

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. 2001-944

**PANGASINAN I ELECTRIC COOPERATIVE
INC. (PANELCO I), Applicant.**

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D E C I S I O N

Before this Commission for resolution is the application filed on December 26, 2001 by Pangasinan I Electric Cooperative, Inc. (PANELCO I) for the approval of its unbundled rates pursuant to the provision of Republic Act No. 9136 (RA 9136). Subsequently, on January 16, 2002, PANELCO I filed with the Commission its "Supplemental Compliance" dated January 14, 2002.

Having found said application sufficient in form and substance and with the required fees having been paid, an Order and a Notice of Public Hearing both dated April 11, 2002 were issued setting the case for initial hearing on June 6, 2002.

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 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, PANELCO I published the Notice of Public Hearing at *Malaya* on May 9, 2002 and *Balita* on May 16, 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 Municipal Mayors of Agno, Anda, Alaminos, Bani, Bolinao, Burgos, Dasol, Infanta and Mabini, all in the Province of Pangasinan were furnished with copies of the Order and the Notice of Public Hearing for the appropriate posting thereof on their respective bulletin boards.

At the initial hearing on June 6, 2002, only the counsel for PANELCO I appeared and entered his appearance. No oppositor appeared nor was there any opposition registered.

During the said hearing, PANELCO I submitted 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, PANELCO I presented its two (2) witnesses. The first witness, Ms. Emma Lagahit, PANELCO I's Finance Manager, testified on the documents submitted in support of the application as well as on certain relevant schedules. In the course of her testimony, additional documents were presented, identified by reference and marked as Exhibits "D" to "TT" inclusive. The second witness, Mr. William Magno, PANELCO I's Technical Manager, testified on the various technical aspects of the application. The Commission propounded clarificatory questions on the two (2) witnesses. There being no other witnesses to be presented, the hearing was adjourned.

On September 9, 2002, PANELCO I submitted its "Formal Offer of Evidence" which was admitted by the Commission for the purposes for which they were being offered.

I. SUMMARY OF PANELCO I's APPLICATION

I.A. REVENUE REQUIREMENT

Witness Lagahit, in her testimony on June 6, 2002 (Transcript of Stenographic Notes [TSN], June 6, 2002, pages 17 to 19), stated that PANELCO I's unbundling application was based on forecasted test year 2001 which resulted to an average tariff adjustment of PhP 1.0610/kWh. However, this was withdrawn and PANELCO I submitted a revised unbundling application.

PANELCO I's revenue requirement per unbundled application based on historical test year 2000 is as follows:

	HISTORICAL YEAR
KWh Sales	32,094,169
Purchased Power	PhP 133,145,855
Payroll	29,408,524
Operation and Maintenance (less Purchased Power & Payroll)	8,441,809
Debt Service plus Cash Working Capital	8,784,755
Revenue Requirement	179,780,944
Less: Other Revenue Items	0
Plus Percentage for Cooperative Investment (4%)	6,706,222
TOTAL REVENUE REQUIREMENT	186,487,165
EXISTING REVENUE	174,561,463
Required Increase/(Decrease)	11,925,702
Required Increase/(Decrease) / kWh	0.3716

PANELCO I's proposed revenue requirement is **PhP 186,487,165** based on historical test year 2000 as evidenced by its submitted Overall Average Tariff Adjustment (OATA) to increase its rates by **PhP 0.3716/kWh**.

PANELCO I also submitted Audited Financial Statements for the year 2000.

I.B. RATE STRUCTURE/DESIGN

The unbundled rates proposed by PANELCO I are as follows:

Residential Customers

Energy Charge	PhP 5.1108/kWh
Retail Customer Charge	38.59/customer/month
Metering Charge	17.41/customer/month

Commercial Customers

Energy Charge	PhP 4.9222/kWh
Retail Customer Charge	40.37/customer/month
Metering Charge	20.84/customer/month

Industrial Customers

Energy Charge	PhP 4.4532/kWh
Demand Charge	109.11/kW NCP
Retail Customer Charge	63.65/customer/month
Metering Charge	77.29/customer/month

Others

Energy Charge	PhP 4.5237/kWh
Demand Charge	129.55/kW NCP
Retail Customer Charge	38.75/customer/month
Metering Charge	18.25/customer/month

Public Buildings Customers

Energy Charge	PhP 4.9700/kWh
Retail Customer Charge	39.52/customer/month
Metering Charge	18.98/customer/month

Streetlights Customers

Energy Charge	PhP 5.4733/kWh
Distribution Facilities Charge	76.48

Note: "OTHERS" refers to customers for temporary lighting, such as lighting for celebrations, ferias, mobile structures, vicinity lightings, field offices and laborers' quarters for project constructions, testing purposes in commercial and/or residential establishments.

