorporated to Basic	78,486,159	36,161,895	34,037,583	4,328,531	22,351,922	2,830,607	178,196,698
Total	132,480,281	61,110,830	57,484,204	7,334,832	34,602,105	4,250,776	297,263,028
New Power Cost	133,315,367	61,424,032	55,224,224	7,022,818	35,419,497	4,808,033	297,213,971
Inc./(Dec.)	835,086	313,202	(2,259,980)	(312,014)	817,392	557,258	(49,057)
<b>Total</b>	<b>167,554,523</b>	<b>77,618,471</b>	<b>70,395,198</b>	<b>8,627,798</b>	<b>43,582,801</b>	<b>4,844,088</b>	<b>372,622,879</b>
Franchise Tax	(4,112,241)	(1,904,967)	(1,727,688)	(211,749)	(1,069,640)	(118,887)	(9,145,173)
<b>Adjusted Revenue</b>	<b>163,442,282</b>	<b>75,713,504</b>	<b>68,667,509</b>	<b>8,416,048</b>	<b>42,513,162</b>	<b>4,725,201</b>	<b>363,477,706</b>

## I.B. Rate Base

LUECO proposed that Schedule B (Restated Value of assets) be used as basis in the determination of its Rate Base. Thus, LUECO utilized the appraised value of assets as reported by an independent appraiser, Asian Appraisal Co., Inc., as of August 19, 1998 in the rate base determination. An adjustment was made by LUECO to reflect additions, retirements and depreciation for the period August 20, 1998 to December 31, 2000. The proposed rate base is as follows:

TABLE 3

	Total Company	Non Electric	Electric Only	Electric Adjust.	Adjusted Electric
Distribution Plant	262,264,012		262,264,012		262,264,012
General Plant	36,634,064		36,634,064		36,634,064
<b>Total Plant In Service</b>	<b>298,898,076</b>		<b>298,898,076</b>		<b>298,898,076</b>
Accumulated Depr.					
Distribution Plant	147,396,524		147,396,524		147,396,524
General Plant	7,829,353		7,829,353		7,829,353
<b>Total Accum. Depr.</b>	<b>155,225,877</b>		<b>155,225,877</b>		<b>155,225,877</b>
<b>Net Plant In Service</b>	<b>143,672,199</b>		<b>143,672,199</b>		<b>143,672,199</b>
Materials & Supplies	1,260,676		1,260,676		1,260,676
Cash Working Capital	43,793,622		43,793,622		43,793,622
<b>Total Rate Base</b>	<b>188,726,497</b>		<b>188,726,497</b>		<b>188,726,497</b>

### I.B.1. Plant in Service

#### I.B.1.a. Asset Valuation as of August 19, 1998

Under ERC Case No. 2001-480 (ERB Case No. 98-73), In the Matter of the Application for Approval of the Sound Value Appraisal of Properties & Equipment, LUECO submitted for ERC's approval the appraisal conducted by Asian Appraisal Co., Inc. (AACI). Based on its report, LUECO's assets had a total cost of

reproduction, new of PhP 271,396,200 and sound value of PhP 170,209,700, to wit:

TABLE 4

Particulars	Cost of Reproduction, New	Sound Value
Land	PhP 25,827,000	PhP 25,827,000
Buildings	8,758,000	6,154,000
Other Land Improvements	706,000	470,000
Machinery & Equipment	2,198,700	1,040,500
Electrical Equipment	229,606,400	133,905,300
Transportation Equipment	1,377,000	1,377,000
Furniture & Office Equipment	2,923,100	1,435,900
<b>TOTAL</b>	<b>PhP 271,396,200</b>	<b>PhP 170,209,700</b>

### I.C. Weighted Average Cost of Capital (WACC)

LUECO proposed a Weighted Average Cost of Capital of 15.23% or equivalent to a return of PhP 16,186,167, computed as follows:

TABLE 5

Component	Amount As Of 12/31/2000	Component As % of Total	Component Cost Of Capital	Weighted Cost Of Capital
Long-term Debt	30,000,000	29.89%	18.15%	5.42%
Short Term	30,000,000	29.89%	16.75%	5.01%
NPC	14,500,000	14.45%	14.50%	2.09%
Customer Deposit	19,628,778	19.55%	10.00%	1.96%
Total Debt	94,128,778	93.77%		14.48%
Common Equity	6,250,000	6.23%	12.00%	0.75%
Total	100,378,778	100.00%		15.23%
Rate Base				106,294,241
Return On Rate Base				16,186,167

### I.D. Rate Design

LUECO's proposed rate structure consisted of charges for the following specific functions: a) Generation/Transmission, b) Distribution, c) Supply, and d) Metering.

#### I.D.1. Generation/Transmission Charge

The generation costs reflected in LUECO's application included the transmission component in NPC's cost of power using NPC average rate as of January 2003 at PhP 2.4573 per kWh for generation charge and PhP 0.7170 per kWh for transmission charge applicable to all customer classes.

### **I.D.2. Distribution Charge**

LUECO determined its Distribution Charge for Residential, Commercial & Flat Rate for each categories with kilowatt-hour sold as their billing determinant resulting in a peso per kilowatt-hour charge. The rate for Industrial customers were determined by using a combination of peso per kilowatt-hour and a fixed rate of PhP 113.00 per kiloWatt.

### **I.D.3. Supply and Metering Charges**

LUECO proposed a combination of a peso per customer per month and peso per kWh for the metering function for residential customers. All other end-users shall be charged peso per kWh for both metering and supply functions.

