

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

IN THE MATTER OF THE
APPLICATION FOR APPROVAL
OF THE REVISED RATE
SCHEDULES IN COMPLIANCE WITH
SECTION 36 OF REPUBLIC ACT NO.
9136 AND ERC ORDER DATED
OCTOBER 30, 2001, WITH PRAYER
FOR PROVISIONAL AUTHORITY

ERC CASE NOS. 2001-891
and 2002-06

VISAYAN ELECTRIC COMPANY, INC.,
VECO.

X-----X

D E C I S I O N

Before the Commission for resolution is the application/ supplemental and/or amended application filed on December 21, 2001 and January 14, 2002, respectively, by Visayan Electric Company, Inc. (VECO) for approval of its revised rate schedules in compliance with Section 36 of Republic Act No. 9136 and ERC Order dated October 30, 2001, with prayer for provisional authority.

On January 28, 2002, Konsumo Cebu submitted a letter dated January 24, 2002 requesting that it be furnished copies of all the submissions of VECO.

Having found the application sufficient in form and substance with the required fees having been paid, an Order and a Notice of Public Hearing were issued both dated February 4, 2002 setting the same for initial hearing on March 21 and 22, 2002. In the same Order, VECO was directed to publish at its own expense, the Notice of Public Hearing twice for two (2) successive weeks in two

(2) newspapers of general circulation in the Philippines at least two (2) weeks before the date of initial hearing.

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

During the March 21, 2002 hearing of this case, only Engr. Robert Mallillin presented himself as Intervenor. VECO presented its proofs of compliance with the Commission's publication and posting of notice requirements and had these marked as Exhibits "A" to "C-7", inclusive. The said publication were made on the issues of the Manila Times and Malaya, both dated February 22 and March 1, 2002. Thereafter, it presented its first witness, Pedrito G. Polo, VECO's Finance Manager, for direct examination who testified on the manner by which the VECO prepared its revised rate application including the different schedules using the unbundling process. In the course thereof, documents were presented and marked as Exhibits "D" to "R-5", inclusive. After the termination of the direct examination, Intervenor Mallillin conducted his cross-examination on the said witness while the Commission propounded clarificatory questions. In the course thereof, VECO was directed to submit a Revised Lifeline Rate Schedule.

During the March 22, 2002 hearing, VECO recalled Witness Polo, to testify on the study he made on VECO's lifeline rates. In the course thereof, a document was presented and marked as revised Exhibit "P-3" (Lifeline Rate Schedule). The original Exhibit "P-3" was withdrawn. The Commission then propounded additional clarificatory questions.

VECO then presented its second witness, Mr. Douglas T. Ascher, Partner of Alba, Romeo and Company, for direct examination who testified on the audit conducted on VECO's financial statements which were used to comply with the Uniform Rate Filing Requirements (UFR). In the course thereof, a document was presented and marked as Exhibit "S". Intervenor Mallillin conducted his cross-examination of the said witness.

VECO then moved that it be given twenty (20) days from completion of its submission of all the required documents within which to submit its formal offer of exhibits. Said motion was granted.

On April 24, 2002, VECO filed its formal offer of exhibits.

On May 20, 2002, the Integrated Bar of the Philippines (IBP) Cebu City Chapter's letter dated May 13, 2002 was received inquiring on the instant application and requesting that the hearing be held in Cebu City.

In a letter dated May 28, 2002, IBP Cebu City was informed by the Commission of the status of the case as well as their option to submit a position paper on the instant application. The Commission, however, denied the request for transfer of venue of the hearing citing previous rulings of the Commission on the matter as well as the Implementing Rules and Regulations of Republic Act No. 9136.

On June 3, 2002, Intervenor Mallillin submitted a "Position Paper" which discussed the following issues:

- a) Rate Design. The Distribution Charges which are attributable to fixed costs, should be in "P/kW" if metering installations permit, with the exception of those without demand meters. Meter charge should be in terms of "Peso per Customer". The supply charge should also be in "Peso per Customer". The Distribution System Charge should be

determined based on the delivery voltage level of the customer. The Distribution System Loss Recovery should be a separate and distinct charge segregated by voltage level in each customer class in order to reflect rate levels that are closer to the true cost of service. The Lifeline Rate threshold level should consider the connected load aside from the historical energy consumption of the customer.

- b) Costs and Financial Issues. Weighted Average Cost of Capital (WACC) should be related to their long term sources of funds so that short term securities, loans or other obligations are not included. Cross Subsidies should be phased out starting with the proposed charges/rates under the rate unbundling case. Poles, line hardware, line transformers, conductors and wires should be allocated under "Demand" only. System Loss cap under R.A. 7832 should be maintained.

In a letter dated June 21, 2002, IBP Cebu City sought clarification regarding the place where the notice of hearing was posted, why the hearing should be conducted in Manila and why the consumers should be burdened with the costs of the trip for the hearing in Manila. Likewise, it requested that it be furnished with a copy of VECO's applied revised rates and that a hearing be conducted in Cebu and reiterated that the hearing be conducted in Cebu.

Through its letter dated July 12, 2002, the Commission replied to the queries of IBP Cebu City and provided them with a copy of the proposed revised rates and informed them of another hearing on the instant application scheduled for August 5, 2002.

On June 26, 2002, the Commission's Visayas Field Office forwarded to the Commission's Main Office the position paper dated June 24, 2002 of Nagpakabanang Sugbuanong Kontra sa Kataas sa Kuryente (NASUKKKU).

Through said position paper, NASUKKKU manifested its opposition to the instant petition based on the following grounds, viz.:

1. Cebu consumers were not represented during the hearing on VECO's petition. NASUKKKU raised the point that the Commission did not respond to the letter dated January 24, 2002 sent by Konsumo Cebu, alleging that this was a violation of the consumer's basic right to be heard and the Commission's mandate of consumer protection;
2. The unbundling exercise is supposed to be revenue-neutral. However, VECO's application would result to a P0.39/kWh increase in basic rates. NASUKKKU poses the contention that VECO's unbundling petition be made separate from its petition for rate increase;
3. VECO must justify its Power Cost Adjustment (PCA) and its inclusion into the various cost items under its proposal;
4. The PCA should not be incorporated into the unbundled rate structure until after a thorough and judicious review of all contracts of VECO and the National Power Corporation (NPC) with Independent Power Producers (IPPs).

On July 19, 2002, VECO was directed by the Commission to furnish Oppositors Konsumo Cebu and NASUKKKU copies of its application and attached supporting papers. Also, the case was again set for hearing on August 5, 2002.

Through its letter dated July 22, 2002, the Commission informed Oppositor Konsumo Cebu that VECO will be providing said group with copies of VECO's application for unbundling of rates with its attached documents. Further, the Commission attached copies of the Transcript of Stenographic Notes (TSNs) of

the proceedings on the application held on March 21, 2002 for Konsumo Cebu's guidance.

