

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. 2001-929**

**BUKIDNON II ELECTRIC COOPERATIVE,  
INC. (BUSECO),**

*Applicant.*

X-----X

**DECISION**

Before this Commission for resolution is the application filed on December 26, 2001 by Bukidnon II Electric Cooperative, Inc. (BUSECO) for the approval of its unbundled rates pursuant to the provisions of Republic Act No. 9136 (R.A. 9136).

Having found said application sufficient in form and substance with the required fees having been paid, an Order and a Notice of Public Hearing both dated May 20, 2002 were issued setting the same for hearing on July 1, 2002.

BUSECO 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, BUSECO had the Notice of Public Hearing published in *Balita* on May 29 and June 5, 2002.

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

Likewise, copies of the said Order and the Notice of Public Hearing were furnished the Municipal Mayors of Baungon, Cabanglasan, Impasugong, Lantapan, Libona, Malaybalay, Malitbog, Manolo Fortich and Sumilao, all in the Province of Bukidnon, for the appropriate posting thereof on their respective bulletin boards.

On June 21, 2002, BUSECO filed its "Urgent Motion to Reset Hearing" praying that the July 1, 2002 initial hearing of this case be reset to a later date in view of its need to revise some of the schedules submitted in support of the application. Said motion was granted by the Commission in an Order dated June 24, 2002. Accordingly, the initial hearing was reset to August 16, 2002. In the same Order, BUSECO was directed to re-publish, at its own expense, the Notice of Public Hearing indicating therein the new date of initial hearing. In compliance therewith, BUSECO re-published said Notice of Public Hearing in *Kabayan* and *The Manila Times* both on July 20 and 27, 2002

During the initial hearing of this case on August 16, 2002, only BUSECO appeared. No oppositor appeared nor was there any opposition registered.

At the said hearing, BUSECO presented proofs of compliance with the Commission's publication and posting of notice requirements which were duly marked as Exhibits "A" to "C-8", inclusive. Thereafter, BUSECO presented its first witness, Ms. Bella Stephanie B. Saavedra, BUSECO's Acting Finance Manager, who testified on the different schedules submitted in support of the application. In the course thereof, several documents were presented and duly marked as Exhibits "D" to "R", inclusive. The direct examination of said witness having terminated, the Commission propounded clarificatory questions. In the course thereof, BUSECO was directed to submit the following: a) breakdown of Other Revenue Sources; b) program for reducing its expenses; c) breakdown of information and advertising expenses; and d) complete Schedule "L".

BUSECO then presented its second witness, Mr. Rudy Agustin, BUSECO's Engineering Service Manager, who testified on the technical aspect of the application. The direct examination of said witness having been terminated, the Commission again propounded clarificatory questions.

BUSECO moved that it be given fifteen (15) days from said date of hearing within which to submit the required documents and thereafter, its formal offer of evidence. Said motion was granted by the Commission.

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

On April 11, 2003, BUSECO submitted its “Formal Offer of Evidence” which was admitted by the Commission for the purposes for which they were being offered. BUSECO having rested its case with the filing of said formal offer and having submitted all the additional documents required by the Commission, this case is now ripe for resolution.

## I. SUMMARY OF BUSECO’s APPLICATION

### I.A. REVENUE REQUIREMENT

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

Account Name	HISTORICAL YEAR	
kWh Sales		40,965,633
Purchased Power	PhP	98,170,482
Payroll		15,357,109
Operation and Maintenance (less Purchased Power & Payroll)		19,237,863
Other Expenses		0
Debt Service		17,512,752
Revenue Requirement	PhP	150,278,206
Less: Other Revenue Items		0
Reinvestment Fund (5%) <sup>1</sup>		8,024,840
<b>TOTAL REVENUE REQUIREMENT</b>	<b>PhP</b>	<b>158,303,046</b>

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

BUSECO's proposed revenue requirement was PhP 158,303,046 based on historical costs for the year 2000. The Overall Average Tariff Adjustment (OATA) published was PhP 0.0230/kWh. However, the OATA stated by witness Saavedra in her testimony on August 16, 2002 was PhP 0.1286/kWh based on Schedule A of the revised application (Transcript of Stenographic Notes, August 16, 2002, page 14).