### **I.D.4. System Loss**

LUECO proposed a 15% system loss cap to be the recoverable rate for its system loss. Schedule J of the application showed that the total system loss of 15% was divided into technical loss at the rate of 12% and non-technical at the rate of 3%, categorized as follows:

**TABLE 6**

Proposed Cap for technical losses:

Customer Class	Proposed Ave. Cap/Mo. (%)
Residential	5.417
Commercial: X-1	2.801
X-2	1.938
Hospital	0.344
Industrial	1.300
Streetlights	0.200
TOTAL	12.000

**TABLE 7**

Proposed Cap for non-technical losses:

Customer Class	Proposed Ave. Cap/Mo. (%)
Residential	1.353
Commercial: X-1	0.723
X-2	0.477
Hospital	0.003
Industrial	0.327
Streetlights	0.037
TOTAL	3.000

### I.D.5. Other Charges

LUECO proposed the following Other Charges which will be applied for the appropriate condition described and will be applicable to all customer classes:

TABLE 8

Charges/Fees	Proposed Rate
Inspection Fee	PhP 100.00
Reconnection Fee	70.00
Transfer Fee	130.00
Re-installation Fee	100.00
Change Name	40.00
Change Service Line	130.00
Meter Deposit	(variable)
Security Deposit	(variable)
Pole use Fee	2.00/pole/day
Meter Test & Sealing	
1) Single Phase	
1.1) w/o demand	30.00
1.2) w/ mechanical demand	40.00
1.3) w/ electronic demand	210.00
2) Poly Phase (2-stator)	
2.1) w/o demand	100.00
2.2) w/ mechanical demand	110.00
2.3) w/ electronic demand	270.00
3) Poly Phase (3 stator)	
3.1) w/o demand	120.00
3.2) w/ mechanical demand	130.00
3.3) w/ electronic demand	290.00
4) Electronic Meter	500.00
Illegal Reconnection Penalty	150.00
Relocation Fee	120.00
Joint Pole Rental Agreement	200.00/pole/yr.
Installation Fee	100.00
Penalties and Surcharges	2% monthly on amount due if acct. is more than 30 days

### I.E. Cross-Subsidies

The total revenue requirement for each customer class was compared to normalized existing rates, which resulted to the following inter-class cross subsidy calculation:

TABLE 9

Customer Class	Existing Rates Adjusted	Normalized Revenue	Computed Revenue	Cross Subsidy
Residential	P 163,442,282	P 173,143,180	P 186,765,198	P 13,622,018
Commercial				
X-1	75,713,504	80,207,377	77,456,316	(2,751,061)
X-II	68,667,509	72,743,178	65,464,516	(7,278,661)
Hospital	8,416,048	8,915,572	7,892,973	(1,022,599)
Industrial	42,513,162	45,036,474	41,428,184	(3,608,289)
Flat Rate	4,725,201	5,005,659	6,044,253	1,038,593
Total	P 363,477,706	P 385,051,440	P 385,051,440	P 0

LUECO proposed to gradually remove these inter-class cross subsidies equally within a three-year period.

#### **I.F. Lifeline Rate**

LUECO proposed fifty percent (50%) discount on all charges excluding Universal Charge for its lifeline customers using consumption level of eight (8) kWh. LUECO used eight (8) kWh as the basis for determining lifeline customers for the reason that eight (8) kWh is the actual monthly consumption of families below the poverty line. This is equivalent to the consumption of a unit of electric bulb in a month time.

#### **I.G. Non-Recurring Rates**

In addition to Other Charges, LUECO proposed the following non-recurring charges which will be applied for the appropriate condition described and will be applicable to all customer classes:

1. Account Initiation Charge
2. Service Call Charge
3. Disconnect/Reconnection Charge
4. Requested Service Interruption Charge
5. Facilities Relocation/Removal Charge
6. Facilities Location Charge
7. Temporary Facilities Charge
8. Return Check or Bank Draft Charge
9. Metering Charges
10. Off-Site Meter Reading (OMR) Equipment Installed Charge
11. Automated Meter Reading (AMR) Equipment Installation Charge
12. Advanced Metering Interval Load Data Equipment Installation Charge
13. Dual Socket Meter Adapter Installation Charge
14. Off-Cycle Meter Reading Charge
15. Automated Meter Reading (AMR) Charge
16. Advance Metering Interval Load Data Equipment Maintenance Charge
17. Electrical Pulse Equipment Maintenance Charge
18. Requested Meter Test Charge
19. Broken Meter Seal Charge
20. Tampering Charge
21. Denial of Access to Meter Charge
22. Utility Service Switchover Charge
23. Security Light Repair Charge
24. Miscellaneous Discretionary Service Charge
25. Competitive Energy Charge
26. Non Standard Service Equipment Inspection/Testing Charge
27. Miscellaneous Competitive Energy Charge

## **II. COMMISSION DISCUSSIONS AND CONCLUSIONS:**

In reaching the conclusion herein, the Commission took into consideration the documents as well as the comments and issues presented by the applicant, intervenor, and other interested parties who submitted their respective positions on the instant application.

### **II.A. Determination of the Total Revenue Requirement**

#### **II.A.1. Test Year**

The Commission finds LUECO'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 B, "Revalued Cost by Function" (Cost of Service by Function-Historical Test Year).