On August 1, 2002, the Commission received through fax a copy of Joint Resolution No. 2 Series of 2002 passed by the IBP of Cebu City resolving to request for the transfer of the venue of the hearings in ERC Case Nos. 2001-891 and 2002-06. The Commission through its letter dated August 2, 2002 again denied said request on the grounds that it has to hear about 141 unbundling cases within a specific time frame and for this reason the Commission is constrained to hear all unbundling cases in Manila.

At the scheduled hearing of August 5, 2002, the following entered their appearances: Atty. Manuel L. M. Torres, VECO's counsel, Intervenor Robert Mallilin, Councilor Nestor D. Archival, as representative of Oppositor Sangguniang Panlungsod of Cebu, Joselito Vasquez, representing Oppositor Freedom from Debt Coalition of Cebu City and Oppositor NASUKKKU, Congresswoman Nerissa Soon-Ruiz, Representative of the 6th District, Province of Cebu and Congressman Raul del Mar, Representative of the 1st District, City of Cebu.

Oppositor NASUKKKU informed the Commission that Oppositor Konsumo Cebu was unable to appear since its representative is presently in the United States but it sent its Position Paper. In its position paper, Oppositor Konsumo Cebu raised the following concerns; a) the need to establish a clear understanding of what a 12% Return on Rate Base means; b) the use of re-appraisal of assets to justify an increase in rates; c) the System Loss incurred by VECO which it attributes to pilferages and inaccuracy of meters; d) why the System Loss is being allowed to be passed on to the consumers; and the need to provide VECO's consumers the means to validate the claim that VECO's rates are reasonable considering that VECO has recovered more than three (3) times

its original invested capital since 1994. In the hearing proper, VECO moved that it be allowed to propound additional direct examination questions to its Witness Polo, which the Commission granted, there being no objection. Witness Polo elucidated on VECO's letter dated June 25, 2002 addressed to the Commission on the following points: 1) Weighted Average Cost of Capital; 2) Prompt Payment Discount; 3) Appraisal Depreciation; and 4) Income Tax. In the course thereof, documents were presented and marked as Exhibits "T" to "U-1", inclusive. Intervenor Mallillin cross-examined the said witness. Oppositor Sangguniang Panlungsod of Cebu then presented their position on the application. It proceeded to ask clarificatory questions from the same witness. Oppositor NASUKKKU reserved its right to question Witness Polo at the next hearing. Congresswoman Soon-Ruiz moved that she be furnished copies of the application and its attachments. VECO acceded to the request. The Commission then propounded clarificatory questions to Witness Polo. Thereafter, the Commission denied the motion of the Sangguniang Panlungsod of Cebu to hold the hearing in Cebu citing previous rulings of the Commission on the matter as well as the Implementing Rules and Regulations of Republic Act No. 9136 and the motion to have forty-five (45) days studying the application. In the latter case, only a two-week period was granted.

At the August 21, 2002 hearing of this case, the following entered their appearances: Atty. Manuel L. M. Torres, VECO's counsel, Councilor Nestor D. Archival, as representative of Oppositor Sangguniang Panlungsod of Cebu, Intervenor Robert Mallillin, Fr. Manuel Montevirgen, as representative of Oppositor Konsumo Cebu; and Mr. Edwin Ruaza, as representative of Oppositor NASUKKKU. Intervenor Mallillin and Oppositors Konsumo Cebu and NASUKKKU conducted cross-examinations of VECO's sole witness. Oppositor Sangguniang

Panlunsod of Cebu submitted its Position Paper on the application. VECO moved that it be furnished a copy of the said paper which the Commission granted. In its Position Paper, Oppositor Sangguniang Panlunsod of Cebu raised the following points:

- a) The enactment of Republic Act No. 9136 is primarily aimed at improving delivery of power supply contract while ensuring transparent and reasonable prices of electricity. According to VECO, it is applying for the unbundling of rates to make electricity charges transparent and reflective of true cost of service. However, the resultant P0.39/kWh increase petitioned by VECO in its power rate run contrary to its declared aim of improving its service while ensuring transparent and reasonable prices of electricity;
- b) Considering that electricity is a commodity that people cannot do away with, VECO's main concern in imposing rates should be the welfare of its consumers. While it needs to raise profits to continue its operations, the achievement of this aim should be limited to the imposition of fair and reasonable rates;
- c) Since any increase would mean an added burden to the already burdened Cebuanos, it is incumbent upon VECO to give its consumers a more detailed explanation as to why and how the rates are arrived at. It is only through a practice of transparency concerning VECO's financial statements that the consumers will be given a means of verifying the truthfulness of VECO's claims. For the public to fully understand VECO's proposal, it should make more efforts to explain it in a more understandable manner;

d) It is unfair for VECO to pass unto the consumers through increased rates their claimed losses due to pilferage and inaccuracy of meters.

In the continuation of the hearing, Intervenor Mallillin moved that VECO be directed to submit a summary of the dividends actually paid to its stockholders for the last ten years to which VECO agreed to provide on or before August 26, 2002. VECO manifested that it cannot give Oppositor NASUKKKU copies of its Independent Power Producers (IPPs) Contracts as Oppositor NASUKKKU failed to sign the confidentiality agreement which is the condition of VECO before the said contracts are furnished Oppositor NASUKKKU. Oppositor Konsumo Cebu questioned the inclusion of income and franchise taxes in VECO's revenue requirement. Oppositor Konsumo Cebu asked why these taxes should be charged to the consumers considering that even ordinary employees are not exempted from paying taxes. Konsumo Cebu moved that another hearing be set for the presentation of its witness which the Commission granted.

On September 13, 2002, the Commission's Visayas Field Office sent through fax a position paper of certain groups in Cebu opposing VECO's application for unbundling of rates principally due to the P0.39/kWh increase.

On September 16, 2002, VECO's counsel, Oppositors Sangguniang Panlungsod of Cebu, Konsumo Cebu and NASUKKKU entered their appearances. Oppositor Konsumo Cebu presented another Position Paper dated September 16, 2002 basically reiterating its Position Paper dated August 3, 2002. Oppositors Sangguniang Panlungsod of Cebu, Konsumo Cebu and NASUKKKU propounded clarificatory questions to Witness Polo. Oppositor Sangguniang Panlungsod of Cebu moved that it be given one (1) week to submit its position paper, to which VECO moved that it be also furnished a copy of the said paper. Both motions were duly granted by the Commission.