BUSECO also submitted Audited Financial Statements for the year 2000.

#### **I.B. RATE STRUCTURE/DESIGN<sup>2</sup>**

The unbundled rates proposed by BUSECO were as follows:

Residential / BAPA		
Generation Charge	PhP 2.3965	Per kWh
Distribution Charge	1.0791	Per kWh
Supply Charges		
Retail Customer Charge	28.2000	Per Customer/mo.
Metering Charge	27.8000	Per Customer/mo.
Small Commercial		
Generation Charge	2.3965	Per kWh
Distribution Charge	0.5990	Per kWh
Supply Charges		
Retail Customer Charge	51.2500	Per Customer/mo.
Metering Charge	58.7500	Per Customer/mo.
Large Commercial		
Generation Charge	2.3965	Per kWh
Distribution Charge	0.5925	Per kWh
Demand Charge	4.3600	Per kW
Supply Charges		
Retail Customer Charge	9.7900	Per Customer/mo.
Metering Charge	100.2100	Per Customer/mo.

<sup>2</sup> Based on Schedule F-6

Industrial		
Generation Charge	2.3965	Per kWh
Distribution Charge	0.3647	Per kWh
Demand Charge	8.7500	Per kW
Supply Charges		
Retail Customer Charge	31.1600	Per Customer/mo.
Metering Charge	68.8400	Per Customer/mo.
Public Buildings		
Generation Charge	2.3965	Per kWh
Distribution Charge	0.7834	Per kWh
Supply Charges		
Retail Customer Charge	26.3400	Per Customer/mo.
Metering Charge	28.6600	Per Customer/mo.
Street Lights		
Energy Charge	5.5956	Per kWh
Distribution Facilities Charge	20.0000	Per Customer/mo.

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

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

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

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

Witness Agustin, in his testimony, stated that BUSECO's system loss in the year 2000 was 11.09% [August 16, 2002, TSN, page 65].

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

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

<b>CUSTOMER TYPE</b>	<b>ADJUSTED EXISTING (PhP)</b>	<b>PROPOSED EXISTING (PhP)</b>	<b>INTER-CLASS CROSS SUBSIDIES (PhP)</b>
Residential	68,525,561	78,373,580	9,848,019
Small Commercial	38,428,014	32,457,023	(5,970,991)
Large Commercial	4,535,742	5,028,389	492,647
Industrial	34,723,110	30,274,313	(4,448,797)
Public Buildings	8,950,633	8,003,224	(947,409)
Street Lights	3,139,986	4,166,517	1,026,531
<b>Total</b>	<b>158,303,046</b>	<b>158,303,046</b>	<b>0.00</b>

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

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

	<b>Option 1 (At Proposed Energy Charge Only)</b>	<b>Option 2 (At Proposed Customer Charge Only)</b>
<b>Level</b>	15 kWh	15 kWh
<b>Rate</b>	PhP 3.7644/kWh	PhP 56.00/month

**I.C. OTHER CHARGES**

BUSECO, in its subsequent submission, provided this Commission with information on its existing Other Charges as shown below.

<b>PARTICULARS</b>	<b>RATES (PhP)</b>
1. Reconnection Fees	
Residential	40.00
Commercial	750.00
Industrial	100.00
2. Meter Installation	
Cost of wires	18.00
3. Membership Fees	5.00
4. Inspection Fees	
Residential	30.00
Commercial	40.00
5. Coop Share	49.00
6. Notarial Fees	50.00
7. Service Charge	
Transformer	300.00
Meter/Meter Transfer/Service Entrance Transfer	25.00
8. Calibration Fees	
Single Phase	25.00
Three Phase	75.00

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

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

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

The Commission finds BUSECO's proposal to use the test year 2000 in its unbundled rate application acceptable, since it is consistent with Rule 15 Section 6 (c) of the Implementing Rules and Regulations (IRR) of R.A. 9136. Therefore, the discussions and conclusions that follow are based on Schedule A, adjusted to audited financial statement figures for the historical test year 2000.

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

At present, BUSECO is buying power only from the National Power Corporation (NPC).

