

IN THE MATTER OF THE
APPLICATION FOR RATE
ADJUSTMENT IN ACCORDANCE
WITH THE PROVISIONS OF R.A.
9136, WITH PRAYER FOR
PROVISIONAL AUTHORITY

ERC CASE NO. 2008-020 RC

PANGASINAN I ELECTRIC
COOPERATIVE, INC. (PANELCO I),
Applicant.
X ----- X

DECISION

DOCKETED
Date: JUN 19 2008
By: 

1. RECITAL OF FACTS

Before the Commission for resolution is the application filed by Pangasinan I Electric Cooperative, Inc. (PANELCO I) on April 8, 2008 for approval of its rate adjustment in accordance with the provisions of Republic Act No. 9136, with prayer for provisional authority.

Having found said application sufficient in form and in substance with the required fees having been paid, an Order and a Notice of Public Hearing, both dated April 14, 2008, were issued setting the same for initial hearing on May 5, 2008 and evidentiary hearing on May 6, 2008.

In the same Order, PANELCO I 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 Philippines, with the date of the last publication to be made not later than ten (10) days before



the scheduled date of the initial hearing. It was also directed to inform the consumers within its franchise area, by any other means available and appropriate, of the filing of the instant application, its reasons therefor, and of the scheduled hearings thereon.

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 attached 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 Mayors of the Municipalities/City within the franchise area of PANELCO I were furnished with copies of the said Order and Notice of Public Hearing, for the appropriate posting thereof on their respective bulletin boards.

On April 28, 2008, PANELCO I filed its "Pre-hearing Brief".

During the May 5, 2008 hearing at the PANELCO I's Conference Room at Bani, Pangasinan, PANELCO I appeared. No intervenor nor oppositor appeared. There was likewise no intervention or opposition registered. However, PANELCO I consumers were present to observe the proceedings.

In the said hearing, PANELCO I presented its proofs of compliance with the Commission's posting and publication of notice requirements which were duly marked as Exhibits "A" to "HHHH-3", inclusive. Thereafter, it conducted an expository presentation of its application. A pre-trial conference was then conducted.

At the evidentiary hearing on May 6, 2008 held at PANELCO I's Conference Room, PANELCO I presented the following witnesses who both testified in support of the application: a) Ms. Emma T. Lagahit, its Corporate Planning Manager; and b) Engr. William S. Magno, its Technical Services Department Manager. The direct examinations of the said witnesses having been terminated, the Commission propounded clarificatory questions and thereafter directed PANELCO I to submit various documents.

On May 15, 2008, PANELCO I filed its "Formal Offer of Evidence" which is hereby admitted for being relevant and material to the resolution of this application.

2. THE APPLICATION

2.1 PROPOSED REVENUE REQUIREMENT BASED ON TEST YEAR 2006

On the basis of its Audited Financial Statement (AFS) for the year 2006 using the Cash Base Methodology under the Uniform Filing Requirements (UFR), PANELCO I proposed a revenue requirement of Eighty-Two Million Eight Hundred Thirty-Four Thousand Four Hundred Thirty-Four Pesos (PhP82,834,434.00).

TABLE 1. APPLICANT'S PROPOSED REVENUE REQUIREMENT

ACCOUNT NAME	Per 2006 Audited Financial Statement PhP	Adjustments PhP	Per Application PhP
Payroll	26,456,190	3,815,688	30,271,878
Operation & Maintenance (less Purchase Power & Payroll)	37,461,912	528,094	37,990,006
Debt Service	4,796,338	0	4,796,338
Less: Other Revenue Items (ORI)	(2,143,845)	0	(2,143,845)
Add: Reinvestment Fund	11,920,057	0	11,920,057
Total Revenue Requirement	78,490,652	4,343,782	82,834,434

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PANELCO I's revenue requirement as determined from its 2006 AFS of Seventy-Eight Million Four Hundred Ninety Thousand Six Hundred Fifty-Two Pesos (PhP78,490,652.00) was adjusted by Four Million Three Hundred Forty-Three Thousand Seven Hundred Eighty-Two Pesos (PhP4,343,782.00) as follows:

- a. Adjustments in Payroll Expense amounting to PhP3,815,688.00 relative to the following: (1) Salary standardization from year 2002 in accordance with the National Electrification Administration's (NEA) revised salary scale from base rate to the maximum; (2) Across the board increase per Wage Order Nos. 1-08 and 1-09 issued by the Department of Labor and Employment (DOLE) implemented through a Board Resolution duly approved by NEA; and (3) Salaries of employees for Construction Work in Progress (CWIP).
- b. Adjustment amounting to PhP528,094.00 representing the permit fees for the major capital projects and emergency capex in accordance with the ERC decision and the monetized accrued leave of personnel.