On September 25, 2002, Oppositor Konsumo Cebu filed by fax its Commentaries on VECO's application for increase and unbundling of rates. Konsumo Cebu raised the following issues:

- a) On Operating Expenses. It is essential that the Operating Expenses shown in the cost of service study be not accepted as gospel truth. Operating Expenses is a major determinant of the final rate to be charged to consumers. It is therefore vital to evaluate and validate the figures submitted. Oppositor Konsumo Cebu stated that the existing rates of VECO were already too high when the same were set in 1994. This is why VECO was able to survive this long without need for relief of a rate increase despite increasing costs.
- b) Return on Investment. Oppositor Konsumo Cebu agrees with the current practice of using Weighted Average Cost of Capital. It is, however, its position that VECO needs to clarify the risks that would justify their demand for a five (5%) percent risk premium. Also, Oppositor Konsumo Cebu raises the idea to determine the funds infused by VECO's investors since its organization and make a comparison showing information on capital account balances, stock and cash dividends paid, appraisal values recognized, transfer of revaluation surplus to the Capital Account, and profits.
- c) Rate Base. It is their position that to the extent that revenues resulted from authorized rates that can be traced to the appraised values are rate payer funded, and therefore, is not part of owners' investment. It is its understanding that the philosophy behind the rate making formula is to provide revenues that will allow the electric power enterprise investor only recovery of: 1) all necessary and legitimate expenses; 2) full

recovery of investment; and 3) a fair and adequate return on capital. It also contends that the recognition of periodic depreciation charges causes problems with regard to the proper matching of revenues and expenses thereby creating misleading interpretations of the financial statements. The treatment shown in VECO's financial statements of transferring revaluation surplus increments to the Capital Account through stock dividends does not seem to make sense since in determining return in investments, stock dividends have no effect because the investment stays unchanged, that is, still 100%. Oppositor Konsumo Cebu further offer that the reason why VECO has opted to transfer revaluation increment to the Capital Account through a stock dividend is because it can convert the revaluation surplus into cash upon its public listing.

- d) Rate of Return. Oppositor Konsumo Cebu contends that in determining the rate of return, other methodologies should be considered by the Commission. It offers for consideration a procedure in determining an overall Rate of Return on Rate Base (RORB) to be used in establishing the revenue requirements. It further offered a comparison demonstrating the effects of the "with" and "without appraisal values".
- e) 12% Return on Rate Base. Oppositor Konsumo Cebu also contends that the 12% Return on Rate Base is not the measure of what is or is not reasonable. Oppositor Konsumo Cebu opines that at best the 12% is a cap and it cannot be used as a reason that anything less than that is unreasonable.
- f) Depreciation. Oppositor Konsumo Cebu states that depreciation expenses should be disallowed from revalued assets.

- g) Working Capital Allowance. Oppositor Konsumo Cebu believes that the grant of a Working Capital Allowance is unfair and may even be discriminatory.
- h) Surcharges and Late Payment Charges. Oppositor Konsumo Cebu believes that late payment charges should be limited only to incremental cost of collection of late payments.
- i) Customer deposit. Oppositor Konsumo Cebu is of the position that the practice of requiring deposits from customers be scrapped. Oppositor Konsumo Cebu questions the format used by VECO where it pays its customers a ten (10%) percent interest on their deposit and turn around and charges them the cost of capital by including it in the computation of revenue requirement.
- j) Special Customer Advances. Oppositor Konsumo Cebu likewise argues for the scrapping of the Special Customer Advances.
- k) Other Matters. Oppositor Konsumo Cebu finally questions the propriety or the need for a satellite office in Manila and the cost incurred in the maintenance thereof should not be included in the rate base.

On October 25, 2002, VECO submitted its Reply to the Comments of Oppositor Konsumo Cebu. In its Reply, VECO stated that the issue as to what is a Return on Rate Base has long been settled in this jurisdiction to be equivalent to 12%. As to the issues on operating expenses raised by Oppositor Konsumo Cebu, VECO pointed out that the figures submitted by VECO were in compliance with the Commission's Uniform Rate Filing Requirements (UFR). On issues raised by Oppositor Konsumo Cebu regarding the properties in service as part of rate base, it is VECO's position that the revenues derived from the rates constitute the compensation paid to the utility for the service it renders. Accordingly, no part

thereof could be deemed a loan, or money to finance what Oppositor Konsumo Cebu refers to as “customer funded projects”. VECO further added that jurisprudence has settled that: (1) depreciation on the appraised value of property, not only on historical costs, is considered as an operating expense for ratemaking and 2) two (2) months working capital is part of rate base. VECO also pointed out that its proposed average rate will only be P4.6904/kWh, which is below the average rate of other private utilities in the country. As to the issues on Other Charges and Deposits raised by Oppositor Konsumo Cebu, VECO contends that these charges and deposits had been duly approved by the predecessors of this Commission in proceedings separate and distinct from the approval of applicant’s rate schedules.

I. VECO’s PROPOSAL

VECO proposes to adopt and apply for the approval of the following rate schedules embodying the unbundling of its rates in accordance with the functions identified in Section 5 of RA 9136, and which have been formulated on the basis of the data and calculations contained in the schedules prescribed in ERC Order dated October 30, 2001, prescribing a Uniform Filing Requirements (UFR), to wit:

<u>Rate Schedule</u>	<u>Reference</u>
Schedule FX/FZ	Streetlight
Schedule II-R	Residential Meter Rate
Schedule II-RW	Residential Meter Wheeling Rate
Schedule III-S	General Service Rate
Schedule III-SW	General Service Wheeling Rate
Schedule IV-P	General Power Rate
Schedule IV-PW	General Power Wheeling Rate
Schedule V-P	Bulk Power Rate
Schedule V-PW	Bulk Power Wheeling Rate
Schedule VI-P	Wholesale Power Rate
Schedule VI-PW	Wholesale Power Wheeling Rate
Schedule VII-P	Special Wholesale Power Rate
Schedule VII-PW	Special Wholesale Power Wheeling Rate

I.A. Revenue Requirement

In its application, VECO as prescribed by the Commission, used CY 2000 results of operations in the calculation of total revenue requirement as required in the UFR. VECO also provided evidence supporting a 9.53% after income tax rate of return.

Based on the submitted schedule the total adjusted revenue requirement proposed amounted to P5,541,759,086, computed as follows:

REVENUE REQUIREMENT (in P000)					
<u>Account Name</u>	<u>Total Company</u>	<u>Non Electric</u>	<u>Electric Only</u>	<u>Electric Adjust.</u>	<u>Adjust. Electric</u>
Purchased power	P 3,998,854	P 0	P3,998,854	P193,499	P 4,192,354
Payroll	318,900	0	318,900	0	318,900
Operation & maintenance	326,470	0	326,470	45,765	372,235
Depreciation & amortization	287,643	18,923	268,720	0	268,720
Income taxes	98,588	0	98,588	136,112	234,700
Other expenses	65,185	65,185	0	0	0
Return on rate base					163,869
Revenue requirement					P 5,550,779
Less: Other revenue items	P53,463	30,504	22,959	(13,939)	9,020
Total revenue requirement					P5,541,759

I.A.1. Operating Revenue

VECO reported a total operating revenue of P5,132,002,911 for the year 2000, computed as follows:

OPERATING REVENUE (in P000)	
Customer Type	Amount
Residential	P 1,731,495
Commercial	1,040,133
Industrial	2,184,879
Flat Rate	8,035
Streetlights	80,589
Government	86,873
Total	P 5,132,003

VECO reduced the above revenue by P61,360,130 representing 2% surcharges on delinquent customer's bill showing a net revenue of P5,070,642,781.