I.B.1. FUNCTIONALIZATION, CLASSIFICATION AND ALLOCATION

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

However, for certain distribution costs, the allocation factor of 75% and 25%, respectively, for demand- and customer-related costs were arbitrarily adopted by PANELCO I.

I.B.2. LINE LOSSES

PANELCO I adopted the actual purchased power cost without any adjustment for line loss cap.

Witness Lagahit, in her testimony, stated that the system loss used in preparing PANELCO I's unbundled rate application was 18.70% which is the average system loss for the year 2000 (TSN, pages 45 & 52).

Witness Magno also confirmed the said system loss rate (TSN, page 62). He further added that the technical loss was brought about by the overloading of the substation while the non-technical loss pertains to pilferage and metering errors (TSN, pages 72-73). Furthermore, Witness Magno testified that the usual kinds of pilferage are jumpers, seal grounding and meter mutilating (TSN, page 74).

I.B.3. INTERCLASS CROSS SUBSIDY

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

CUSTOMER TYPE	ADJUSTED EXISTING REVENUES	PROPOSED EXISTING REVENUES	INTER-CLASS CROSS SUBSIDIES
Residential	PhP 138,676,916	PhP 144,978,023	PhP 6,301,107
Commercial	23,237,187	20,684,380	(2,552,807)
Industrial	16,191,965	13,028,522	(3,163,442)
Others	75,177	71,066	(4,111)
Public Buildings	7,202,918	6,613,111	(589,807)
Street Lights	1,103,003	1,112,062	9,059
TOTAL	PhP 186,487,165	PhP 186,487,165	PhP 0

I.B.4. LIFELINE RATE AND LEVEL

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

	Option 1 (At Existing Rates)	Option 2 (At Proposed Customer Charges)
Level	12 kWh	12 kWh
Rate	PhP 5.4909/kWh	PhP 56.00/customer/month

II. COMMISSION DISCUSSION AND CONCLUSIONS

II.A. DETERMINATION OF TOTAL REVENUE REQUIREMENT

II.A.1. TEST YEAR

The Commission finds PANELCO I'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 RA 9136. Therefore, the discussions and conclusions that follow are based on Schedule A, adjusted to audited financial statement figures for historical test year 2000.

II.A.2. GENERATION AND TRANSMISSION COSTS

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

Thus, the Generation and Transmission charges shall reflect the power supplier's generation charges and transmission charges of the National Transmission Company (TRANSCO) as approved in ERC Orders dated September 6 and 20, 2002, and ERC Case No. 2001-901 (In the Matter of the Application for the Approval of the Revised Unbundled Power Rates, National Power Corporation (NPC) – Applicant). A separate charge to account for the allowable line losses shall likewise be provided (please refer to Section II.B.2.c for details). Hence, a distribution utility with line losses that are within the allowable caps can recover from its end-users the total cost of generation and transmission.

Based on the new generation and transmission charges, as well as the allowable line losses, the Commission considered PANELCO I's unbundled generation, transmission and recoverable line losses as follows:

Generation Charge	PhP	77,155,150
Transmission Charge		25,015,184
Recoverable Line Losses		18,030,059
Total	PhP	120,200,393

The Commission did not allow the amount of PhP 6,404,730 representing line losses in excess of the allowable caps to be recovered from the end-users.

II.A.3. PAYROLL

The Commission made a downward adjustment of PhP 2,078,479 on the payroll account resulting to an adjusted amount of PhP 27,330,045. The downward adjustment was due to the disallowance of the 14th Month Pay and Health Care Insurance.