The Generation and Transmission charges shall reflect the generation charges of the NPC as approved in the Commission's Orders dated February 24, 2003 and May 15, 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 for the Recovery of Fuel and Independent Power Producer Costs Under the Generation Rate Adjustment Mechanism (GRAM)], respectively; and the transmission charges of the National Transmission

Corporation (TRANSCO) as approved in ERC Orders dated September 6 and 20, 2002, Case No. 2001-901 [In the Matter of the Application for the Approval of the Revised Unbundled Power Rates, National Power Corporation (NPC) – Applicant]. The FOREX Component of the NPC's Generation Charge used is as of October 2003 amounting to PhP 0.2506 per kWh. A separate charge to account for the allowable system losses shall likewise be provided (please refer to Section II.B.2.d. for details). Hence, a distribution utility with a system loss that is within the allowable cap can recover from its end-users the total cost of generation and transmission. *Annualization*<sup>3</sup> of billing determinants was applied.

The upward adjustment to Purchased Power Cost of PhP 8,790,841 pertains to the difference between the proposed Purchased Power of BUSECO amounting to PhP 98,170,482 and the Generation and Transmission Charges based on the new rates of NPC and TRANSCO amounting to PhP 106,961,323.

Records show that BUSECO's average system loss for the years 2000, 2001 and 2002 was 13.31%. The Commission allowed BUSECO's average system loss of 13.31% equivalent to PhP 14,421,180 in the calculation of BUSECO's revenue requirement as discussed in Section II.B.2.d. of this Decision.

---

<sup>3</sup> *The annualization of kWh sales is calculated by multiplying the average kWh consumption of a specific customer class by their respective year-end number of customers.*

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

<b>Particulars</b>	<b>Amount (PhP)</b>
Generation Charge	54,910,845
Transmission Charge	37,629,298
Recoverable System Loss	14,421,180
<b>TOTAL</b>	<b>106,961,323</b>

BUSECO's approved generation charge shall remain fixed until changes in NPC's generation rate are approved and authorized by the Commission pursuant to its Orders dated February 24, 2003 and May 15, 2003, Case Nos. 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 for the Recovery of Fuel and Independent Power Producer Costs Under the Generation Rate Adjustment Mechanism (GRAM)], respectively. In which case, BUSECO shall bill its end-users the new generation rate charged by NPC. In the meantime, BUSECO shall discontinue charging the Purchased Power Adjustment (PPA) upon effectivity of the unbundled rates.

### **II.A.3. PAYROLL**

The Commission adjusted the payroll account upward by PhP 3,334,998 to update it to the current salary level of PhP 18,692,107. The adjustment was due to the implementation of new salary increases based on NEA approved new salary scale and Wage Orders.

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 BUSECO 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 the R.A. 9136 to establish a regime of free and fair competition and full public accountability to achieve greater operational and economic efficiency, enjoins BUSECO 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.

BUSECO'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 BUSECO's viability. To this end, BUSECO should view a petition for an increase in rates to be the last recourse. In future filings, BUSECO should be reminded that it has the burden of proving that all reasonable and appropriate cost-cutting measures have been taken, before resorting to a petition to increase rates.

The Commission made a downward adjustment of PhP 3,369,251 to the Operation and Maintenance expense consisting of:

Actual Separation Benefits paid to employees in excess of the allowable level. The Commission allowed the equivalent of one-month pay for inclusion in the rates.	PhP 1,527,792	
Amounts in the UFR that exceed what is allowed under NEA guidelines:		
Bonus (In Addition to 13 <sup>th</sup> Month and Cash Gift)	1,191,911	PhP 2,719,703
Consumer Prompt Payment Discount Reclassified to Other Revenue Items		902,757
Adjustment on SSS, Pag-ibig & Philhealth Contributions to Update to 2002 level.		(253,209)
<b>NET ADJUSTMENT</b>		<b>PhP 3,369,251</b>

The said expenses were excluded for revenue requirement determination. These expenses translate to PhP 0.0646/kWh which the Commission considers material.

For future rate cases, BUSECO 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. BUSECO should ensure that procedures are put in place so that all expenditures that are included in the determination of revenue requirement are adequately documented and that such documentation is reasonably accessible to the ERC.