I.B. Rate Base

VECO utilized the appraised values of assets as reported by an independent appraiser, Cuervo Appraisal Company, Inc., as of April 14, 2000 in the rate base determination. VECO had already removed the value of land located in Barangay Ermita, Cebu City which is considered as not in service with total value of P59,618,000. The value of materials and supplies (oil used in generation plant) was likewise deducted as non-electric item. Also, a reclassification of land from general to distribution account was the only electric adjustment made. After all these adjustments, the proposed rate base is as follows:

RATE BASE (In Pesos)					
	Total Company	Non Electric	Electric Only	Electric Adjust.	Adjust. Electric
Franchise	P 434,543		P 434,543		P 434,543
Distribution Plant	3,704,810,312		3,704,810,312	P8,796,244	3,713,606,556
General Plant	213,388,334		213,388,334	(8,796,244)	204,592,090
Total Plant in Service	P3,918,633,189		P3,918,633,189		P3,918,633,189
Unbundled CWIP	172,306,639		172,306,639		172,306,639
Total	P 4,090,939,828		P4,090,939,828		P4,090,939,828
Accumulated Depreciation					
Franchise	P434,543		P434,543		P434,543
Distribution Plant	1,670,003,491		1,670,003,491		1,670,003,491
General Plant	77,036,321		77,036,321		77,036,321
Total Accum. Depr.	P1,747,474,355		1,747,474,355		P1,747,474,355
Net Plant in Service	P2,343,465,473		P2,343,465,473		P2,343,465,473
Plant Held for Future Use	2,007,000		2,007,000		2,007,000
Materials & Supplies	186,584,778	P(4,733,407)	181,851,371		181,851,371
Cash Working Cap.	750,060,408		750,060,408		750,060,408
Total Rate Base	P3,282,117,659	P(4,733,407)	P3,277,384,252	-	P3,277,384,252

I.B.1. Plant in Service

I.B.1.a. Asset Valuation as of April 27, 2000

Under ERC Case No. 2001-775 (ERB Case No. 2000-186), In the Matter of the Application for Approval of the Sound Value Appraisal Property, VECO submitted for ERC's approval the appraisal conducted by Cuervo Appraisal Company, Inc.. Based on its report, VECO's assets had a total cost of

reproduction (new) of P3,751,143,500 and sound value of P2,197,581,005 as of April 14, 2000, to wit;

	<u>Cost of Repro- duction, New</u>	<u>Sound Value</u>
Land	P 396,865,900	P 396,865,900
Building	76,813,000	43,055,500
Other Land Improvement	19,648,000	15,031,000
Machinery & Equipment	22,131,500	11,368,600
Electrical Power Distribution Equipment	3,131,727,000	1,655,606,000
Transportation Equipment	46,185,000	40,621,000
Furniture & Office Equipment	54,577,100	33,264,105
Communication Equipment	<u>3,196,000</u>	<u>1,768,900</u>
Grand Total	<u>P 3,751,143,500</u>	<u>P 2,197,581,005</u>

I.C. RATE DESIGN

VECO analysed its cost of service for the historical test year and functionalized its rate base, expenses and other operating revenues to the transmission, distribution, generation, supply and metering functions and further allocated these costs to the following customer classes:

- Streetlights
- Residential Meter Rate
- General Service Rate
- General Power Rate
- Bulk Power Rate
- Wholesale Power Rate
- Special Wholesale Power Rate

I.C.1. Generation Charge

Based on the submitted schedule of VECO (Annex "A"-Erratum to January 15, 2002 filing), VECO proposed a Generation Charge formula under the following customer class for the recovery of its power cost, to wit;

a. Rate Schedule I-FZ (Street Light)

$$\text{Generation Charge} = \frac{\text{Amount paid to NPC/IPP/WESM for the Previous Month}}{\text{Billing kWh supplied for the Previous Month}} \text{ per Calculated kWh}$$

- b. Rate Schedules II-R (Residential Metered), III-S (General Service), IV-P (General Power Rate), V-P (Bulk Power), VI-P (Wholesale Power), and VII-P (Special Wholesale Power).

$$\text{Generation Charge} = \frac{\text{Amount paid to NPC/IPP/WESM for the Previous Month}}{\text{Billing kWh supplied for the Previous Month}} \text{ per kWh}$$

I.C.2. Transmission and/or Sub-Transmission Charge

VECO likewise proposed a transmission and sub-transmission charge formula for the following customer class, as follows:

- a) Applicable to customer under Schedule I-FZ (Street Light).

$$\text{Transmission and/or Sub-transmission Charge} = \frac{\text{Amount paid to Transmission Co. and/or Sub-transmission Co. for the Previous Mo.}}{\text{Billing kWh supplied for the Previous Mo.}} \text{ Per Calculated kWh}$$

- b) Applicable to customers under Schedule II-R (Residential Metered), III-S (General Service), and IV-P (General Power Rate).

$$\text{Transmission and/or Sub-transmission Charge} = \frac{\text{Amount paid to Transmission Co. and/or Sub-transmission Co. for the Previous Mo.}}{\text{Billing kWh supplied for the Previous Mo.}} \text{ Per kWh}$$

- c) Applicable to customers under V-P (Bulk Power), VI-P (Wholesale Power), and VII-P (Special Wholesale Power).

$$\text{Transmission and/or Sub-transmission Charge} = \frac{\text{Amount paid to Transmission Co. and/or Sub-transmission Co. for the Previous Mo.}}{\text{Billing kWh supplied for the Previous Mo.}} \times (\text{Coincident Factor}) \text{ Per kW of Non Coincident Demand}$$

I.C.3. Distribution Charge

I.C.3.a. Basic Charge

VECO designed its Distribution Charge for Schedules I-FZ, II-R, III-S and IV-P by dividing the computed revenue requirement per customer class with kilowatt-hour sales as billing determinant resulting in a peso per kilowatt-hour charge. Charges under Schedules V-P, VI-P and VII-P were determined by using the non-coincident demand as billing determinant deriving a peso per kilowatt charge.

I.C.3.b. System Loss Recovery Clause

In addition to the Distribution Charge, VECO proposed a System Loss Recovery Clause to recover the cost of the system losses incurred in the company's distribution, to be billed to customers as separate and distinct from other rates and charges.

VECO proposed the actual system loss for the year 2000 as its allowable system loss to be recovered separately in the bill by using the following formula:

$$SL = K \times \frac{(A)}{(B)}$$

Where: SL = system loss adjustment expressed in peso per kWh for the current billing month.

