

PhP13,905,152.00 and the balance of PhP19,974,190.00 for its Cash Working Capital.

3.1.3.1 DEBT SERVICE

MORESCO II proposed an amount of PhP13,905,152.00 for its debt service. This represents the amount of amortization of the remaining NEA loans not condoned by the Power Sector Assets and Liabilities Management Corporation (PSALM) and NEA loans acquired after June 26, 2001.

The current policy of the Commission is to consider loans for capital expenditures in determining an EC's reinvestment fund instead of the debt service. Consequently, the Commission deems it proper to consider the amortization of the subject loan under the reinvestment fund to be set for MORESCO II.

The Commission has verified all NEA loans to be in order but approves only the amount of Seven Million Twenty-One Thousand Eight Hundred Fifty-Six Pesos (PhP7,021,856.00) for MORESCO II's debt service.

The debt service was determined to be associated with loans for capital expenditures. As such, it can be deemed as the EC member consumers' capital contribution. Thus, the amount of PhP0.1005/kWh, which is the quotient of the approved debt service and the annualized kWh sales in 2005, shall be considered as contribution from member-consumers.

3.1.3.2 CASH WORKING CAPITAL (CWC)

MORESCO II alleged that it needs a CWC in order to pay its various financial obligations on time and avoid additional expenses in the form of surcharges and penalties due to the lag in the days between the period of payment to its creditors and the period of collection from its consumers.

In its proposed revenue requirement, MORESCO II included the amount of PhP19,974,190.00 for its CWC.

The Commission notes that CWC is not part of the revenue requirement under the Cash Base Methodology. The Commission believes that the present components of the revenue requirement are sufficient to address any possible need for a CWC. Any CWC, if required, may be sourced by the ECs from loans, reinvestment fund and probable incremental incomes or revenues as a result of increasing kWh sales.

Thus, the Commission disallows the proposed CWC of Nineteen Million Nine Hundred Seventy-Four Thousand One Hundred Ninety Pesos (PhP19,974,190.00) as part of MORESCO II's revenue requirement.

3.1.4 REINVESTMENT FUND

MORESCO II proposed a reinvestment fund of PhP63,281,851.00 to be used to implement its proposed projects for the years 2007 to 2011.

MORESCO II seeks not only the recovery of its estimated project cost but likewise the anticipated imposition of a Permit Fee.

In the unbundling of rates of the ECs, the Commission allowed a reinvestment fund equivalent to 5% of the Gross Revenue. The reinvestment fund was provided as a component of the revenue requirement to finance the expansion, rehabilitation or upgrading of the existing electric power system of the ECs in accordance with their submitted System Rehabilitation/Upgrading and/or System Loss Reduction Plan.

In the same vein, the Commission shall provide a reinvestment fund equivalent to 5% of MORESCO II's gross revenue for 2007 to finance its Commission-approved capital expenditures. While the test year for this application is 2005, the Commission used 2007 to update the reinvestment fund to reflect the most current power cost.

Thus, the Commission grants MORESCO II a Reinvestment Fund of Seventeen Million Four Hundred Eighty-Eight Thousand Three Hundred Eighty-One Pesos (PhP17,488,381.00).

The Commission reiterates that the reinvestment fund is intended not to cover 100% of the cost of the capital expenditures. It is envisaged that capital expenditures can be prudently financed through long-term debt the amortization of which shall be funded by the reinvestment fund.

The Reinvestment Fund shall be subject to the following conditions:

- a) It shall not be used, even temporarily, for any purpose other than for capital expenditure or any other projects approved by the Commission;
- b) The amounts collected for the reinvestment fund shall be recognized as contribution from member-consumers;
- c) The amounts collected for the reinvestment fund, including interest income, shall be placed in a separate account and shall be disbursed solely for the aforesaid purpose; and
- d) An annual report of the collections and disbursements of the reinvestment fund shall be submitted using the format prescribed by the Commission.

3.1.5 OTHER REVENUE ITEMS (ORI)

The Other Revenue items proposed to be deducted from MORESCO II's revenue requirements amount to PhP176,231.00 representing fifty percent (50%) of its Pole Rental.