#### **II.A.5. OTHER REVENUE ITEMS**

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

The Commission encourages BUSECO to improve its financial operation through the development of other related sources of revenue. However, in order to balance the interests of BUSECO and its end-users and in recognition of the fact that some of the costs incurred in rendering services under ORI have been included in the 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 total revenue requirement of the cooperative. The ORI that arises out of the related business activities or is asset based will be shared by the cooperative and the end-user by including 50% in revenue requirement.

The total non asset based ORI which were not deducted from the revenue requirement amounted to PhP1,799,069.

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

<b>Other Revenue Items</b>	<b>Amount (PhP)</b>
Prompt Payment Discount, net of PPD – Customer of PhP902,757	2,015,757
Pole Rental	231,922
Transformer Rental	174,500
<b>TOTAL</b>	<b>2,422,179</b>
<b>50% of the above</b>	<b>1,211,089</b>

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

#### **II.A.6. DEBT SERVICE**

The Commission made a downward adjustment of PhP [1,213,116](#) to assure that the debt service account included in BUSECO's revenue requirement is consistent with NEA's records. The details of the adjustments are shown below:

<b>LOANS</b>	<b>PER NEA (PhP)</b>	<b>PER DETAILS OF BUSECO (PhP)</b>
Rural Electrification:		
LOAN A	1,041,300	1,041,300
LOAN B	349,008	349,008
LOAN C	2,112,232	2,112,232
LOAN D	428,200	428,200
LOAN E	223,108	223,108
LOAN F	4,578,512	4,578,512
WORLD BANK -ESL		
A	666,848	666,848
B	288,880	288,880
OECF		
Construction	5,799,716	5,799,716
Logistical	811,832	811,832
STL-GSIS Insurance*	1,213,128	1,213,128
<b>TOTAL</b>	<b>17,512,764</b>	<b>17,512,764<sup>4</sup></b>

\* Fully paid as of 2002

Pursuant to Section 60 of R.A. 9136 and E.O. 119, savings realized by electric cooperatives (ECs) due to the assumption of certain loans by the Power Sector Assets and Liabilities Management Corporation (PSALM Corp.) shall be passed on to the EC's end-users. BUSECO applied for a rate reduction under the Guidelines for the Implementation of the Reduction in Rates of the Electric Cooperatives Due to Condonation of Debts issued by the Commission on October 21, 2002, as amended on November 15, 2002.

The Commission, in its Order dated May 7, 2003, granted BUSECO a Provisional Authority to reduce its rates by PhP 0.1262/kWh effective on the next billing cycle after receipt of the said Order. The said reduction in rates is likewise shown on the rate schedule provided in the Disposition of this Decision.

<sup>4</sup>BUSECO reflected in its UFR an underestimated amount of PhP 17,512,752, thus, a difference of PhP 12.

## II.A.7. REINVESTMENT FUND

The Commission permits a reinvestment fund equivalent to 5% of BUSECO's Gross Revenue to finance expansion and rehabilitation/upgrading of its existing electric power system in accordance with the submitted System Rehabilitation/Upgrading and/or System Loss Reduction Plan. This resulted in an upward adjustment of PhP 217,823 in the reinvestment fund account.

One of the main purposes of providing the 5% Reinvestment Fund is for the end-users of BUSECO 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 BUSECO;
- c) BUSECO 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 BUSECO to appear and show cause why it should continue collection of the reinvestment fund; and

- d) BUSECO 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 BUSECO:

	<b>BUSECO Proposal (PhP)</b>	<b>Adjustments (PhP)</b>	<b>ERC Approval (PhP)</b>
Purchased Power	98,170,482	8,790,841	106,961,323
Payroll	15,357,109	3,334,998	18,692,107
O & M (less PP & Payroll)	19,237,863	(3,369,251)	15,868,612
Debt Service	17,512,752	(1,213,116)	16,299,636
Reinvestment Fund <sup>5</sup>	8,024,840	217,823	8,242,663
Other Revenue Items	0	(1,211,089)	(1,211,089)
<b>Total Rev. Requirement</b>	<b>158,303,046</b>	<b>6,550,206</b>	<b>164,853,252</b>

<sup>5</sup> In the UFR, this item is reflected as "Plus Percentage for Cooperative Investment".