K = factor to take care of system loss and franchise taxes for each customer class as per RA 9136-UFR (Schedule J: System Loss) computed as follows:

$$= \frac{1}{(1 - (\text{System Loss} + \text{Company Use})) (1 - \text{FT})}$$

A = total NPC (including transmission/ancillary services), IPP and/or WESM billing for the previous month

B = total energy purchased and/or wheeled from NPC, IPP and/or WESM for previous month

FT = franchise tax Rate both national and local, in decimal, for the current year

In the above formula, the different customer classes were assigned the corresponding system loss. "Schedule J" of the application showed that the total system loss of 10.55% was divided into technical loss at the rate of 8.95% and non-technical at the rate of 1.59%, categorized as follows:

VECO's Proposed System Losses									
	Total	I-FX/FZ ¹	II-R ²	III-S ³	IV-P ⁴	V-P ⁵ (220V)	V-P ⁵ (23KV)	VI-P ⁶ (13.8KV)	VII-P ⁷ (69KV)
Technical	8.95%	12.98%	12.98%	12.98%	12.98%	5.42%	2.29%	2.29%	1.02%
Non-Tech	1.59%	2.65%	2.65%	2.65%	2.65%	0.00%	0.00%	0.00%	0.00%
Total	10.55%	15.63%	15.63%	15.63%	15.63%	5.42%	2.29%	2.29%	1.02%

-
- ¹ Streetlights
² Residential Meter Rate
³ General Service Rate
⁴ General Power Rate
⁵ Bulk Power Rate
⁶ Wholesale Power Rate
⁷ Special Wholesale Power Rate

I.C.3.c. Supply and Metering Charges

VECO used the end of the year number of customer in determining the supply and metering charges resulting to a peso per customer per month.

On November 12, 2002, VECO submitted a “Manifestation and Motion” proposing a revised metering charge. Such review showed that the customer allocation factor used by VECO was inadvertently based purely on the cost of meter installation. The UFR however provides for another allocation factor based on operating cost. VECO proposed the following metering charges:

Type of Customers	Proposed Metering Rates
Schedule II-R	0.3509 P/kWh
Schedule III-S	0.1045 P/kWh
Schedule IV-P	255.87 P/customer-month
Schedule V-P	579.67 P/customer-month
Schedule VI-P	6,935.03 P/customer-month
Schedule VII-P	41,629.35 P/customer-month

VECO contends that the metering charge in pesos per customer per month would adversely affect consumers with low consumption. For this reason, VECO believed that it is fair for Schedule II-R and Schedule III-S to have a metering charge of peso per kilowatt-hour, with the other schedules being charged in pesos per customer per month.

I.D. Affiliate Data

VECO maintained that they have no affiliate companies. Based on the attached schedule (Notes to Schedule B-Other revenue items), VECO neither received nor accrued income from any affiliated company.

I.E. Cross-Subsidies

VECO adjusted its actual revenue as presented in sub-schedule H-2 (Proof of revenue using the existing rates). The total revenue requirement for each customer class was compared to normalized existing rates, which resulted to the following inter-class cross subsidy calculation:

Rate Schedules	Revenue Requirements			
	Existing Rates		Proposed Rates	Cross-Subsidy
	Actual	Normalized		
Schedule FX/FZ ¹	P 81,206,352	P 87,592,040	P 66,591,085	P 21,000,955
Schedule II-R ²	1,781,853,412	1,921,970,021	2,277,826,596	(355,856,576)
Schedule III-S ³	743,443,021	801,903,899	809,738,476	(7,834,577)
Schedule IV-P ⁴	362,340,529	390,833,292	376,509,957	14,323,335
Schedule V-P ⁵	516,117,130	556,702,165	487,324,681	69,377,484
Schedule VI-P ⁶	1,531,452,642	1,651,878,907	1,409,885,534	241,993,373
Schedule VII-P ⁷	121,337,362	130,878,764	113,882,758	16,996,006
Total	P5,137,750,447	P 5,541,759,087	P5,541,759,087	P 0

¹ Streetlights

² Residential Meter Rate

³ General Service Rate

⁴ General Power Rate

⁵ Bulk Power Rate

⁶ Wholesale Power Rate

⁷ Special Wholesale Power Rate

I.F. Lifeline Rate

VECO presented three (3) options for their lifeline customers covering residential customers only, as follows:

	Threshold Level	Lifeline Rate	Lifeline Recovery Rate
Option 1	0-17 kWh	P2.9809	P0.0334
Option 2	0-30 kWh	P2.9809	P0.0635
Option 3	0-50 kWh	P2.9809	P0.1127

I.G. Rate Schedules (Proposed Unbundled Rates)

VECO proposed six components in their rates as follows:

- a) Distribution charge - composed of basic charge, system loss recovery and Currency Exchange Rate Adjustment Clause (CERA). VECO designed the

proposed distribution charge and system loss adjustment in consonance with the results of the unbundling, while CERA is a continuation of the previously approved cost recovery under ERB Case No.90-133;

- b) Universal charge – to be determined by ERC;
- c) Universal charge Dispersal – to be determined by ERC;
- d) Transmission and sub-transmission charge - VECO proposed recovery clause in order to recover any amount that VECO would pay to any transmission and sub-transmission company;
- e) Generation charge - a cost adjustment to recover power purchased from National Power Corporation/Independent Power Producers/Wholesale Electricity Spot Market.
- f) Supply Charges – Retail Customer Charge and Metering Charge;

VECO proposed a Wheeling Rate for each customer class as follows:

- 1. Distribution Charge
 - a) Wholesale customer charge – represents supply charge or customer related charge
 - b) Metering Charge - this charge is optional
 - c) Distribution System Charge – consists of basic, system loss recovery and currency exchange rate adjustment
- 2. Universal Charge – to be determined by ERC
- 3. Universal Charge Dispersal – to be determined by ERC

I.H. Non-Recurring Rates

In addition to the Other Charges under VECO's delivery and retail services, VECO likewise proposed the following non-recurring charges which will be applied for the appropriate condition described and will be applicable to all customer classes:

- 1. Account Initiation Charge
- 2. Disconnection/Reconnection Charge
- 3. Requested Service Interruption Charge

4. Facilities Relocation and Removal Charge
5. Return Check or Bank Draft Charge
6. Tampering Charge
7. Other Non-Recurring Charges

VECO likewise proposed a Non-Recurring charge for the recovery of the Local Franchise Tax paid for the period 1991 to 2000. The proposed charge will be billed to consumers for a period of three years.

II. COMMISSION DISCUSSIONS AND CONCLUSIONS

In reaching its conclusions herein, the Commission took into consideration the document, data, comments and issues submitted by the applicant, intervenors, oppositors and other interested parties who manifested their respective positions on this present application.

II.A. Determination of the Total Revenue Requirement

II.A.1. Test Year

The Commission finds VECO's proposal to use the test year 2000 in its unbundled rate application acceptable since it is consistent with Rule 15 Section 6 (c) of the Implementing Rules and Regulations (IRR) of R.A. 9136. Therefore, the discussions and conclusions that follow are based on Schedule B, "Revalued Cost by Function" (Cost of Service by Function-Historical Test Year).

II.A.2. Generation and Transmission Costs

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, in 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). The generation charge reflects the average weighted cost of

power purchased from NPC, East Asia Power and Cebu Private Power Corporation.

A separate charge to account for allowable line losses shall likewise be provided. Hence, a distribution utility with line losses that are within the system loss cap of 9.5% for private utilities can recover from its end-users the total cost of generation and transmission loss as discussed in Section II.H-3.