During the unbundling process, the Commission only considered as other revenue income what is known as asset-based items or revenues pertaining to non-electric other revenues and are not regulated by it. 50% of the income from these asset-based items will still be considered as part of the ORI to be

deducted from the total revenue requirement, consistent with the law mandating the 50-50 sharing of other income between the distribution utility (DU) and the consumers.

In addition, there is other revenue income earned by the DU using resources of its regulated business or those known as regulated items. The Commission maintains that this should be 100% deductible from the DUs revenue requirement. Regulated items may include revenues arising from the regular functions of the DU and performed by the DU's own personnel like disconnection. The costs of said activity, such as salaries, supplies and other miscellaneous expenses, are already considered in the revenue requirements in either the payroll or operation and maintenance expenses or both. Thus, any income derived by the DU from said activities should be deducted from its revenue requirement, otherwise, the DU would be doubly compensated for such activities.

The Commission has verified the total amount of Two Million Five Hundred Fifty-Seven Thousand One Hundred Seventy Pesos (PhP2,557,170.00) as other revenues to be deducted from MORESCO II's revenue requirements, as follows:

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TABLE 5. OTHER REVENUE ITEMS

OTHER REVENUE ITEMS	Amount (PhP)	Amount (PhP)
Regulated Items		
Disconnection Fee	729,230.23	-
Penalty/surcharges on Pilferages	208,461.17	-
Transformer Rental	69,524.00	-
Discount on Insurance Premium	30,217.11	-
Indophil Royalty Fee	294,061.22	-
Payment for Bidding	10,500.00	-
Rebates on Short-term loans	20,013.88	-
Interest Rebate on NEA loans	17,111.71	-
@ 100%	1,379,119.32	1,379,119.00
Asset-based Items		
Pole Rental	352,461.88	-
1.6 % Interest Charge to delinquent power bills	1,793,543.98	-
Sale on salvage materials	199,518.20	-
Payment of written-off power bills	10,577.73	-
@ 50%	2,356,101.79	1,178,051.00
TOTAL ORI		2,557,170.00

3.2 FUNCTIONALIZATION, CLASSIFICATION AND CUSTOMER ALLOCATION

3.2.1 FUNCTIONALIZATION AND ALLOCATION FACTORS

The functionalization and allocation factors used by MORESCO II were the default factors provided for in the UFR issued by the Commission on October 30, 2001 as amended in its unbundling Decision.

The Commission sees no cogent reason for it to deviate from the existing functionalization and allocation factors as contained in the UFR.

3.2.2 SUMMARY OF RESULTING REVENUES PER FUNCTION AND PER CLASS AND CORRESPONDING BILLING DETERMINANTS

Based on the functionalization, classification and allocation of the approved revenue requirement for MORESCO II, Table 6 below provides the allocated revenue by function and customer category:

TABLE 6. REVENUE REQUIREMENT BY FUNCTION AND BY CUSTOMER CLASS

CUSTOMER CLASS	TOTAL REVENUE (PhP)	DISTRIBUTION RELATED REVENUE (PhP)	SUPPLY RELATED REVENUE (PhP)	METERING RELATED REVENUE (PhP)
Residential	50,669,458	20,454,116	12,108,033	18,107,309
Commercial	4,135,658	2,607,162	612,506	915,990
Industrial	3,760,660	3,525,073	94,406	141,181
Medium FBI	1,675,913	1,675,109	322	482
APTCO	2,298,603	2,297,799	322	482
Public Buildings	1,680,104	920,278	304,481	455,345
Street Lights	2,835,739	2,686,990	59,607	89,142
TOTAL	67,056,135	34,166,527	13,179,677	19,709,931

TABLE 7. BILLING DETERMINANTS BY CUSTOMER CLASS

	Residential	Commercial	Industrial	Medium FBI	APTCO	Public Buildings	Street Lights	Total
kW Billing Demand			15,489	16,304	18,180			
kWh Sales	30,937,462	5,224,934	8,168,366	10,457,195	11,218,120	2,481,234	1,380,497	69,867,808
No. of Customers	37,579	1,901	293	1	1	945	185	40,905