BUSECO's published OATA is equivalent to PhP 0.0230/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 6,550,206 approves a total revenue requirement of PhP 164,853,252 based on the year 2000, equivalent to an OATA<sup>6</sup> of PhP (0.0069)/kWh for BUSECO. The actual impact to end-users will depend on the level of rates currently being charged. This impact is illustrated in Section II.B.6. of this Decision.

## **II.B. RATE STRUCTURE/DESIGN DETERMINATION**

### **II.B.1 FUNCTIONALIZATION, CLASSIFICATION and ALLOCATION**

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

First, the use of Net Plant in Service (PLTSVC-N) as a factor to functionalize and allocate Maintenance for Office and General Plant will cause

---

<sup>6</sup> The OATA was computed using existing approved distribution rates (inclusive of current WAC, if any) and unbundled power cost as of September 2003.

skewed results by allocating these maintenance costs toward assets not part of such activity. The Commission, therefore, adopted a factor based on Net General Plant (GP-N) as a more reasonable method to allocate maintenance expense associated with general plant.

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

Third, since the Commission is now including Other Revenue Items (ORI) not included by BUSECO, 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	0.1017	0.8657	0.0326

BUSECO submitted a classification of distribution costs into demand and customer-related costs using the Minimum Plant Method. This resulted in a 34% - 66% 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, the reading of the meters 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. 2001-901, In the Matter of the Application for Approval of the Revised Unbundled Power Rates, National Power Corporation – Applicant, dated June 26, 2002, and the Commission's Orders dated September 6 and 20, 2002, the generation charge to be billed to end-users shall be the approved rate per kilowatt-hour including Benefits to Host Communities and Franchise Charge and Foreign Exchange Rate Adjustment (FOREX). The FOREX component of the NPC's Generation Rate used pertains to the supply month of September 2003 amounting to PhP 0.2506 per kWh. The NPC's approved rate will remain fixed until changes are authorized by the Commission pursuant to its Order dated May 15, 2003, as discussed in Section II.A.2. of this Decision. This allows BUSECO's Generation Charge to remain fixed until such time that NPC's approved rates are adjusted. This eliminates the need for future Purchased Power Adjustment (PPA).

### II.B.2.c. TRANSMISSION CHARGE

The Commission's Decision in ERC Case No. 2001-901 dated June 26, 2002 and Order dated September 20, 2002 set the transmission charges for the TRANSCO without automatic adjustments. Since the transmission rates to be paid by BUSECO are fixed, it is the decision of the Commission to likewise fix the unbundled transmission rates billed to end-users. The transmission charges approved for billing by BUSECO have been calculated based on the approved TRANSCO rates which include cross subsidy elements to be phased out over the three-year period. The following transmission charges will apply to all end-users consistent with the gradual phase-out of the intra-grid cross subsidies:

Transmission Charges	Residential	Commercial	Industrial	Public Bldgs.	Street Lights
<b>October 2003 –September 2004</b>					
Transmission System Charge PhP/kWh	0.8927	0.9190	0.8667	0.8911	0.9225
<b>October 2004 –September 2005</b>					
Transmission System Charge PhP/kWh	0.9490	0.9770	0.9214	0.9473	0.9807
<b>October 2005 –September 2006</b>					
Transmission System Charge PhP/kWh	1.0054	1.0351	0.9761	1.0036	1.0390

### II.B.2.d. SYSTEM LOSS CHARGE

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

The Commission approves the recovery of allowed system loss through the establishment of a separate System Loss Charge in the bill to end-users. The System Loss Charge shall vary from one customer class to another

depending on their respective contributions to the system loss. However, due to limited information, the Commission is constrained to adopt a uniform allowable System Loss Charge for all end-users of BUSECO.

The allowed system loss is equal to the average system loss for 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 risks of over or under-recovery in the event its load characteristics change through time. The system loss not only results in additional unbundled generation costs but also additional unbundled transmission costs to be paid by end-users. When system loss is within the allowable cap, the distribution utility shall recover from the end-users all generation and transmission costs. Thus, system loss in excess of the allowable caps shall not be recovered from the end-users as calculated in Section II.A.2. of this Decision.