2.2 COMPARISON OF PANELCO I'S PROPOSED AND EXISTING RATES

PANELCO I proposed the following rates and compared it with the existing rates to provide the estimated impact on different customer classes:



TABLE 2. COMPARISON OF APPLICANT'S PROPOSED AND EXISTING RATES

Customer Class	Proposed Rates	Existing Rates	Difference
Residential			
Distribution (Peso/kWh)	1.0363	0.9599	
Supply (PhP/kWh)	0.6733	0.5729	
Metering (Peso/kWh)	0.1451	0.2036	
Metering (Peso/Cust./Mo.)	5.00	5.00	
Rate Reduction due to Loan Condonation (PhP/kWh)		(0.3062)	
Total Peso/kWh	1.8547		
Total Peso/cust./mo.	5.00		
Average Peso/kWh distribution system rate	1.9287	1.4302	0.4985
Commercial			
Distribution (Peso/kWh)	0.9055	0.6008	
Supply System Charge (Peso/kWh)	0.0164	0.1729	
Metering Charge per KWH			
Metering (Peso/Cust./Mo.)	14.8283	22.54	
Rate Reduction due to Loan Condonation		(0.1507)	
Total Peso/kWh	0.9219		
Total Peso/cust./mo.	14.8283		
Average Peso/kWh distribution system rate	1.1661	0.6230	0.5431
General Power			
Distribution (Peso/kWh)	0.4217	0.4981	
Distribution Demand Charge (Peso/kW)	33.00	30.00	
Supply (Peso/kWh)	0.0006	0.0258	
Metering (Peso/Cust./Mo.)	14.8283	109.09	
Rate Reduction due to loan condonation		(0.1236)	
Total Peso/kWh	0.4223		
Total Peso/kw	33.00		
Total Peso/cust./mo.	21,887		
Average Peso/kWh distribution system rate	0.4347	0.4003	0.0344
Public Buildings			
Distribution (Peso/kWh)	0.7289	0.6914	
Supply (Peso/Cust./Mo.)	0.0222	0.2771	
Metering (Peso/Cust./Mo.)	14.8283	19.68	
Rate Reduction due to loan condonation		(0.1784)	
Total Peso/kWh	0.7511		
Total Peso/cust./mo.	14.8283		
Average Peso/kWh distribution system rate	1.0817	0.7901	0.2918
Street Lights			
Distribution (Peso/kWh)	1.0435	1.4231	
Supply (Peso/Cust./Mo.)	0.0196	0.1715	
Metering (Peso/Cust./Mo.)	14.8283	22.59	
Rate Reduction due to Loan Condonation		(0.8490)	
Total Peso/kWh	1.0631		
Total Peso/cust./mo.	14.8283		
Average Peso/kWh distribution system rate	1.2926	0.7456	0.5470
Others(Special Lighting)			
Distribution (Peso/kWh)	0.7307	0.5539	
Supply (Peso/Cust./Mo.)	0.0167	0.1089	
Metering (Peso/Cust./Mo.)	14.8283	27.38	
Rate Reduction due to loan condonation		(0.1374)	
Total Peso/kWh	0.7474		
Total Peso/cust./mo.	14.8283		
Average Peso/kWh distribution system rate	0.9957	0.5264	0.4703

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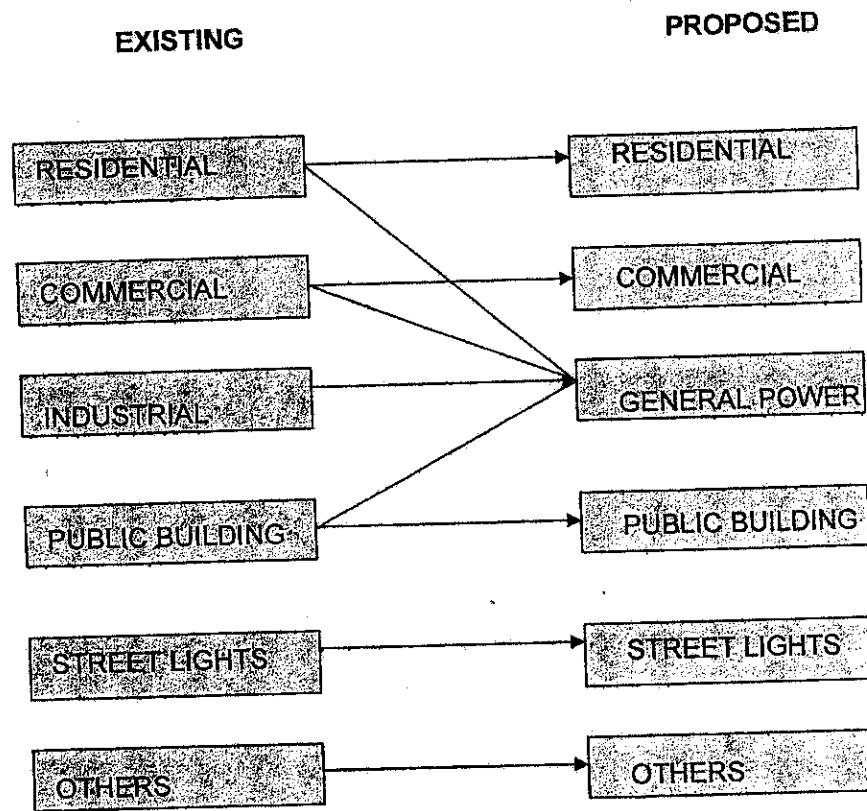
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2.3 PANELCO I's Proposed Changes in Customer Classification