#### **II.A.2. Generation and Transmission Costs**

##### **Generation Cost**

The Commission updated the generation cost based on the most recent approved NPC rate, i.e., ERC Case No. 2003-291 (In the Matter of the Application for the Approval of the Revised Unbundled Generation Tariffs, National Power Corporation (NPC) and Power Sector Assets and Liabilities Management (PSALM) – Applicants) Order dated September 29, 2003. Notably, the Commission approved the adoption of the Incremental Currency Exchange Rate Adjustment (ICERA) in ERC Case No. 2003-498, Order dated December 4, 2003 (NPC and PSALM – Applicants). The Commission directed NPC and PSALM to refund to its customers the Deferred Accounting Adjustment (DAA) and FOREX Correction for Luzon amounting to PhP 0.0065 per kWh within a period of six months starting December 2003 to May 2004.

The total purchased power cost, as presented in the amended application amounting to PhP 299,631,820 was adjusted to reflect the following:

- a) The Commission decided to retain the system loss cap prescribed under Rule IX Section 1 of the Implementing Rules of Republic Act No. 7832 pending the conduct of a comprehensive study, which is 9.5% and

1%. Hence, the Commission used the maximum allowable cap for system loss at 9.5% instead of the 15% proposed herein by LUECO and actual company use of 0.64% for the year 2000. (See further discussion on Section II.I.3.)

- b) The Commission also used annualization in calculating the kilowatt-hour purchase power cost. This is calculated as the sum of the products of the average kilowatt-hour consumption for each rate class and the year-end number of customers for each rate class; and
- c) Since power rates are to be applied prospectively, the Commission also updated the purchased power costs to the most recent levels available.

Based on October 2003 data submitted by LUECO to the Commission, LUECO buys 100% of its power requirements from NPC. As such, the generation cost as computed by the Commission reflects the cost of electric power bought from NPC as of supply month October 2003. The resulting total adjusted purchased power cost amounting to PhP 313,483,012 for the test year 2000 was computed as follows:

TABLE 10

Purchased power cost submitted by LUECO (inclusive of transmission component)	PhP 299,631,820
Adjustment due to update of purchased power costs	22,597,664
Total	Php 322,229,484
Less: Excess system loss	8,746,472
<b>Total Purchased Power Cost included in Revenue Requirement</b>	<b>PhP 313,483,012</b>

### Transmission Cost

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 any provision for an automatic adjustment thereof. Since the transmission rates to be paid by LUECO are fixed, it is the decision of the Commission to likewise fix the unbundled transmission rates to be billed to end-users. The transmission charges approved for billing by LUECO have been calculated based on the approved TRANSCO rates, which include cross subsidy elements to be phased out over a three-year period.

### System Loss

A separate charge to account for the allowable system losses shall likewise be provided. The Commission decided to retain the system loss cap prescribed under Rule IX Section 1 of the Implementing Rules of Republic Act No. 7832 pending the conduct of a comprehensive study on the matter. Hence, the Commission sets the maximum allowable cap for system loss at 9.5% or actual, whichever is lower.

Based on the new generation and transmission charges, as well as the allowable system loss, the Commission has determined LUECO's unbundled generation, transmission and recoverable system loss as follows:

TABLE 11

Generation Charge	PhP 210,209,135
Transmission Charge	71,189,655
Recoverable System Loss	32,084,222
<b>Total</b>	<b>PhP 313,483,012</b>

LUECO'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 February 4, 2003, ERC Case No. 2003-44 (GRAM) and ERC Case No. 2003-498 (ICERA), Order dated December 4, 2003. In view thereof, the Commission does not foresee the need for LUECO to continue to implement its Purchased Power Adjustment (PPA) clause. Towards this end, the Commission hereby directs LUECO to discontinue the implementation of its Purchased Power Adjustment clause (PPA) upon the effectivity of the herein approved unbundled rates.

### II.A.3. Operation and Maintenance (Less Power Cost & Payroll)

The general criteria in the evaluation of expenses to be allowed for recovery are: (1) that the expense is a requisite of, or necessary in the operation of the utility; (2) it is recurring; and (3) it redounds to the benefit of the utility's customers (Public Service Commission [PSC] Decision in Cases Nos. 85889, 85890 and 89893). The Commission enjoins LUECO 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 consumer, 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 as a service-oriented company, its mandate is to advocate and transact judiciously for and in behalf of its consumers.

“Reasonable costs” refers to the costs 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 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, a utility cannot simply rely on its right to pass on its costs to its consumers. As such, the Commission, in fulfillment of the policy of the EPIRA to establish a regime of free and fair competition and full public accountability to achieve greater operational and economic efficiency, enjoins LUECO to institute and report to the Commission their respective policies and procedures for cost-cutting and the transparent and competitive procurement of goods and services.

LUECO’s customers have a right to receive safe, reliable, and adequate service at a reasonable rate. To this end, LUECO should view a petition for an increase in rates to be the last recourse. In future filings, LUECO 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.

Upon review of the components of the expenses included in the revenue requirement, the Commission disallows the recovery of PhP 244,796 representing expenditures that the Commission believes are not required and relevant to the provision of electric power service, to wit:

TABLE 12

<b>Particulars</b>	<b>Amount</b>
Outside Services	PhP 112,460
Miscellaneous Expenses	132,336
<b>Total</b>	<b>PhP 244,796</b>

These expenses were found to have gone beyond the need by which these accounts were meant for. Thus, the Commission rules that these expenses do not fall under the qualification heretofore cited, hence, was not allowed for revenue requirement determination.

LUECO totally removed “Taxes Other than Income Tax” in the computation of its O & M, comprised of Franchise Tax, Real Property Tax and Other Taxes/Fees. The Commission believes that only Franchise Tax should be excluded in the computation of O & M and should appear as a separate line item on the customers’ bills. Given this rate design, it is appropriate to remove the amount of PhP 9,074,413 associated with franchise taxes from the revenue requirement as this is just a pass through item.