On December 8, 1994, Republic Act No. 7832, otherwise known as the Anti-Pilferage Law, was enacted. In July 1995, the ERB promulgated 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 found that BUSECO's 2000 to 2002 average system loss was 13.31% which is lower than the aforementioned cap of 14%. Hence, the Commission used the average system loss of 13.31% in the calculation of BUSECO's revenue requirement.

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

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

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

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

## II.B.2.f. METERING and SUPPLY CHARGES

The Commission acknowledges that cost-causation rate design principle suggests the recovery of customer-related costs associated with the metering and supply functions through fixed monthly charges. Along with this cost-of-service principle, however, the Commission also considers rate design impacts across the spectrum of customers within each rate class. Although R.A. 9136 requires the removal of inter-class cross subsidies, the law does not require removal of revenue flows that may be characterized as intra-class cross subsidies. The Commission has the flexibility to consider other factors in determining rate design for a particular class of end-users. Therefore, to mitigate the impact on below-average consumption of residential end-users (including those connected to BAPAs), the Commission orders BUSECO to use a combination of a PhP 5.00 per meter per month and a PhP 0.3750 per kWh rate for the metering function and a PhP per kWh rate for the supply function. For Commercial, Industrial, Public Buildings and Street Lights end-users, metering charge shall be billed on a fixed rate per meter per month. Unmetered Street Lights end-users will have no metering charge. On the other hand, the Commission orders BUSECO to use a fixed PhP per customer per month the supply function for all end-users.

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

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

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

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

	Total	Residential	Commercial	Industrial/ Water System	Public Buildings	Street Lights
New Cost-Based Rev. Req. PhP	164,853,252	85,871,119	37,461,217	28,943,643	8,231,781	4,345,492
Existing Rates Revenue PhP	165,142,339	71,195,189	44,621,775	37,067,732	9,369,090	2,888,553
Total Change in Revenue PhP	(289,087)	14,675,930	(7,160,558)	(8,124,089)	(1,137,309)	1,456,939
Percentage Change in Revenue PhP	(0.18%)					
Normalized Existing Revenue PhP	164,853,252	71,070,559	44,543,664	37,002,844	9,352,689	2,883,496
Inter-Class Cross Subsidy Amounts Class Billing PhP	0	(14,800,560)	7,082,447	8,059,201	1,120,908	(1,461,996)
Determinants kWh	42,077,276	18,112,501	11,294,590	9,551,764	2,383,555	734,866
Inter-Class Cross Subsidy Rates PhP / kWh		(0.8171)	0.6271	0.8437	0.4703	(1.9895)

#### II.B.3.b. CROSS SUBSIDY REMOVAL

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

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

impact is reflected in the three-year schedule for unbundled transmission charges provided in Section II.B.2.c. above.

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

#### **II.B.4. LIFELINE RATE and LEVEL**

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

In determining the minimum lifeline level of consumption to be provided to the marginalized end-users, the Commission calculated the probable load requirement of typical low-income end-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 the level of the lifeline discount so as to maximize the benefit to low-income end-users while keeping the costs associated with such subsidy between PhP 0.05 and PhP 0.10 per kWh. Thus, the Commission sets the lifeline consumption maximum level of 25 kWh for BUSECO. 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 BUSECO. The graduated scale is also based on the recognition that individual end-user consumption may likely vary from month to month.

15 kWh and below	-	50%
16 kWh	-	45%
17 kWh	-	40%
18 kWh	-	35%
19 kWh	-	30%
20 kWh	-	25%
21 kWh	-	20%
22 kWh	-	15%
23 kWh	-	10%
24 kWh	-	5%
25 kWh	-	5%

BUSECO shall apply these discounts to the following residential charges: Generation, Transmission, Distribution, Supply, Metering and System Loss. In a given billing period, an end-user at any of the above consumption levels shall be given the specified corresponding discount on each of these rate components. An end-user with a level of consumption exceeding 25 kWh in a particular billing period shall not be entitled to any discounted lifeline rate for said period.

The cost of subsidy to lifeline end-users shall be passed on to all non-lifeline end-users. For BUSECO, the lifeline discounts result in a Lifeline Rate Subsidy by other end-users equal to [PhP 0.0560kWh](#).