The National Electrification Administration (NEA) Memorandum to all ECs dated July 19, 2000 entitled “Revised Guidelines on Benefits, Allowances and Other Incentives to EC Officers and Employees” specifically provided that other benefits such as Rice Allowance, Medical Benefit and Uniform Allowance shall be given to officers and employees of the cooperative subject to availability of funds (underscoring supplied).

Further, the Memorandum provided that “all types of allowances and benefits outside those provided in the guidelines shall be disallowed. For cooperatives that show performance over and above what has been established, additional incentives may be allowed, subject, however, to the express approval of the NEA Central Office or a duly convened General Assembly.”

PANELCO I’s Audited Financial Statements for the year 2000 show that PANELCO I’s operations resulted to a net loss of PhP 11,764,397, which indicates that PANELCO I does not have sufficient funds. Incentives and benefits such as 14th Month Pay may be granted by PANELCO I provided it has sufficient funds and provided, further, that it does not entail increase in rates.

The Commission believes that with limited funds, payment of purchased power and amortization should be given priority. In view of this, the Commission finds PANELCO I’s grant of 14th Month Pay to its officers and employees in the amount of PhP 1,578,308 not justifiable.

Under Item.B.b Medical Benefit of the Memorandum, it is stated that officers and employees may be granted an annual medical cash benefit of P 3,000 or a medical or health care insurance (underscoring supplied), as approved by the Cooperative Board and confirmed by NEA. Documents submitted by PANELCO I show that it granted an annual medical cash benefit of PhP 3,000 to its officers (including Board of Directors) and employees for the year 2000. Thus, the disallowance of the health care and group insurance in the amount of PhP 500,171.

The Commission reviewed the Wage Adjustment Clause (WAC) Formula authorized by the previous Energy Regulatory Board through ERB Case No. 94-25 and ERB Case No. 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 wage orders.

The Commission notes that PANELCO I correctly chose not to apply the WAC Formula nor implement it as an automatic adjustment mechanism. However, should PANELCO I opt to make use of the WAC Formula in the future, the Commission reiterates the above-mentioned rule on the WAC Formula.

II.A.4. OPERATIONS AND MAINTENANCE (LESS PURCHASED POWER AND PAYROLL)

Upon review of the schedule of entries on the different O & M expense accounts, the Commission determined the amount of PhP 738,958, pertaining to meals, snacks, lodging of visitors, trophies, medals and wreaths, to be unnecessary in the provision of electric service.

Hence, the Commission made a downward adjustment of PhP 738,958 on the operation and maintenance expense account resulting to an adjusted amount of PhP 7,702,851.

For future rate cases, PANELCO I 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 PANELCO I, expenses found to be unreasonably incurred shall not be allowed by the Commission as part of the recoverable costs to be passed on to PANELCO I's end-users.

II.A.5. OTHER REVENUE ITEMS

Other revenues amounting to PhP 4,974,995 including fifty percent (50%) of the total prompt payment discount actually received, should be deducted from the revenue requirement used to calculate the rates for the end-users. The Commission believes that the cooperative and the end-users should share in this prompt payment discount. In this manner, PANELCO I is also provided an incentive to improve efficiency in the payment of its purchased power costs.

Other Revenues	Amount
Prompt Payment Discount (50%)	PhP 1,966,684
Penalty for Disconnection	2,448,486
Reconnection & Other Charges	493,059
Special Lighting & Service Entrance	66,766
Total	PhP 4,974,995

II.A.6. DEBT SERVICE

The Commission made a downward adjustment of PhP 262,200 (inclusive of the interest on cash working capital) on the debt service account in order to reflect the debt service shown in the loan profile below.

The Commission disallowed the interest cost associated with cash working capital, as calculated by PANELCO I, due to lack of justification. Thus, the total allowable amount for debt service in the determination of the revenue requirement should be PhP 9,046,955.

LOANS	LOAN PROFILE		DIFFERENCE (PhP)
	PER NEA (PhP)	PER PANELCO I (PhP)	
Rural Electrification:			
A	787,147	787,147	0
B	379,273	379,773	0
C	200,339	200,339	0
D	430,248	430,248	0
E	1,228,428	1,228,428	0
F	548,168	548,168	0
H	3,750,036	3,282,101	467,935
Concessional – A	115,884	115,884	0
Concessional – B	336,872	84,218	252,654
WB – RERP (LOG)	705,036	364,566	340,470
WB – RERP (RE)	565,524	761,878	-196,354
Surcharge	0	50,858	-50,858
TOTAL	9,046,955	8,233,608	813,347

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 its end-users. The cooperative shall apply for a rate reduction under the Guidelines for the Implementation of the Reduction in Rates of the Electric Cooperatives Due to Condonation of Debts issued by the Commission on October 21, 2002, as amended on November 15, 2002.