For future rate cases, LUECO will continue to be required to make full disclosures of all its O & M expenses in order for the Commission to determine the prudence of its expenditures. Unless otherwise justified by LUECO, expenses found to be unreasonably incurred shall not be allowed by the Commission as part of its recoverable costs to be passed on to LUECO’s end-users.

#### **II.A.4. Depreciation and Amortization**

The Commission made an adjustment to exclude the depreciation expense on disallowed assets under ERC Case No. 2001-480. The adjusted depreciation expense to be considered in the revenue requirement are computed as follows:

**TABLE 13**

Depreciation per UFR	PhP 26,312,088
Depreciation on disallowed assets	<b>(21,430)</b>
Adjusted depreciation to be included in revenue requirement	<b>PhP 26,290,658</b>

See discussion under Section II.C.1.a.

LUECO is required to set up a depreciation fund each year corresponding to the whole amount of depreciation that it has recorded on its books. The setting up of this fund should be done on a monthly basis corresponding to the monthly depreciation. LUECO will be required to strictly account for the expenditures out of this fund which should be used solely for investment in electric plant. The utility is free to withdraw funds from this account at any time but all withdrawals should be reported to the Commission within 30 days specifying the use of the funds. This report should be consolidated with the monthly reportorial requirement (M-001 & M-002).

### II.A.5. Income Taxes

The finality of the Supreme Court Decision in G.R. Nos. 141314 and 141369 dated April 9, 2003 affirms that for ratemaking purposes under the RORB methodology, income tax payment should not be recovered from customers as operating cost.

In view of the above, income tax payments in the amount of PhP 1,319,608 were excluded from LUECO's revenue requirement.

### II.B. Other Revenue

The Commission considered Other Revenue as items to be deducted from the revenue requirement used to calculate the rates for the end-users. Since all the expenses associated with the provision of the services that gave rise to these items of revenue are included in the revenue requirement, the income generated must also be considered, to wit:

TABLE 14

PARTICULARS	AMOUNT
Rev. from Misc. Electric Operation, net	PhP 803,840
Reconnection, Relocation & Transfer fees	99,000
Inspection, Installation	173,467
Illegal connection and Surcharge	29,100
Pole Rentals	18,137
Prompt Payment Discount (50%)	361,182
<b>Total Other Revenues</b>	<b>PhP 1,484,727</b>

The Commission believes that the utility and end-users should share the benefits of the prompt payment discount received by LUECO from NPC amounting to PhP 722,364. Fifty percent (50%) of the discount equivalent to PhP 361,182 should be deducted from the revenue requirement used to calculate the rates for the end-users and fifty percent (50%) retained by the utility to serve as incentive to improve efficiency in the payments of its purchased power costs.

### II.C. Rate Base

#### II.C.1.a. Summary of Net Plant in Service

LUECO's net plant in service as of December 31, 2000 considered in the rate base computation in this case was approved as follows:

TABLE 15

<b>PLANT, PROPERTY &amp; EQUIPMENT</b>	<b>Sound Value</b>
Assets as of August 19, 1998 per Appraisal Report	
Reproduction Cost, New	PhP 271,396,200
Accumulated Depreciation	101,186,500
Sound Value	PhP 170,209,700
Add (Deduct) Adjustment	
Addition/(Retirement) from Sept.1998-Dec.2000	27,391,024
Depreciation Expense from Sept. 1998-Dec. 2000	(53,928,525)
Assets Disallowed by Inspection Team (net of Accum.Depr.)	(185,370)
<b>Adjusted Net Plant in Service as of December 31, 2000</b>	<b>PhP 143,486,829</b>

### **II.C.1.b. Asset Valuation as of August 19, 1998**

The appraisal report considered in this case was the one submitted for approval by LUECO in ERC Case No. 2001-480 (ERB Case No. 98-73). Based on the submitted report, LUECO's assets as of August 19, 1998 have a total value of PhP 271,396,200 as cost of reproduction new and PhP 170,209,700 as sound value.

### **II.C.1.c. Assets Disallowed by the Inspection Team**

Pursuant to ERB Special Assignment No. 98-75 dated November 12, 1998, the inspection team proceeded to LUECO in San Fernando, La Union to conduct an ocular inspection/verification of the assets, property and equipment in service.

From the inspection report dated December 14, 1998, nothing has come to the attention of the Commission that would cause it to question the findings of Asian Appraisal Co., Inc. However, the Commission disallowed some assets with a total cost of reproduction, new of PhP 214,300 and a total sound value of PhP 206,800 which were found to be either inexistent or not under the name of LUECO. Thus, the Commission approved LUECO's adjusted sound value of properties and equipment in service as of August 19, 1998 amounting to PhP 170,002,900.

### **II.C.2. Allowance for Cash Working Capital**

Working capital is money a business must have available to meet payroll and expenses until customers have paid for the service or product. Utilities are usually allowed, as part of their rate base, an amount for working capital to cover expenses during the time it takes for the customers to use the service, be billed for it and collect payments.

LUECO included an amount equal to two (2) months cash operating and maintenance expenses including purchased power costs as the allowance for cash working capital. The cash working capital allowance included in the rate base should approximate the actual cash requirements of LUECO based on the estimated net lag in its cash flow. This is not an issue related to the actual timing of the recovery of a particular cost. The relevant factors to consider in a lead-lag analysis for purposes of determining cash working capital requirements are the following:

1. The time LUECO pays for the energy (kWh) sold to its customers; and
2. The time LUECO requires its customers to pay for the same energy (kWh).