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

BUSECO 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**

BUSECO's additional submission to this Commission of its existing Other Charges as previously presented were considered in the determination of its revenue requirement. Fifty percent (50%) of the revenues derived from these charges were appropriately deducted from the determination of the revenue requirement allowed to BUSECO. In future cases filed after Other Charges have been established based on cost, the appropriate level of deduction of the revenue derived from these charges maybe revisited.

The Other Charges of BUSECO are hereby pegged at their existing levels until such time that the Commission sets new rates on the same. Further, BUSECO 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 not limited to the amount of actual time and wages of employees performing each task encompassed by each type of Other Charges.

(This space left blank intentionally.)

## 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 61 kWh a month, using rates based on BUSECO's actual existing rates as of October 2003 against the unbundled rates approved by the Commission, is shown below.

Based on Actual Existing Rates		Based on ERC Approved Unbundled Rates			
	PhP/kWh	Amount (PhP)		PhP/kWh	Amount (PhP)
Basic Rate	2.7442	167.40	Generation Charges:		
PPA	0.8300	50.63	Generation System Charge	1.0262	62.60
WAC	0.1188	7.25	Benefits to Host Communities Charge	0.0282	1.72
PAR	(0.3000)	(18.30)	FOREX	0.2506	15.29
Missionary Electrification	0.0373	2.28	Transmission System Charge	0.8927	54.45
Environmental Share	0.0025	0.15	System Loss Charge	0.3427	20.90
Rate Reduction Due to Loan Condonation	(0.1262)	(7.70)	Distribution Charge	1.3107	79.95
			Supply Charge	0.4346	26.51
			Metering Charges:		
			Retail Customer / Month		5.00
			Metering System Charge	0.3750	22.88
			Inter-Class Cross Subsidy Charge	(0.8171)	(49.84)
			Universal Charge:		
			Missionary Electrification Charge*	0.0373	2.28
			Environmental Share	0.0025	0.15
			Lifeline Rate[(Discount)/Subsidy]	0.0560	3.42
			Power Act Rate Reduction	(0.3000)	(18.30)
			Rate Reduction due to Loan Condonation	(0.1262)	(7.70)
<b>TOTAL BILL</b>		<b>201.70</b>	<b>TOTAL BILL</b>		<b>219.31</b>
<b>PhP/kWh</b>		<b>3.3066</b>	<b>PhP/kWh</b>		<b>3.5952</b>

## DISPOSITION

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

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

	Residential	Commercial	Industrial	Public Buildings	Street Lights
<b>Generation Charges:</b>					
Generation System Charge PhP/kWh	1.0262	1.0262	1.0262	1.0262	1.0262
Franchise & Benefits to Host Communities Charge PhP/kWh	0.0282	0.0282	0.0282	0.0282	0.0282
FOREX Adjustment Charge PhP/kWh	0.2506	0.2506	0.2506	0.2506	0.2506
<b>Transmission Charges:</b>					
Transmission System Charge PhP/kWh	0.8927	0.9190	0.8667	0.8911	0.9225
<b>Distribution Charges:</b>					
Distribution System Charge PhP/kWh	1.3107	0.5296	0.4545	0.5931	3.2868
<b>System Loss Charge</b> PhP/kWh	0.3427	0.3427	0.3427	0.3427	0.3427
<b>Supply Charges:</b>					
Retail Customer Charge (PhP/Customer/ Month)		25.64	25.64	25.64	22.08
Supply System Charge PhP/kWh	0.4346				
<b>Metering Charges:</b>					
Retail Customer Charge (PhP/Meter/ Month)	5.00	46.25	96.94	39.22	26.97
Metering System Charge PhP/kWh	0.3750				
<b>Inter-Class Cross Subsidy Charge</b> (PhP/kWh)	(0.8171)	0.6271	0.8437	0.4703	(1.9895)
<b>Universal Charges: (PhP/kWh)</b>					
Missionary Electrification Charge*	0.0373	0.0373	0.0373	0.0373	0.0373
Environmental Share	0.0025	0.0025	0.0025	0.0025	0.0025
<b>Lifeline Rate</b> (Discount)/Subsidy (PhP/kWh)	0.0560	0.0560	0.0560	0.0560	0.0560
<b>Power Act Reduction</b> PhP/kWh	(0.3000)				
<b>Rate Reduction due to Condonation of Loan</b> PhP/kWh	(0.1262)	(0.1262)	(0.1262)	(0.1262)	(0.1262)
<p>*<b>Missionary Electrification Charge</b> was adjusted from PhP 0.0168/kWh to PhP 0.0373/kWh pursuant to the final authority granted by ERC in its Decision dated June 26, 2003 on ERC Case No. 2002-165.  <b>Lifeline Rate (Discount)/Subsidy</b> To be based on residential rate in a graduated scale as provided in Section II.B.4. of this Decision.  <b>Rate Reduction due to Loan Condonation</b> as per ERC Order dated May 7, 2003 in Case No. 2003-171.</p>					