3.3 RATE DESIGN

The above functionalization, classification and customer allocation resulted to the following rate design:

TABLE 8. COMMISSION DETERMINED RATE SCHEDULE

Customer Type	Unit	Residential	Commercial	Industrial	Fiesta Brand Inc	APTPCO	Public Buildings	Street Lights
Distribution Charges:								
Demand Charge	PhP/KW	-	-	30.00	30.00	30.00	-	-
Distribution System Charge	PhP/kWh	0.6611	0.4990	0.3747	0.1134	0.1562	0.3709	1.9464
Supply Charges:								
Retail Customer Charge	PhP/cust/mo	-	26.85	26.85	26.85	26.85	26.85	26.85
Supply System Charge	PhP/kWh	0.3914	-	-	-	-	-	-
Metering Charges:								
Retail Customer Charge	PhP/Meter/mo	5.00	40.15	40.15	40.15	40.15	40.15	40.15
Metering System Charge	PhP/kWh	0.5124	-	-	-	-	-	-

3.3.1 DISTRIBUTION CHARGE

MORESCO II proposed to bill a distribution charge based on a fixed rate per kiloWatt-hour for Residential, Commercial, Public Building and Street Lights. For its Industrial, Medium FBI and APTPCO customers, MORESCO II proposed to bill a distribution charge using a combination of fixed rate per kiloWatt (kW) and fixed rate per kiloWatt-hour (kWh).

The Commission adopted said rate design since it is consistent with its approved unbundling of rates for MORESCO II.

3.3.2 SUPPLY CHARGE

MORESCO II proposed to bill a supply charge using a monthly rate per kiloWatt-hour for Residential customers. All other end-users shall be billed a fixed monthly customer charge for the supply function.

The Commission adopted said rate design since it is consistent with its approved unbundling of rates for MORESCO II.

3.3.3 METERING CHARGE

MORESCO II proposed to bill a metering charge based on a fixed monthly rate per meter for all its customer classes except Residential which will be billed using a combination of fixed monthly rate per meter of PhP10.00 and fixed monthly rate per kilowatt-hour (PhP/kWh).

The Commission adopted said rate design since it is consistent with its approved unbundling of rates for MORESCO II. However, it maintained the fixed monthly rate of PhP5.00 per customer per month for Residential customer.

3.4 ESTIMATED IMPACT ON AVERAGE RESIDENTIAL CUSTOMER

Shown below is the estimated impact of the rates determined by the Commission on the monthly bill of a Residential end-user with an average consumption of 80 kWh:

TABLE 9. ESTIMATED IMPACT ON AVERAGE CONSUMPTION OF RESIDENTIAL CUSTOMER

Basic Charges	Based on Actual Existing Rates		Based on Commission Approved Rates		VARIANCE Increase/ (Decrease) PhP/kWh
	PhP/kWh	Amount (PhP)	PhP/kWh	Amount (PhP)	
Distribution System Charge	0.6352	50.82	0.6611	52.89	0.0259
Supply Charge	0.2813	22.50	0.3914	31.31	0.1101
Metering Charges:					
Retail Metered Charge	-	5.00	-	5.00	-
Metering System Charge	0.4965	39.72	0.5124	40.99	0.0159
Loan Condonation	(0.2187)	(17.50)	0.00	0.00	0.2187
TOTAL	-	100.54	-	130.19	29.65
Effective PhP/kWh	-	1.2568	-	1.6274	0.3706

Note: Exclusive of VAT

3.5 REMOVAL OF INTER-CLASS CROSS SUBSIDY

In its Order dated March 31, 2006 under ERC Case No. 2001-1001, the Commission directed MORESCO II to remove one-third (1/3) of its inter-class cross subsidies which should be implemented simultaneously with the Commission's Decision on rate reduction due to loan condonation under ERC Case No. 2003-111. The remaining two-thirds (2/3) inter-class cross subsidies corresponding to the second and third years should then be removed at an annual rate similar to that of the first year.

The Commission has determined that MORESCO II has already completely removed its inter-class cross subsidy as of May 2008.