II.A.7. REINVESTMENT FUND

The provision of a reinvestment fund equivalent to 5% of the Gross Revenue shall be used by PANELCO I to finance its expansion and rehabilitation/upgrading of its existing electric power in accordance with the submitted System Rehabilitation/Upgrading and/or System Loss Reduction Plan. One of the main purposes of providing the 5% reinvestment fund is for the end-users of PANELCO I to shoulder part of their increasing capitalization requirements as outside sources of funding are getting scarce. Disbursements from the reinvestment fund shall be distinct from the operating and maintenance (O &M) expenses.

The Commission considered the system rehabilitation/upgrading and/or loss reduction program costs of PANELCO I and made an upward adjustment of PhP 1,678,265 on the reinvestment fund account resulting in an adjusted amount of PhP 8,384,487 based on 5% of gross revenue requirement, 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 shall be placed in a separate account and shall be disbursed in accordance with the plan submitted by PANELCO I.
- (c) PANELCO I is further required to submit a progress report no later than one year after the date of this Decision and every year thereafter using a format to be prescribed by the Commission. The progress report shall include detailed accounting itemizing total collections, the actual use of all disbursements, and actual current line losses.

Upon review of the progress report, the Commission may issue an order for PANELCO I to appear and show cause why it should continue collection of the reinvestment fund.

- (d) PANELCO I shall submit a new Systems Rehabilitation/Upgrading and/or System Loss Reduction Program covering the period 2004 to 2008, 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 the comparison of the approved revenue requirement with that proposed by PANELCO I:

	PANELCO I Proposal (PhP)	Adjustments (PhP)	ERC Approval (PhP)
Purchased Power	133,145,855	(12,945,462)	120,200,393
Payroll	29,408,524	(2,078,479)	27,330,045
O & M (less PP & Payroll)	8,441,809	(738,958)	7,702,851
Reinvestment Fund	6,706,222	1,678,265	8,384,487
Debt Service	8,784,755	262,200	9,046,955
Less: Other Revenue Items	0	4,974,995	4,974,995
Total Revenue Requirement	186,487,165	(18,797,429)	167,689,736
Existing Revenue (2000) *			178,733,639
Required Increase/(Decrease)			(11,043,903)
KWh Sales			32,560,411

*Normalized existing revenues based on annualized kWh sales and PANELCO I's effective rates (basic charge + PPA) for the year 2000.

The Commission, after considering adjustments of PhP 18,797,429, approved a total revenue requirement of PhP 167,689,736 for PANELCO I.

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.

PANELCO I proposed an OATA of PhP 0.3716/kWh. The Commission approves an OATA of (PhP 0.3392)/kWh using rates of year 2000. The main reasons for this decrease are the marked decline in the cost of purchased power, decrease in O & M expenses and the inclusion of the Other Revenue Items as discussed in Sections II.A.2, II.A.4. and II.A.5 of the Commission's Discussion and Conclusions.

II.B. RATE STRUCTURE/DESIGN DETERMINATION

II.B.1. FUNCTIONALIZATION, CLASSIFICATION and ALLOCATION

The functionalization and allocation factors used by PANELCO I were the default factors provided for in the UFR issued by the Commission on October 30, 2001.

Since the Commission considers the Other Revenue Items (ORI) not included by PANELCO I in the calculation of its revenue requirement, it is necessary to functionalize and allocate these amounts. The functionalization factors for the 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	0.5252	0.3242	0.1506

PANELCO I did not propose a methodology for the classification of certain distribution costs into demand-related and customer-related costs. The Commission required data and information from PANELCO I. However, PANELCO I does not have available data/inventory of its plant and distribution system. Thus, a 75:25 ratio for demand and customer allocation factor was used by PANELCO I for certain distribution costs.