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

UNBUNDLED GENERATION & TRANSMISSION	
Generation Charge	P3,211,184,367
Transmission Charge	697,584,993
Recoverable Line Losses	420,994,198
Total	P4,329,763,558

VECO had an actual line loss of 10.77%. The Commission did not allow the amount of P50,840,523 representing line losses in excess of the allowable caps to be recovered from the end-users, computed as follows:

	Annualized Power Cost	Power Cost @Sales	Actual LL & CU	Recoverable LL & CU	Disallowed Line Loss
TOTAL GENERATION CHARGES	P3,598,792,487	P3,211,184,367	P387,608,120	P345,860,772	P41,747,348
TOTAL TRANSMISSION CHARGES	781,811,594	697,584,993	84,226,601	75,133,426	9,093,175
TOTAL POWER COST	P4,380,604,081	P3,908,769,360	P471,834,721	P420,994,198	P50,840,523

Any changes in the cost of power purchased shall be reflected as deferred charges or credits which shall be recovered in accordance with a recovery mechanism to be prescribed by the Commission. In the meantime, VECO shall discontinue charging the PPA upon effectivity of the approved unbundled rates.

II.A.3. Operation and Maintenance (O & M)

On April 10, 2002, the Commission required VECO to submit a detailed schedule and explanation on the other O & M expense accounts. This was complied with by VECO on April 26, 2002.

The general criteria in the evaluation of expenses to be allowed for recovery are that: 1) the expense is a requisite of, or necessary in the operation of the utility, 2) it is recurring, and 3) it redounds to the benefit of the utility's customers (Public Service Commission Decision in Cases Nos. 85889, 85890 and 89893). Upon review of the submitted documents, the Commission finds that some expenses should not be allowed. VECO was unable to provide sufficient justification for the inclusion of the following expenses in the calculation of revenue requirements:

Disallowed Operations & Maintenance Expenses	
Advertising	P 42,908
Representation	8,480,128
Repairs & Maintenance-Trans. System	21,037,412
Donation and Subscription	1,909,419
Miscellaneous	<u>4,558,408</u>
Total	<u>P36,028,275</u>

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

The Commission hereby directs VECO to use the formula in calculating franchise taxes.

Franchise Tax:

$$\text{Total Power Bill} \times FT_{x,y}$$

Where: FT_x = National franchise tax of 2%

FT_y = Applicable local franchise tax

- 0.75% for Cebu City

- 0.50% for areas other than Cebu City

II.A.4. Depreciation and Amortization

The Commission accepted the adjustments made by VECO on depreciation expense but made the following additional adjustments:

Depreciation proposed by VECO	P268,720,189
Less:	
Depreciation on assets disallowed by the Commission in ERC Case No. 2001-775	1,072,282
Depreciation corresponding to the 5% overall reduction in the value of appraised values of rate base	13,499,474
Adjusted depreciation to be included in revenue requirement	P254,148,433

See discussion under section II.D.1

For purposes of rate setting, the Commission allowed depreciation on appraisal. One major reason for this allowance is the recognition of the need to ensure sufficient capital for the current replacement of fully depreciated plant.

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

II.A.5. Income Tax

The Commission sees two issues related to income taxes which need to be addressed.

The first issue deals with the question of whether or not to include income taxes as an operating expense in the calculation of the revenue requirement. This issue is currently the subject of a motion for review before the Supreme Court. Since this issue is pending before the Supreme Court, the Commission does not deem it appropriate to comment on the merits of the issue. The Commission agrees to calculate the revenue requirement for this case by excluding income tax as an operating expense consistent with the government's position before the Supreme Court. Should the Supreme Court reverse the decision released on November 15, 2002, VECO may file a petition to adjust its rates to include an appropriate amount of income taxes in accordance with the Court's ruling.

The second issue deals with the appropriateness of the existing "Tax Recovery Adjustment Clause", which was approved under ERB Case No. 90-133. The existing adjustment clause is based on the following formula designed to recover income taxes:

$$TA = \frac{T}{K(1-FT) - (1-IT)}$$

Where:

TA	=	Tax adjustment rate per kWh to be applied to the subsequent 12 billing months
T	=	Amount of Income Tax actually paid for the previous calendar year
K	=	Total kWh sales for the previous calendar year
FT	=	Franchise tax rate
IT	=	Income tax rate

A comparison of the level of recovery over the last three years to the actual current income tax expense as reported in VECO's Annual Report to the Energy Regulatory Board appears to show a significant level of over recovery by VECO.

<u>Year</u>	<u>Income Tax Recovery</u>	<u>Actual Tax Expense</u>
1999	P 170,362,048	P 94,508,968
2000	168,173,043	97,788,452
2001	<u>148,338,695</u>	<u>115,661,857</u>
Total	<u>P 486,873,786</u>	<u>P 307,959,277</u>
Over Recovery	<u>P 178,914,509</u>	

The Commission, based on the foregoing table, is concerned that there may have been a significant over recovery of income taxes since the inception of the "Tax Recovery Adjustment Clause". Therefore, VECO is ordered to file with the Commission a complete reconciliation of the amounts collected from the "Tax Recovery Adjustment Clause" and the actual income taxes paid for the period starting with the inception of the adjustment clause through December 31, 2002. Should this reconciliation show an over recovery of income taxes, VECO is enjoined to propose a mechanism to effect the refund of such over recovery to its customers.

Upon the effectivity of this Decision, VECO shall stop using the Tax Recovery Adjustment Clause.

II.A.6. Other Expenses

The Commission agrees with VECO's treatment of interest expense as an item to be deducted from operating expenses since interest expense is appropriately recovered as a component of the return on rate base portion of the revenue requirement.

With regard to the Realized Loss on FOREX transactions amounting to P673,375, the Commission likewise agrees that the realized loss on FOREX

transaction should be a deduction from the revenue requirement for the reason that any loss incurred in the foreign exchange rate would have been already addressed through VECO's Currency Exchange Rate Adjustment (CERA) recovery mechanism.

II.B. Other Revenue Items

The Commission agrees with the adjustments made by VECO except for some items, which it believes should be considered as other revenues of VECO, to wit:

a. Dividend income	16,285
b. Miscellaneous income	2,396,532
c. Rent income (should be whole amount)	<u>3,741,697</u>
Total	<u>P 6,154,514</u>

The above revenues should be considered part of the revenue requirement because company records show that these are recurring in nature.

Prompt payment discount received from NPC and IPPs amounted to P130,039,873. The Commission believes that the utility and end-users should share the benefits of this prompt payment discount. Fifty percent (50%) of the discount equivalent to P65,019,937 should be deducted from the revenue requirement used to calculate the rates for the end-users and fifty percent retained by the utility to serve as incentive to improve efficiency in the payments of its purchased power costs.

VECO earned P23,816,609 in interest income during the test year, which was not reflected in the calculation of the approved revenue requirement. The Commission has concern that cash management policies which result in significant levels of interest income may not be compatible with the goal of

reducing financing costs passed on to customers. In future rate adjustment filings, VECO is ordered to provide detailed information on its cash management policies in order to justify the continued exclusion of interest income from the calculation of revenue requirements.