In order to refine the application of the formula used in past rate proceedings, a more detailed review of the actual lag in cash flow associated with the payments for purchased power and the inflow of cash from LUECO's customers was undertaken. With respect to the outflow of cash associated with the payments for purchased power, it was determined that the time from the provision of service to the outflow of funds can be calculated as follows:

15 days	One-half of the billing cycle
5 days	Meter reading and bill preparations
<u>10 days</u>	Approximate time before payment is due
<b><u>30 days</u></b>	Total

Therefore, LUECO has an average approximately thirty (30) days from the time service is provided until payment is due. With respect to the collection of funds from its customers, it was determined that the time lag from the provision of service to the inflow of funds can be calculated as follows:

15 days	One-half of the billing cycle
10 days	Meter reading, bill preparation
10 days	Required time to collect the customer's bill without disconnection
<u>5 days</u>	Processing time
<b><u>40 days</u></b>	<b>Total</b>

Therefore, LUECO waits for an average of approximately forty (40) days before it receives payment for the services provided. With respect to purchased power, it appears that the actual net lag days is approximately ten (10) days only (40 less 30) and not the 60 days assumed in the application of the formula. LUECO's customers who do pay on time should not be penalized because other customers fail to comply with LUECO's payment schedule. If additional finance costs are incurred because of late payment of bills, these costs should be recovered in the form of penalties to the late paying customers and not as additional cash working capital to be paid by all customers.

The adjusted Cash Working Capital allowed by the Commission was computed as follows:

TABLE 16

Total O & M per LUECO	PhP 368,202,418
Less: Taxes & Non-cash items	
Income Tax	1,319,608
Taxes Other Than IncomeTax	9,471,831
Depreciation Expense	26,312,088
Disallowed Expenses	244,796
Power Cost per application	299,631,820
<b>Total</b>	<b>PhP 336,980,143</b>
Total O&M , net of cash & non-cash item	PhP 31,222,275
Cash Working Capital – O&M (2/12 mos.)	PhP 5,203,713
Adjusted Power Cost	PhP 313,483,012
Cash Working Capital – Power Cost (10/360 days)	PhP 8,707,861
<b>Total Cash Working Capital</b>	<b>PhP 13,911,574</b>

### II.C.3. Summary of Rate Base

The following tabulates the adjustments made by the Commission in the components of LUECO's rate base:

TABLE 17

	Per LUECO	Per ERC
Net Plant In Service	PhP 143,672,199	PhP 143,486,829
Materials and Supplies	1,260,676	1,260,676
Cash Working Capital	43,793,622	13,911,574
<b>TOTAL RATE BASE</b>	<b>PhP 188,726,497</b>	<b>PhP 158,659,079</b>

### II.D. Rate of Return

The current form of rate regulation practiced for the privately owned electric utilities is a cost based method known as the rate of return on rate base (RORB)

methodology. Power rates are set to recover cost of service prudently incurred plus a reasonable rate of return on rate base. The rate of return pertains to the percentage which when multiplied by the authorized rate base, provides a return that will fairly compensate the company for the risk inherent to the investment of capital. This simply means that a regulated utility is allowed to set rates which will cover operating costs and provide an opportunity to earn a reasonable rate of return on the assets utilized in the business.

On the basis of current jurisprudence, the Commission has determined that the 12% rate of return will be maintained in this case but the income tax thereon will not be allowed as operating expense. Thus, the 12% rate of return is a pre-tax rate of return which is equivalent to PhP 19,039,089, computed as follows:

TABLE 18

Adjusted Rate Base	PhP 158,659,079
Rate of Return	12%
Return On Rate Base	PhP 19,039,089

The Commission intends to adopt a new internationally accepted method of rate regulation known as Performance-Based Regulation. The treatment of income tax in this new method may be different from the present RORB method.

## II.E. Revenue Requirement Summary

On the basis of the foregoing discussion, the Commission after considering adjustments of PhP 7,993,394 approved a total revenue requirement of PhP 388,947,726 equivalent to OATA of PhP 0.1084 per kWh for LUECO.

TABLE 19

	Electric Only LUECO	Adjustments ERC	Adjusted ERC
Fuel	PhP 0	PhP 0	PhP 0
Purchased Power	299,631,820	13,851,192	313,483,012
Payroll	17,465,969	0	17,465,969
Operation & Maintenance	23,472,933	(9,319,209)	14,153,724
Depreciation & Amortization	26,312,088	(21,430)	26,290,658
Income Taxes	1,319,608	(1,319,608)	0
Return on Rate Base	28,738,702	(9,699,613)	19,039,089
Other Revenue Items	0	(1,484,727)	(1,484,727)
Total Revenue Requirement	PhP 396,941,120	PhP (7,993,394)	PhP 388,947,726
Adjusted Revenue (2000)			379,817,507
Increase(Decrease)			9,130,218
Annualized kWh Sales			84,211,656
Required Increase PhP/kWh			0.1084

The overall average tariff adjustment (OATA) is a measurement tool based on the formula: (Total Revenue Requirement less Existing Revenue) divided by kilowatt-hour sales). This measurement is not meant to refer to any specific customer class. LUECO proposed an OATA of PhP 0.2564 per kWh.