For more reasonable calculations using the Minimum-Plant Method, the Commission compared PANELCO I's demand-customer split with other electric cooperatives, whose kWh sales and customer numbers are approximately the same. The method, wherein the customer-related costs are based on the cost of smallest-sized pole, wire or transformer, resulted in a modified demand and customer allocation for the downstream distribution costs, which are 32% and 68%, respectively.

II.B.2 DESIGN AND CALCULATION OF CHARGES

II.B.2.a. 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 kWh including Benefits to Host Communities and Franchise Charge and Foreign Exchange Rate Adjustment (FOREX). The NPC’s approved rate will remain fixed until changes are authorized by the Commission. This eliminates the need for future Purchased Power Adjustment (PPA).

II.B.2.b. 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 National Transmission Company (TRANSCO) without automatic adjustments. Since the transmission rates to be paid by PANELCO I 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 PANELCO I have been calculated based on the approved TRANSCO rates which includes cross subsidy elements to be phased out over a three-year period.

Transmission Charges	Residential	Commercial	Industrial	Public Buildings	Street Lights	Others
Year 1						
Demand Charge (PhP/kW)			22.50			
Transmission System Charge (PhP/kWh)	0.8575	0.0879	0.9579	0.8445	0.8840	0.9750
Year 2						
Demand Charge (PhP/kW)			25.00			
Transmission System Charge (PhP/kWh)	1.0464	0.1073	1.1692	1.0305	1.0787	1.1899
Year 3						
Demand Charge (PhP/kW)			27.50			
Transmission System Charge (PhP/kWh)	1.2354	0.1267	1.3807	1.2167	1.2736	1.4048
Year 4						
Demand Charge (PhP/kW)			30.00			
Transmission System Charge (PhP/kWh)	1.4244	0.1460	1.5920	1.4027	1.4683	1.6196

II.B.2.c. LINE LOSS CHARGE

The Commission defines Line Losses for utilities to include system loss and the utility’s use of power for its own operations. Line Losses should not include the personal use of PANELCO I’s Board of Directors, officers and staff.

The Commission approves the recovery of allowed Line Losses through the establishment of a separate Line Loss Charge. The allowed Line Losses are equal to the actual Line Losses for the test year or the Line Losses caps whichever are 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 Line Losses not only result in additional unbundled generation costs but also additional unbundled transmission costs to be paid by end-users. When Line Losses are within the allowable caps, the distribution utility shall recover from the end-users all generation and transmission costs.

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 the said law. Section 10 of R.A. 7832 and Rule IX, Section 1 of the IRR provide that the recoverable System Loss should not exceed the 14% ceiling allowed for year 2000.

The Commission believes that the present cap on System Loss of 14% 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.

II.B.2.d. DISTRIBUTION CHARGE

The distribution charge shall be billed on a fixed rate per kWh for all end-users and fixed rate per maximum monthly demand (kW) for those end-users with demand meters.

PANELCO I did not propose distribution wheeling rates as required. 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 the Rate Schedule be likewise utilized as Distribution Wheeling Charges available to the future contestable market. However, other distribution utilities requesting to wheel power across PANELCO I's facilities shall pay wheeling charges equivalent to Distribution Wheeling Charges for Industrial end-users.

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 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.B.2.e. METERING AND SUPPLY CHARGES

The Commission acknowledges that cost-causation rate design principle suggests the recovery of customer-related costs associated with the metering and

supply functions through fixed monthly charges. Along with this cost of service principle, however, the Commission also considers rate design impacts across the spectrum of end-users within each rate class. Although R.A. 9136 requires the removal of inter-class cross subsidies, the law does not require removal of revenue flows that may be characterized as intra-class cross subsidies. The Commission has the flexibility to consider other factors in determining rate design for a particular class of end-users. Therefore, to mitigate the impact on below-average consumption of residential end-users, the Commission orders PANELCO I to use a fixed monthly charge of PhP 5.00 per customer per month and a PhP 0.1812 per kWh rate for the metering function. On the other hand, the Commission orders PANELCO I to use a PhP per kWh rate for the supply function.