II.C. Operating Revenue

The Commission has made the following adjustments to VECO's reported total operating revenue of P5,132,002,911, as follows:

Amount reported by VECO		P 5,132,002,911
Adjustments:		
2% surcharge	(P 61,360,130)	
Franchise Tax	(103,068,509)	
Additional Revenue due to Increase in Sales	<u>125,184,983</u>	<u>(39,243,656)</u>
Total Adjusted Operating Revenue		<u>P 5,092,759,255</u>

The additional revenue due to increase in sales is computed as follows:

Allowed Power Cost based on new NPC rate		P 4,269,998,065
Less: Actual PPA collected PPA Collection for 2000	P1,279,724,441	
PPA Incorporated to Basic (P2.4141 x 1,186,825,018)	<u>2,865,088,641</u>	<u>4,144,813,082</u>
Increase in revenue		<u>P 125,184,983</u>

II.D. Rate Base

II.D.1. Plant in Service

Assets Disallowed by the Inspection Team

Pursuant to ERB Special Assignment No. 2001-56 dated June 6, 2001, the inspection team proceeded to VECO in Cebu City to conduct an ocular inspection/verification of the assets, property and equipment in service.

From the inspection report dated September 10, 2001, nothing has come to the attention of the Commission that would cause it to question the findings of

Cuervo Appraisal Co. However, the Commission disallowed some assets with a total cost of reproduction, (new) of P194,229,600 and a total sound value of P159,693,537 which were already retired or not used/useful in electric operation. Part of these disallowances were assets with a total Reproduction Cost, New and Sound Value of P 59,618,000 that were already excluded by VECO in its UFR application for the reason that said assets are not in use.

The past practice of the former Energy Regulatory Board was to reduce the appraised value of rate base by 5%. This amounts to P101,894,373. Appraisals are by their very nature estimates. The 5% serves as an allowance for overstatement of values. The Commission decided to continue this practice. The adjusted plant in service amounts to P1,982,688,399, computed as follows:

Plant in Service Proposed by VECO		P 2,171,158,835
Less: Adjustment		
Assets disallowed by Inspection Team	P 159,693,537	
Less: Assets already excluded by VECO		
In UFR application	(59,618,000)	P 100,075,537
5% Overvaluation	P 101,894,373	
Less: Depreciation Exp. thereon	(13,499,474)	88,394,899
Total		P 188,470,436
Adjusted Plant In Service		P 1,982,688,399

II.D.2. Construction Work in Progress (CWIP)

The total CWIP included in this application amounts to P172,306,639. Based on evidence received by the Commission as of January 22, 2003, the whole amount of CWIP has been reclassified to its corresponding fixed asset account. Thus, the Commission allowed the total CWIP of P172,306,639 to be part of the rate base.

II.D.3. Plant Held for Future Use

The following assets were considered as plant held for future use by VECO:

Land, Guadalupe	P	1,450,000
Land, Tabunok		449,000
Building, Liloan		<u>108,000</u>
Total	P	<u>2,007,000</u>

In the aforesaid Inspection Report, pursuant to ERB Special Assignment No. 2001-56, land located in Guadalupe and Tabunok were confirmed to be assets not in use in the provision of electric service. With respect to the building located at Liloan, such was found to be in use by VECO as an extension of its collection office in Liloan. The Commission therefore allowed the building in Liloan to be part of the rate base.

II.D.4. Allowance for Cash Working Capital

VECO has included an amount equal to two (2) months cash operating and maintenance expenses including purchased power costs, as the estimated allowance for cash working capital.

The cash working capital allowance included in rate base should approximate the cash requirements of VECO based on an estimate of the net lag in cash flow. In order to refine the application of the formula used in past rate proceedings, a more detailed review of the actual lag in cash flow associated with the payments for purchased power and the inflow of cash from VECO's customers was undertaken. With respect to the outflow of cash associated with the payments for purchased power, it was determined that the time from the provision of service to the outflow of funds can be calculated as follows:

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

Therefore, VECO has an average of approximately 30 days from the time service is received until payment is made.

With respect to the collections of fund from its customers, and the time from the provision of service to the inflow of funds can be calculated as follows:

15 days	One half of the billing cycle
7 days	Meter reading and bill preparation
10 days	Required time to collect the customer's bill without penalty based on the service contract
<u>5 days</u>	Processing time
37 days	Total

Therefore, VECO waits for an average of approximately 37 days before it receives payment for the services provided. With respect to purchased power, it appears that the actual net lag days is approximately 7 days only (37 less 30) and not the 60 days assumed in the application of the formula. VECO's customers who do pay on time should not be penalized because other customers fail to comply with VECO's payment schedule. If additional finance costs are incurred because of late payment of bills, these costs should be recovered in the form of penalties to the late paying customers and not as additional cash working capital to be paid by all customers. In fact, VECO is already charging penalties for late payment. In recognition of this, the Commission allowed VECO to reduce actual revenue by the amount of penalties collected from late paying customers in the amount of P61,360,130.

Since franchise taxes are being reclassified out of operation and maintenance expenses into a separate category, this item which amounts to P103,068,509 is also being excluded from the cash working allowance.

The following schedule summarizes the Cash Working Capital allowed by the Commission.

CASH WORKING CAPITAL			
	Per VECO	Adjustment	Per ERC
Operation and Maintenance	P933,013,922	(P172,591,717)	P760,422,206
Less: Taxes & Non-Cash Items:			
Taxes	P118,132,711	(P103,068,509)	P15,064,202
Provision for Bad Debt	25,729,710	-	25,729,710
Depreciation Expense	287,643,369	(33,494,936)	254,148,433
Total Non-Cash Item	P431,505,791	(P136,563,445)	P294,942,346
Net O&M	P501,508,131	(P36,028,271)	P465,479,860
Cash Working Capital on O&M (2/12)	P83,584,689	(P6,004,712)	P77,579,977
Purchased Power Cost	P3,998,854,315	P330,909,243	P4,329,763,558
Cash Working Capital on Power Cost			
2 months	P666,475,719	(P582,285,872)	
7 days			P84,189,847
CASH WORKING CAPITAL	P750,060,408	(P588,290,584)	P161,769,824

II.D.5. Materials and Supplies

The proposed materials and supplies amounted to P181,851,371. Included therein were office supplies amounting to P3,688,533. The Commission believes that materials and supplies included in the computation of rate base should be limited to electrical materials and supplies that are essential in providing electricity supply. Thus, the Commission removed office supplies from rate base.

II.D.6. Summary of Rate Base

The following schedule summarizes the changes in Rate Base adopted by the Commission.

VECO RATE BASE (in P000)			
	Per VECO	Adjustments	Per ERC
Distribution Plant	P 2,043,604	(P 171,200)	P 1,872,403
General Plant	127,556	(17,271)	110,285
Total Plant	P 2,171,159	(P 188,470)	P 1,982,688
CWIP	172,307	0	172,307
Plant Held for Future Use	2,007	(1,899)	108
Materials and Supplies	181,851	(3,688)	178,163
Cash Working Capital	750,060	(588,291)	161,769,824
Rate Base	P 3,277,384	(P 782,349)	P 2,495,036

II.D.7 Rate of Return

The current form of regulation practiced for the privately owned electric utilities is a cost based method known as the rate of return on rate base (RORB) methodology. Power rates are set to recover cost of service prudently

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

On the basis of current jurisprudence, the Commission ruled that the 12% rate of return will be maintained in this case but the income tax thereon will not be allowed as operating expense. Thus, the 12% rate of return is a pre-tax rate of return. The treatment of income tax may change depending on the final Decision of the Supreme Court on this matter.