PANELCO I likewise proposed the creation of a new customer class, i.e., the General Power, consisting of some residential, commercial, industrial and public buildings customers.

The following illustration shows PANELCO I's proposed re-classification of the existing customer classes to the new customer classes:



2.4 PROPOSED LIFELINE RATE DISCOUNTS AND SUBSIDY

PANELCO I proposed a lifeline rate discount for its marginalized end-users based on test year 2006 frequency distribution of residential customers, to wit:

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TABLE 3. APPLICANT'S PROPOSED LIFELINE RATE DISCOUNTS AND SUBSIDY

kWh Consumption	Per Approved Unbundled Rates	Proposed in this Rate Application
	Level of Discount	
0-15 kWh	30%	30%
16 kWh	25%	25%
17 kWh	20%	20%
18 kWh	15%	15%
19 kWh	10%	10%
20 kWh	5%	5%
Subsidy charge to Non-lifeline customers	PhP0.0606/kWh	PhP0.0606/kWh

PANELCO I is maintaining the lifeline subsidy charge of PhP0.0606/kWh to its non-lifeline customers. It claimed that 26% of its total residential customers will benefit from the lifeline discounts.

3. DISCUSSION

3.1 REVENUE REQUIREMENT

In the November 15, 2002 Decision in ERC Case No. 2001-944 (In the Matter of the Application for Approval of the Unbundled Rates Pursuant to the Provisions of Republic Act No. 9136, PANELCO I – Applicant), the Commission approved a revenue requirement of PhP47,489,343.00.

Using the Cash Base Methodology under the UFR and based on the calendar year 2006 as test year, PANELCO I proposed a total revenue requirement of Eighty-Two Million Eight Hundred Thirty-Four Thousand Four Hundred Thirty-Four Pesos (PhP82,834,434.00).

PANELCO I submitted its AFS for the year 2006 as well as other documents to support its application.

The Commission made a downward adjustment of PhP15,782,220.00 and approves the amount of Sixty-Seven Million Fifty-Two Thousand Two Hundred Fourteen Pesos (PhP67,052,214.00) for PANELCO I's revenue requirements as detailed in the following table. The Commission's position is discussed in seriatim.

TABLE 4. SUMMARY OF REVENUE REQUIREMENTS

Account Name	Commission Approved Revenue Requirement Per Unbundling (PhP)	Applicant's Proposed Revenue Requirement (PhP)	Commission Adjustments (PhP)	Commission Approved Revenue Requirement (PhP)
3.1.1 Payroll	27,330,045	30,271,878	0	30,271,878
3.1.2 Operation & Maintenance	7,702,851	37,990,006	(13,726,447)	24,263,559
3.1.3 Debt Service	9,046,955 ¹	4,796,338	(4,796,338)	0
3.1.4 Reinvestment Fund	8,384,487	11,920,057	8,278,525	20,198,582
3.1.5 Other Revenue Items (ORI)	(4,974,995) ²	(2,143,845)	(5,537,960)	(7,681,805)
Total Revenue Requirement	47,489,343	82,834,434	(15,782,220)	67,052,214

3.1.1 PAYROLL EXPENSE

PANELCO I proposed a payroll expense of PhP30,271,878.00. This includes the following: a) basic salaries; b) employer's share in Social Security System (SSS); c) employer's share in Philippine Health Insurance Corporation (Philhealth); d) employer's share in Home Development Mutual Fund (PAG-IBIG) premiums; and e) 13th month pay for its employees. This is a 10.76%

¹ This was reduced to PhP132,224.00 due to condonation of loans of ECs as of June 28, 2001

² This was decreased to PhP3,008,311 due to reinstatement of PPD based on Resolution No. 12 and Order dated January 9, 2006.

increase from the PhP27,330,045.00 approved by the Commission in its rate unbundling application.