2. To direct BUSECO to comply with the following:
  - a) Discontinue charging the PPA upon effectivity of the approved unbundled rates; BUSECO shall automatically bill its end-users the new Generation Rate charged by NPC as approved and authorized by the Commission;
  - b) Discontinue the application of the Wage Adjustment Clause (WAC) formula upon effectivity of the approved unbundled rates;
  - c) Bill PhP 0.0373/kWh representing the missionary electrification portion of the Universal Charge in accordance with the Decision of the Commission in ERC Case No. 2002-165 (In the Matter of the Petition for the 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-users bill even if the rate elements currently have a rate 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 (20<sup>th</sup>) day of the month following the effectivity of the approved unbundled rates and every month thereafter:
  - 1) five (5) sample bills for each end-users class; 2) copy of bills from the generation and transmission companies; and
  - 3) Monthly Financial and Statistical Reports (MFSRs) complete with all related schedules;
  
- h) Make a formal application with the Commission for the approval of existing or future contracts with any entity for the wholesale purchases of power not yet approved by the Commission;

- i) Make a formal application to continue the use of Other Charges within one (1) year from date of this Decision using a format to be prescribed by the Commission;
- j) File a progress report on the reinvestment fund no later than one (1) year after the date of this Decision and every year thereafter, using the prescribed formats provided in Annexes B & C of this Decision. The report shall include detailed accounting of actual collections and deposits (including interest/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, 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

**JESUS N. ALCORDO**  
Commissioner

Copy furnished:

1. **ATTY. ZENON SUAREZ**  
Counsel for Applicant  
4/F Casman Bldg.,  
1198 Quezon Avenue, Quezon City
2. **Mr. Jose Chito D. Ebor**  
General Manager  
Bukidnon II Electric Cooperative, Inc.  
Manolo Fortich, Bukidnon - 8703
3. **Office of the Solicitor General**  
134 Amorsolo Street, Legaspi Village  
City of Makati – 1229
4. **Commission on Audit**  
Commonwealth Avenue  
Quezon City – 1121
5. **Senate Committee on Energy**  
GSIS Building, Roxas Boulevard  
Pasay City – 1300

6. House Committee on Energy  
Batasan Hills, Quezon City –1126
7. Hon. Ernesto C. Pablo  
Representative-Party-List  
APEC  
Room 604, North Wing Building  
House of Representatives  
Batasan Hills, Quezon City –1126
8. Power Sector Assets & Liabilities Management Corporation  
(PSALM)  
2<sup>nd</sup> Floor SGV Building  
Ayala Avenue, Makati City - 1226
9. Fr. Francisco G. Silva  
Administrator  
National electrification Administration (NEA)  
NIA Road Diliman, Quezon City - 1101
10. The Municipal Mayor  
Baungon, Bukidnon - 8707
11. The Municipal Mayor  
Cabanglasan, Bukidnon - 8723
12. The Municipal Mayor  
Impasugong, Bukidnon - 8702
13. The Municipal Mayor  
Lantapan, Bukidnon - 8722
14. The Municipal Mayor  
Libona, Bukidnon - 8706
15. The Municipal Mayor  
Malaybalay, Bukidnon - 8700
16. The Municipal Mayor  
Malitbog, Bukidnon - 8704
17. The Municipal Mayor  
Manolo Fortich, Bukidnon - 8703
18. The Municipal Mayor  
Sumilao, Bukidnon - 8701