## II.F. Adjusted Operating Revenue

The Commission adjusted LUECO's actual total operating revenue to PhP 379,817,500, computed as follows:

TABLE 20

LUECO's actual operating revenue	PhP 372,671,936
Add/(Deduct):	
Franchise Tax	(9,074,413)
Additional Revenue due to increase in Power cost	16,219,984
<b>Total Adjusted Operating Revenue</b>	<b>PhP 379,817,507</b>

## II.G. Functionalization Factors

The Commission agrees to the functionalization factors used by LUECO. "Other Revenue Items" which was not considered by LUECO in the calculation of the revenue requirement was functionalized to Distribution function.

## II.H. Billing Determinants and Customer Class Allocation

The Commission concurs with LUECO's billing determinants and allocation factors except for the billing determinant and allocation factor used for energy related costs. The Commission believes that any energy related costs should be allocated based on annualized sales.

Annualized sales were derived by multiplying year-end number of customers with average annual kWh usage for each customer class. This was performed to project for the future kWh sales for the development of a more appropriate allocation factors and billing determinants for each customer class. With the annualized sales per customer class, the computed adjusted kilowatt-hour sold was 84,211,656.

The meter allocation factor filed by LUECO was identical to the allocation factor for the number of customers. The Commission believes that the allocation factor used for meters was incorrectly calculated by LUECO since many large customers have multiple metering points. In addition, the meter allocation factor should also reflect the fact that the more sophisticated meters used by larger customers cost significantly more than simple meters such as those used by the residential class. The Commission therefore used a weighted meter allocation factor weighted by meter cost.

TABLE 21

Class	Recalculated	Per Filing
Residential	0.5108	0.8782
Commercial		
X-1	0.3712	0.1149
X-2	0.1001	0.0062
Hospital	0.0044	0.0003
Industrial	0.0135	0.0005
Total	1.0000	1.0000

The Commission opines that in theory, the most appropriate way to allocate costs among customer classes is through the use of the cost causation principles. Thus, the Commission intends, through future proceedings to move even further towards uniform definitions of customer classes based on cost causation characteristics. However, the Commission believes that such a change would best be accomplished through the issuance of guidelines of general applicability to all utilities. Furthermore, R.A. 9136 requires the identification and removal of interclass cross-subsidies. Substantive change in customer classes at this time prevents precise calculation of cross-subsidy in existing rates. Therefore, no changes in customer class allocations are ordered for LUECO at this time.

## **II.I. Design and Calculation of Charges**

### **II.I.1. Generation Charge**

The Commission updated the generation cost based on the most recent approved NPC rate, i.e., ERC Case No. 2003-291, Order dated September 29, 2003. Notably, the Commission approved the adoption of the Incremental Currency Exchange Rate Adjustment (ICERA) under ERC Case No. 2003-498, Order dated December 4, 2003 (NPC and PSALM – Applicant). The Commission directed NPC and PSALM to refund to its customers the Deferred Accounting

Adjustment (DAA) and FOREX Correction for Luzon amounting to PhP 0.0065 per kWh within a period of six months starting December 2003 to May 2004.

The NPC's approved rate will remain fixed until changes are authorized by the Commission. This eliminates the need for future Purchased Power Adjustment.

The Commission has developed a new recovery mechanism designed to replace the purchased power adjustment clauses being used by the power utilities. The Commission has promulgated the Implementing Guidelines on the Generation Rate Adjustment Mechanism (GRAM) effective February 24, 2003. In view thereof, the Commission does not foresee the need for the Purchased Power Adjustment (PPA) clause. Towards this end, the Commission hereby directs LUECO to discontinue implementation of its Purchased Power Adjustment Clause (PPA) upon effectivity of the herein approved unbundled rates.

#### **II.I.2. Transmission Charge**

The Commission's decision in ERC Case No. 2001-901 and the Commission's Order dated September 20, 2002 fixed the transmission charges for the National Transmission Corporation (TRANSCO) without any provision for automatic adjustment thereof. Since the transmission rates to be paid by LUECO are fixed, it is the decision of the Commission to likewise fix the unbundled transmission rates billed to its end-use customers.

The transmission charge shall be billed on a fixed rate per kilowatt-hour for Residential, Commercial, Hospital and Streetlights end-users. In the case of Industrial customers, the transmission charge shall be billed using a combination of a fixed rate per kilowatt (KW) and a rate per kilowatt-hour (kWh).

In consonance with the gradual phase-out of the intra-grid subsidies being billed by TRANSCO, the Commission hereby sets the transmission charges for the succeeding years, as follows:

TABLE 22

Period	Charges	Flat Rate	Residential	Commercial		Industrial	Hospital
				X-1	X-2		
Sept. 2003 to Oct. 2004	Demand (P/kW) Transmission (P/kWh)	0.5857	0.7843	0.9536	0.8737	134.38 0.4681	0.5898
Sept. 2004 to Oct. 2005	Demand (P/kW) Transmission(P/kWh)	0.6548	0.8769	1.0662	0.977	150.24 0.5234	0.6594
Sept. 2005 to Oct. 2006	Demand (P/kW) Transmission(P/kWh)	0.7239	0.9695	1.1788	1.080	166.10 0.5786	0.7290

### II.I.3. System Loss Charge

The Commission defines System Loss for utilities to include 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. The system loss charge shall vary from one customer class to another depending on their respective contributions to the system loss. The allowed system loss is equal to the actual system loss for the test year or the existing system loss cap prescribed in R.A. 7832 whichever is lower.

The Commission believes that the present cap on System Loss of 9.5% should be used in the calculation of revenue requirements at this time. This would however be subject to change upon the approval of a new policy by the Commission. The actual system loss or cap of 9.5% plus 1% of company use or actual whichever is lower shall be deducted from total power cost and to be billed separately as System Loss Charge.