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	RES'L	COMM'L	IND'L	OTHERS	PUBLIC BLDGS.	STREET LIGHTS
New Cost-Based Revenues Requirement (PhP)	167,689,736	134,130,980	15,670,885	10,715,215	58,897	6,088,233	1,025,527
Existing Rates Revenue (PhP)	178,733,639	134,959,658	22,530,731	13,175,299	70,666	6,950,763	1,046,523
Total Change in Revenue (PhP)	(11,043,903)	(8,339,121)	(1,392,168)	(814,098)	(4,366)	(429,486)	(64,664)
Percentage Change in Revenue	-6.18%						
Normalized Existing Revenue (PhP)	167,689,736	126,620,537	21,138,563	12,361,200	66,300	6,521,277	981,859
Inter-Class Cross-Subsidy Amounts (PhP)	0.0000	(7,510,444)	5,467,678	1,645,986	7,403	433,044	43,668
Class Billing Determinants (kWh)	32,560,411	24,578,786	4,088,394	2,423,598	12,823	1,265,870	190,940
Inter-Class Cross Subsidy Rates (PhP / kWh)		(0.3056)	1.3374	0.6791	0.5773	0.3421	(0.2287)

II.B.3.b. CROSS SUBSIDY REMOVAL

Section 74 of R.A. 9136 and Rule 16, Section 5 of the Implementing Rules and Regulations thereof 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 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, Case No. 2001-901 which impacts the unbundled transmission rates for PANELCO I's end-users. This impact is reflected in the three-year schedule for unbundled transmission charges provided in Section II.B.2.b 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, PANELCO I will continue to charge the inter-class cross subsidy rates set forth in Section II.B.3.a above.

II.B.4. LIFELINE RATE and LEVEL

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

In determining the 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. Thus, the Commission sets the lifeline consumption maximum level of 20 kWh for PANELCO I. 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 PANELCO I. The graduated scale is also based on the recognition that individual end-user consumption may likely vary from month to month.

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

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

The cost of subsidy to lifeline end-users shall be passed on to all non-lifeline end-users. For PANELCO I the lifeline discounts result in a Subsidy Charge on Lifeline by other end-users equal to PhP 0.0606/kWh.

II.B.5. OTHER CHARGES

PANELCO I's additional submissions to this Commission of its existing Other Charges as previously presented were considered in the determination of its revenue requirement. The revenue derived from these charges are appropriately deducted from the determination of the revenue requirement allowed to PANELCO I.

The Other Charges of PANELCO I are hereby pegged at their existing levels until such time that the Commission sets new rates on the same. Further, PANELCO I is ordered to make a compliance filing on its Other Charges 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.B.6. ESTIMATED IMPACT ON AN AVERAGE RESIDENTIAL END-USER

A comparison of the estimated impact of all adjustments on the revenue requirement on the monthly bill of a residential end-user consuming 67 kWh a month using rates based on PANELCO I's actual existing rates as of August 2002 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	4.0609	272.08	Generation Charge	2.3696	158.76
PPA	1.1791	79.00	Generation Benefits to Host Communities	2.1913	
Power Act Reduction	(0.3000)	(20.10)	FOREX	0.0245	
				0.1538	
			Transmission Charge	0.8575	57.45
			Distribution Charge	0.8881	59.50
			Line Loss Charge	0.5537	37.10
			Supply Charge	0.5247	35.15
			Metering Charge		
			Per customer per month		5.00
			Per kWh	0.1812	12.14
			Inter-Class Cross Subsidy	(0.3056)	(20.48)
			Lifeline Rate (Discount)/Subsidy	0.0606	4.06
			Power Act Reduction	(0.3000)	(20.10)
TOTAL BILL		330.98	TOTAL BILL		328.58
PhP/kWh		4.9400	PhP/kWh		4.9042

DISPOSITION

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

1. To approve the unbundled schedule of rates of PANELCO I, to be effective for all billing cycles following the NPC bill for the month of December 2002:

	Residential	Commercial	Industrial	Public Buildings	Street Lights	Others
Generation Charges:	2.3696	2.3696	2.3696	2.3696	2.3696	2.3696
Generation System Charge (PhP/kWh)	2.1913	2.1913	2.1913	2.1913	2.1913	2.1913
Franchise & Benefits to Host Communities Charge (PhP/kWh)	0.0245	0.0245	0.0245	0.0245	0.0245	0.0245
FOREX Adjustment Charge (PhP/kWh)	0.1538	0.1538	0.1538	0.1538	0.1538	0.1538
Transmission Charges:						
Demand Charge (PhP/kW)			22.50			
Transmission System Charge (PhP/kWh)	0.8575	0.0879	0.9579	0.8445	0.8840	0.9750
Distribution Charges:						
Demand Charge (PhP/kW)			22.50			
Billing Demand (kW)			317			
Distribution System Charge (PhP/kWh)	0.8881	0.5634	0.4703	0.6454	1.3069	0.5209
Line Loss Charges (PhP/kWh)	0.5537	0.5537	0.5537	0.5537	0.5537	0.5537
Supply Charges:						
Supply System Charge (PhP/kWh)	0.5247	0.1591	0.0248	0.2543	0.1579	0.1007
Metering Charges:						
Retail Customer Meter Charge						
(PhP/Cust./Mo.)	5.0000	21.1757	107.7330	18.3153	21.2328	26.0185
(PhP/kWh)	0.1812					
Inter-Class Cross-Subsidy Charge (PhP/kWh)	(0.3056)	1.3374	0.6791	0.3421	(0.2287)	0.5773
Subsidy on Lifeline Rate (PhP/kWh)	0.0606	0.0606	0.0606	0.0606	0.0606	0.0606
R.A. 9136 Mandatory Rate Reduction (PhP/kWh)	(0.3000)					
Lifeline Rate (Discount)/Subsidy To be based on Residential Rate in a graduated scale as provided in Section II.B.4. of this Decision.						

2. To direct PANELCO I to comply with the following:
 - a) Discontinue charging the PPA upon effectivity of the approved unbundled rates;
 - b) 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;
 - c) 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;
 - d) Submit for verification and confirmation purposes on or before the twentieth (20th) day of the month following the effectivity of the approved unbundled rates and every month thereafter: a) five (5) sample bills for each customer class; b) copy of bills from the generation and transmission companies; and c) Monthly Financial and Statistical Reports (MFSRs) complete with all related schedules;
 - e) 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;
 - f) 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;
 - g) File a progress report on the reinvestment fund one (1) year from the date of this Decision and every year thereafter, using the prescribed formats provided in Annexes B and C of this Decision. The report shall include detailed accounting of actual collections and deposits, specific transactions and withdrawals for all disbursements, actual line losses; and
 - h) Submit a new Systems Rehabilitation/Upgrading and/or System Loss Reduction Program covering the period 2004 to 2008, one (1) year after the date of this Decision using the format prescribed by the Commission.

SO ORDERED.

Pasig City, November 15, 2002.

(Signed) **LETICIA V. IBAY**
Acting Chairman

(Signed) **OLIVER B. BUTALID**
Commissioner

(Signed) **MARY ANNE B. COLAYCO**
Commissioner

(Signed) **CARLOS R. ALINDADA**
Commissioner

Copy furnished:

1. Atty. Zenon Suarez
Counsel for Applicant
4/F Casman Bldg.,
1198 Quezon Avenue, Quezon City
2. Mr. Rolando Reinoso
General Manager
Pangasinan I Electric Cooperative, Inc.
San Jose, Bani, Pangasinan
3. Ms. Emma Lagahit
Finance Manager
Pangasinan I Electric Cooperative, Inc.
San Jose, Bani, Pangasinan
4. Office of the Solicitor General
134 Amorsolo Street, Legaspi Village
1229 City of Makati
5. Commission on Audit
Commonwealth Avenue
1121 Quezon City
6. Senate Committee on Energy
GSIS Building, Roxas Boulevard
1300 Pasay City
7. House Committee on Energy
1126 Batasan Hills, Quezon City
8. The Municipal Mayor
2408 Agno, Pangasinan
9. The Municipal Mayor
2404 Alaminos, Pangasinan
10. The Municipal Mayor
2405 Anda, Pangasinan
11. The Municipal Mayor
2407 Bani, Pangasinan
12. The Municipal Mayor
2406 Bolinao, Pangasinan

13. The Municipal Mayor
2410 Burgos, Pangasinan
14. The Municipal Mayor
2411 Dasol, Pangasinan
15. The Municipal Mayor
2412 Infanta, Pangasinan
16. The Municipal Mayor
2409 Mabini, Pangasinan