3.6 LIFELINE RATE DISCOUNT AND SUBSIDY

MORESCO II proposed to maintain the lifeline rate discount levels in its approved rate unbundling. Thus, it proposed a subsidy from non-lifeline customers in the amount of PhP0.0299 per kWh.

Further, MORESCO II claimed that the number of end-users that will benefit from the Lifeline Rate Discount represents twenty-seven percent (27%) of the total number of Residential customers.

The Commission has realized that a one kWh difference in consumption between consumers is not a relevant indication of any difference in their capacity to pay their electric bill and is not compelling justification for the difference in discount level.

Finally, MORESCO II's proposal pertaining to the discount level of its lifeline customers under 16-20 kWh consumption level was modified by the Commission in order to be consistent with its policy that the subsidy charge should be between PhP0.05-PhP0.10 per kWh.

Thus, the Commission has revised the Lifeline Rate Discount and Subsidy for MORESCO II as shown in the following table:

TABLE 10. LIFELINE RATE DISCOUNT AND SUBSIDY

kWh Consumption	Level of Discount		
	Per Approved Unbundled Rates	Proposed in this Rate Application	Commission Approved Lifeline Discount Level
0 -15	50%	50%	50%
16	40%	40%	25%
17	30%	30%	25%
18	20%	20%	25%
19	10%	10%	25%
20	5%	5%	25%
Subsidy Charge to Non-lifeline	PhP0.0542/kWh	PhP0.0299/kWh	PhP0.0844/kWh

Said consumption threshold and discounts will benefit 12,973 customers which represent twenty-seven percent (27%) of the total number of Residential customers. The resulting lifeline subsidy charge to be shouldered by the non-lifeline customers shall be PhP0.0844/kWh which is more than the current level of PhP0.0542/kWh.

MORESCO II 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 corresponding discount on each of these rate components. An end-user with a level of consumption exceeding 20 kWh in a particular billing period shall not be entitled to the lifeline rate discount for the said period.

The lifeline rate subsidy shall be shouldered by all non-lifeline end-users of MORESCO II.

WHEREFORE, the foregoing premises considered, the application for approval of its average rate adjustment in the amount of PhP1.7655/kWh, with prayer for provisional authority, filed by Misamis Oriental II Electric Service Cooperative, Inc. (MORESCO II) is hereby **APPROVED** with modification.

MORESCO II is hereby granted a Total Revenue Requirement of **Sixty-Seven Million Fifty-Six Thousand One Hundred Thirty-Five Pesos (PhP67,056,135.00)** equivalent to an overall average rate adjustment of **PhP0.2299/kWh** on its total Distribution, Supply, and Metering Charges. The corresponding Rate Schedule is shown below:

TABLE 11. RATE SCHEDULE

Customer Type	Unit	Residential	Commercial	Industrial	Medium FBI	APTPCO	Public Buildings	Street Lights
Distribution Charges:								
Demand Charge	PhP/KW	-	-	30.00	30.00	30.00	-	-
Distribution System Charge	PhP/kWh	0.6611	0.4990	0.3747	0.1134	0.1562	0.3709	1.9464
Supply Charges:								
Retail Customer Charge	PhP/cust/mo	-	26.85	26.85	26.85	26.85	26.85	26.85
Supply System Charge	PhP/kWh	0.3914	-	-	-	-	-	-
Metering Charges:								
Retail Customer Charge	PhP/Meter/mo	5.00	40.15	40.15	40.15	40.15	40.15	40.15
Metering System Charge	PhP/kWh	0.5124	-	-	-	-	-	-

Residential customers with consumption of 15 kWh and below shall be given a Lifeline Rate Discount of 50% and 16 to 20 kWh shall be given a Lifeline


Rate Discount of 25%. All customers that are not eligible for Lifeline Rate Discount shall bear the Lifeline Rate Subsidy of PhP0.0844/kWh.

The said Rate Schedule is effective on the next billing cycle from receipt hereof.

Finally, the reinvestment fund of PhP0.2503/kWh, for all intents and purposes, shall be part of the contribution from the member-consumers.

SO ORDERED.


Pasig City, September 8, 2008.

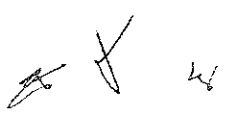

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