### II.I.4. Distribution Charge

The distribution charge shall be billed on a fixed rate per kilowatt-hour (kWh) for all end-users except for Industrial customers. The distribution charge for Industrial customers shall be billed using a combination of a fixed rate per kilowatt (kW) and a rate per kilowatt-hour (kWh).

Relevant to distribution charge, LUECO proposed distribution wheeling rates comprised of its proposed distribution and supply charges. 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

in the Rate Schedules be likewise utilized as Distribution Wheeling Charges available to the future contestable market.

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

#### **II.I.5. Metering and Supply Charges**

The Commission acknowledges that cost-causation rate design principles suggest the recovery of customer-related costs through fixed monthly charges. In addition to this cost of service principle, however, the Commission must also consider rate design impacts across the spectrum of customers within each rate class. Although RA 9136 requires the removal of inter-class cross subsidies, the law does not require removal of intra-class cross-subsidies. The Commission has the flexibility to consider other factors in determining rate design for a particular class of customers. Therefore to mitigate the impact on below-average consumption of residential and small commercial end-users, the Commission orders LUECO to use a combination of peso per customer per month and peso per kilowatt-hour for the metering function. On the other hand, the Commission orders LUECO to use peso per kilowatt-hour rate for the supply function. All other end-users shall be charged fixed monthly customer charge for both metering and supply functions.

#### **II.I.6. Franchise Taxes**

Franchise taxes shall appear as a separate line item on the customers' bills. Given this rate design, it is appropriate to remove test year amounts associated with franchise taxes from the revenue requirement used to calculate other recurring electricity rates.

Pending issuance of guideline on this issue by the Department of Finance (DOF), LUECO is in the meantime directed to use the formula below in calculating franchise taxes.

Franchise Tax:

$$\text{Total Power Bill} \times \text{FTx1,y}$$

Where: FTx = National franchise tax of 2%  
Fty = Applicable local franchise tax

## II.J. Cross Subsidy Removal

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

TABLE 23

	Total	Residential	X-1	X-2	Hospital	Industrial	Flat Rate
New Cost-Based Revenue	388,947,726	179,867,455	86,841,628	70,308,043	7,748,742	38,923,187	5,258,670
Existing Rates Revenue	379,817,507	171,628,517	82,677,306	72,632,126	8,266,706	40,223,479	4,389,373
Total Change in Revenue	9,130,218	8,238,938	4,164,322	(2,324,083)	(517,964)	(1,300,292)	869,298
Percentage Change in Rev.	2.40%						
Normalized Revenue	388,947,726	175,754,198	84,664,739	74,378,089	8,465,425	41,190,389	4,494,886
Inter-class Cross Subsidy	0	(4,113,257)	(2,176,889)	4,070,045	716,683	2,267,202	(763,784)
Class Billing Determinants (in kWh)	84,211,656	37,978,583	17,577,353	16,240,433	2,043,769	9,046,058	1,325,460
Inter-class Cross Subsidy Rates (PhP/Kwh)	0	(0.1083)	(0.1238)	0.2506	0.3507	0.2506	(0.5762)

Section 74 of R.A. 9136 and Rule 16 Section 16, Section 5 of the Implementing Rules and Regulation thereof provide that ERC shall prescribe 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 extendible for a maximum period of one (1) year subject to certain conditions.

The Commission approved the cross subsidy removal scheme for the TRANSCO in its Decision dated June 26, 2002 in ERC Case No. 2001-901 which impacts the unbundled transmission rates for LUECO's end users. This impact is

reflected in the three-year schedule for unbundled transmission charges provided in Section II.I.2 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, LUECO will continue to charge the inter-class cross subsidy rates set forth above.

## **II.K. Lifeline Rate**

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

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 consumers by two (2) lighting facilities at 20 watts each and a 50-watt Radio that are being used at reasonable number of hours. Thus, the Commission sets the lifeline consumption maximum level of 70 kilowatt-hours for LUECO. 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 LUECO. The graduated scale is also based on the recognition that individual end-user consumption may likely vary from month to month.

**TABLE 24**

<b>KWh Consumption</b>	<b>% Lifeline Discount</b>
25 kWh below	50%
26-30 kWh	45%
31-35 kWh	40%
36-40 kWh	35%
41-45 kWh	30%
46-50 kWh	25%
51-55 kWh	20%
56-60 kWh	15%
61-65 kWh	10%
66-70 kWh	5%

LUECO 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 70 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 LUECO, the lifeline discounts result in a Subsidy on Lifeline by other end-users equal to PhP 0.0906/kWh.

#### **II.L. Non-Recurring Rates**

LUECO's existing charges for other services were considered in the determination of its revenue requirement. The revenues derived from these charges were appropriately deducted from the determination of the revenue requirement allowed to LUECO.

Said charges are hereby pegged at their existing levels until such time that the Commission sets new rates on the same. Further, LUECO is ordered to make a compliance filing on its charges for other services a year from the date of this Decision using a format to be prescribed by the Commission.