PANELCO I's records showed that its filled-up positions decreased from 2002 until 2005, from 163 to 144 employees. The Commission noted that its total plantilla positions of 169 had been filled-up in 2006.

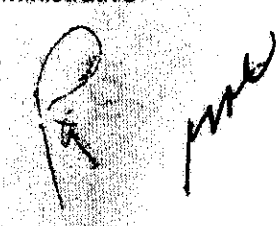
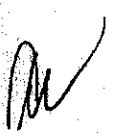
PANELCO I claimed that the increase in its payroll expense is due to the following: 1) salary standardization from year 2003 in accordance with the NEA revised salary scale from the base rate to the maximum; 2) across the board increase per Wage Order Nos. 1-08 and 1-09 from the DOLE implemented through Board Resolutions duly approved by the NEA; and 3) the payroll adjustment representing salaries of employees for CWIP.

The Commission finds the salary adjustments pursuant to the said NEA Salary Scale in order as well as the calculations of the corresponding employer's shares of the SSS and Philhealth premiums for the 169 employees.

In view of the foregoing, the Commission approves PANELCO I's proposal for its payroll expense of Thirty Million Two Hundred Seventy-One Thousand Eight Hundred Seventy-Eight Pesos (PhP30,271,878.00).

3.1.2 OPERATION AND MAINTENANCE (O & M) EXPENSES

PANELCO I proposed an operation and maintenance expenses of PhP37,990,006.00. It alleged that this was the actual cost incurred during the test year for distribution, consumers account, general and administrative expenses exclusive of payroll plus the estimated adjustment in O & M.



In general, operation and maintenance expenses are those recurring expenditures in the course of normal business of providing distribution service. The Commission deems that these expenses must be legitimate, necessary, prudent and reasonable.

"Reasonable cost" is the cost of goods and services which, while may not be the lowest in price, needs to be incurred with consideration of quality, efficiency, reliability and security of the service delivered by the distribution utility. Prudence dictates that the utility ensure that its purchases of goods and services are at their minimum, without sacrificing the quality of the service rendered.

The Commission noted that PANELCO I's proposed operations and maintenance expenses included expenditures relating to employee benefits as well as costs for contractual employees in the amount of PhP18,210,980.00 and the balance of PhP19,779,026.00 is for its operations and maintenance expenses.

On the employee related expenditures of PhP18,210,980.00, the Commission disallowed employee benefits in excess of the allowable level, not necessary in the operations of the cooperative and those which are required to be sourced from savings in the amount of PhP8,878,913.00, such as:

- a. Excessive gratuity;
- b. 14th month pay;
- c. Excess in allowable accrual of leave;
- d. Cash incentive given to the Board of Directors (BODs);
- e. Excessive rice allowance;
- f. Children allowance;



- g. Hazard pay;
- h. Health care allowance;
- i. Teller's shortage allowance;
- j. Longevity pay;
- k. Meals for visitors and staff; and
- l. Gasoline allowance of the BODs.

With regard to the balance of PhP19,779,026.00 of the operations and maintenance expenses, the Commission disallowed expenses which are non-recurring and not recoverable from the rates in the amount of PhP4,847,534.00. The disallowances were on the following:

- a. Excess in contracted outside services;
- b. Bank charges/interests on loans;
- c. Excess in expenses for transport clearing;
- d. Frequent fencing and clearing of coop compound in a year;
- e. Excess in payment on janitorial services and audit fees;
- f. Retainers' cash gifts, per diem of Bureau of Internal Revenue (BIR) personnel;
- g. Excess in cash advances and reimbursements of officers; and
- h. Other miscellaneous expenses.

In view of the foregoing, the Commission's total downward adjustments amount to PhP13,726,447.00 from the proposed level of PhP37,990,006.00 resulting to an adjusted operations and maintenance expense of Twenty-Four Million Two Hundred Sixty-Three Thousand Five Hundred Fifty-Nine Pesos (PhP24,263,559.00).



3.1.3 DEBT SERVICE

PANELCO I proposed an amount of PhP4,796,338.00 for its debt service. This represents the cost of amortizing the Single Digit System Loss (SDSL) loan as of December 31, 2006.

Per documents submitted to the Commission, the abovementioned loan is a short term loan payable within three (3) years. As such, the period to amortize said loan would end by year 2008. 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 PANELCO I.

3.1.4 REINVESTMENT FUND

PANELCO I proposed a reinvestment fund of PhP11,920,057.00 to be used to finance the expansion and rehabilitation of its existing power systems as well as its System Loss Reduction Program targeted for the next five (5) years.

In the unbundling of the rates of the Electric Cooperatives (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.