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

#### **II.M. Estimated Impact on Average Residential Consumer**

A comparison of the estimated impact of all adjustments on the revenue requirement on the monthly bill of a residential end-user consuming 140 kWh a month using rates based on LUECO's actual existing rates as of October 2003 against the unbundled rates approved by the Commission is shown below:

TABLE 25

RESIDENTIAL Consuming 140 kWh	Peso/kWh	Amount		Peso/kWh	Amount
Basic Charge:	3.0063	420.88	Generation Charge	2.4962	349.47
			Transmission Charge	0.7843	109.80
			System Loss Charge	0.4439	62.15
PPA	1.6590	232.26	Distribution Charge	0.7116	99.63
Power Act Reduction	(0.300)	(42.00)	Supply Charge	0.0814	11.40
			Metering Charge:		
			Retail Customer Charge/Mo.	5.00	5.00
			Metering System Charge	0.1827	25.58
			Inter-Class Cross Subsidy Charge	(0.1083)	(15.16)
			Subsidy on Lifeline	0.0906	12.69
			Power Act Reduction	(0.3000)	(42.00)
Universal Charge	0.0398	5.572	Universal Charge	0.0398	5.57
SUB TOTAL		616.71	SUB TOTAL		624.12
TOTAL BILL		616.71	Franchise Tax 2.5%		15.46
Ave. Rate/kWh		4.4051			4.5685
Inc./(Dec.) In Rate					0.1634
Inc./(Dec.) In Bill					22.87

## DISPOSITION

**WHEREFORE**, the foregoing premises considered this Commission hereby decides as follows:

1. To approve the unbundled schedule of rates of LUECO, to be effective on the next billing cycle after the date of this Decision, to wit;

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**LA UNION ELECTRIC COMPANY, INC. (LUECO)**  
**ERC CASE NO. 2002-09**  
**RATE SCHEDULE**

	Residential	Commercial		Hospital	Industrial	Flat Rate
		X-1	X-2			
Generation Charge (PhPkWh)	2.4962	2.4962	2.4962	2.4962	2.4962	2.4962
Transmission Charge (PhP/kWh)	0.7843	0.9536	0.8737	0.5898	0.4681	0.5857
(PhP/kW)					134.38	
Distribution Charge (PhP/kWh)	0.7116	0.6849	0.5806	0.3901	0.3096	0.6002
(PhP/kW)					88.86	
Customer Charges						
Supply Charge (PhP/Cust./Mo.)			136.32	136.32	136.32	136.32
(PhP/kWh)	0.0814	0.0230				
Metering Charge (PhP/Meter/Mo.)	5.00		847.33	847.33	1,525.19	0
(PhP/kWh)	0.1827	0.3433				
System Loss Charge (PhP/kWh)	0.4439	0.4396	0.2772	0.2801	0.2268	0.2813
Inter-Class Cross Subsidy (PhP/kWh)	(0.1083)	(0.1238)	0.2506	0.3507	0.2506	(0.5762)
Lifeline Rate Subsidy (PhP/kWh)	0.0906	0.0906	0.0906	0.0906	0.0906	0.0906
Excluding Lifeline customer with monthly consumption of 0-70 kWh						
Universal Charge	0.0398	0.0398	0.0398	0.0398	0.0398	0.0398
Minimum Charge PhP/Cust./Mo.						
Residential 0 kWh	5.00					
X-1 0-20 kWh		194.58				
X-2 0-500 kWh			1,148.98			
Hospital 0-500 kWh				1,053.72		
Industrial 0-1000 kWh					1,846.10	

Note: Plus National and Local Franchise Taxes

2. To approve LUECO's net utility plant in service at sound value as of August 19, 1998 amounting to PhP 170,002,900 under ERC Case No. 2001-480 (ERB Case No. 98-73).
3. To direct LUECO to comply with the following:
  - a) To 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 in accordance with a recovery mechanism to be prescribed by the Commission;

- b) Make a compliance filing with respect to its Other Charges a year from date of this Decision;
- c) To bill the amount of 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. 2001-165 (In the Matter of the Petition for the Availments from the Universal Charge the Share for Missionary Electrification, NPC-SPUG, Applicant);
- d) To bill the amount of PhP 0.0025/kWh representing the environmental portion of the Universal Charge in accordance with the Commission's Decision in ERC Case No. 2002-194 (In the Matter of the Petition for the Availments from the Universal Charge the Environmental Share/Charge for the Rehabilitation and Management of Watershed Areas, NPC, Applicant);
- e) To set up a depreciation fund each year corresponding to the whole amount of depreciation that it has recorded on its books. The setting up of this fund should be done on a monthly basis corresponding to the monthly depreciation. LUECO is required to strictly account for the expenditures out of this fund which should be used strictly for investment in electric plant and all withdrawals from this fund should be reported to the Commission within thirty (30) days from withdrawal;
- f) To inform the end-users within its franchise area of the approved unbundled rates not later than thirty (30) days after receipt of this Decision;
- g) To bill its respective end-users using a billing format which contains at least the rate elements provided in Annex "A" (Rate Schedule) of this Decision upon effectivity of the approved unbundled rates;

- h) To bill its respective end-users using a billing format which contains at least the rate elements provided in Annex "B" of this Decision upon effectivity of the approved unbundled rates. The rate elements provided in Annex "B" should appear on the end-users' bills even if the rate elements currently have a rate of zero (0) or have not yet been determined by the Commission; and
- i) To submit for verification and confirmation purposes on or before the twentieth (20<sup>th</sup>) day of the month following the effectivity of the herein approved unbundled rates and every month thereafter: (a) five (5) sample bills for each customer class; (b) copy of bills from the generation and transmission companies; and (c) M-001 and M-002 with all related schedules;

SO ORDERED.

Pasig City, December 22, 2003.

MANUEL R. SANCHEZ  
Chairman

OLIVER B. BUTALID  
Commissioner

LETICIA V. IBAY  
Commissioner

CARLOS R. ALINDADA  
Commissioner

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