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

II.E. Revenue Requirement Summary

On the basis of the foregoing discussion, the proposed revenue requirement as reflected in the following table was reduced by P232,363,000.

REVENUE REQUIREMENT (in P000)			
	Per VECO	Adjustments	Per ERC
Purchased Power	P 4,192,354	P 137,410	P 4,329,764
Payroll	318,900	(0)	318,900
Operation & Maintenance	372,235	(184,862)	187,374
Depreciation & Amortization	268,720	(14,572)	254,148
Income Taxes	234,700	(234,700)	0
Other Expenses	0	0	0
Return on Rate Base	163,869	135,535	299,404
Revenue Requirements	P 5,550,779	P (161,189)	P 5,389,590
Less: Other Rev. Item	9,020	71,174	80,194
Total Rev. Req.	P 5,541,759	P (232,363)	P 5,309,396

The overall average tariff adjustment (OATA) is a measurement tool based on the formula: (Total Revenue Requirement less Existing Revenue divided by kilowatt-hour sales). This measurement is not meant to refer to any specific customer class. VECO proposed an OATA of P0.36 per kilowatt-hour. The Commission approves an OATA of (P0.0682)/kWh as compared with the November 2002 overall average tariff. The main reasons for this decrease are the marked decline in the cost of power and disallowance of income tax from the revenue requirement.

Shown below is the result of unbundled rates as compared to November 2002 actual existing rates, to wit:

COMPARISON OF EXISTING RATES (November 2002) VS UFR			
	COMMISSION'S COMPUTATION	EXISTING RATES	DIFFERENCE INC.(DEC)
Generation and Transmission			
Generation Charge	P 2.6723		
Transmission System Charge	0.5805		
Line Loss Charge	0.3503		
Franchise Tax 2/	0.0991		
Computed PPA	1/	P 1.3566	
Power Cost Incorporated to Basic Rate 3/		2.4141	
Total Generation & Transmission	P 3.7023	P 3.7707	(P 0.0684)
Distribution Charges			
Distribution Charge	P 0.5834	P 0.6723	
Supply Charge	0.1027		
Metering Charge	0.1292		
Income Tax Adjustment		0.1267	
CERA 4/	0.0034	0.0034	
Local Tax Recovery		0.0553	
Universal Charge	0.0168		
Franchise Tax 2/	0.0224		
Total Distribution Charge	P 0.8578	P 0.8576	P 0.0002
Total Rates	P 4.5601	P 4.6283	P (0.0682)
1/ Based on PPA computation for the month of November 2002			
2/ Franchise Tax =Local and National			
3/ Power cost incorporated to Basic Charge			
4/ Rebasing of CERA as of April 14, 2000			

With respect to the Currency Exchange Rate Adjustment (CERA), the Commission is aware of the pending application of VECO to amend its CERA formula and this will be addressed in a Decision on the said case, ERC Case No. 2001-120 (ERB Case No. 90-133). Therefore, nothing in this instant Decision should be construed as confirming any of the submissions for CERA confirmation starting August 2002.

The Commission recalculated the CERA using a base Yen to Peso exchange rate as of April 2000 consistent with the revaluation of VECO's assets. As such, VECO shall only be allowed to charge P0.0034/kWh for CERA upon effectivity of this Decision computed as follows:

Exchange rate (Yen to Peso) as of 8/09/02	P	0.4250
Less: Exchange rate as of 4/00		<u>0.3891</u>
Difference	P	0.0359
Multiplied by: Principal (Semi-annual)		<u>56,298,884</u>
FOREX Loss	P	2,021,130
Multiplied by: 2 Semester		<u>2</u>
Annual FOREX Loss	P	4,042,260
Divided by: kWh – net of FT (July 2001 to June 2002)		<u>1,208,148,169</u>
CERA /kWh	P	<u>0.00335</u>

II.F. Functionalization Factors

The Commission modifies the functionalization made by VECO as follows:

- 1) General Plant Accounts- the Commission believes that said assets are more appropriately functionalized based on total payroll. VECO's method results in zero General Plant functionalized as Supply. This result is inappropriate since general plant is in part comprised of office space used for retail customer relations personnel such as billing, service orders, and complaints.

Considering the above, the results of functionalization per customer class are as follows:

Revenue Requirement (in P000)	Generation	Transmission & Sub-transmission	DISTRIBUTION			Supply	Metering
			High Voltage (69kV)	Medium Voltage (23 & 13.8 kV)	Low Voltage (Below 13.8 kV)		
P5,309,396	P3,557,045	P772,718	P42,987	P289,206	P368,843	P123,382	P155,214

II.G. Historical Test Year Billing Determinants and Customer Class Allocation

The Commission concurs with VECO's billing determinants and allocation factors except for the energy related billing determinant & allocation factor used. The Commission believes that any energy related cost should be allocated based on the annualized sales. The Commission annualized sales by multiplying year-end number of customers with average annual kWh usage for each customer class. This was performed to project for the future kWh sales for the development of more appropriate allocation factors and billing determinants for each customer class. With the annualized sales per customer class, the computed adjusted kilowatt-hour sold was 1,201,655,640.

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

II.H. Rate Design

II.H.1. Generation Charge

Consistent with the Commission's decision in ERC Case No. 2001-901 (In the Matter of the Application for Approval of the Revised Unbundled Power Rates, NPC, Applicant), the generation cost to be billed to end-users shall be the approved rate per kilowatt-hour based on weighted average cost of power purchased from NPC and IPPs. The Commission rejects the formula proposed by VECO for generation charge. In as much as NPC's approved rate will remain fixed until changes are authorized by ERC, the Commission does not foresee the need for a Purchased Power Adjustment (PPA).

II.H.2. Transmission/Sub-transmission Charge

The Commission's decision in ERC Case No. 2001-901 and the Commission's Order dated September 20, 2002 fixed the transmission charges for the National Transmission Corporation (TRANSCO) without automatic adjustments. Since the transmission rates to be paid by VECO are fixed, it is the decision of the Commission to likewise fix the unbundled transmission rates billed to end-use customers. The Transmission Charges approved for billing by VECO have been calculated based on the approved TRANSCO rates which include cross subsidy elements to be phased out over a three-year period.

Year	Sch. I-FX/FZ	Sch. II-R	Sch. III-S	Sch. IV-P	Sch. V-P	Sch. VI-P	Sch. VII-P
	Peso/Watt/Mo.	Peso/kWh	Peso/kWh	Peso/kWh	Peso/kW /Month	Peso/kW /Month	Peso/kW /Month
Year 1							
Demand Charge					P 149.87	P 189.59	P 183.39
Transmission System Charge	P 0.1708	P 0.5592	P 0.6014	P 0.6231			
Year 2							
Demand Charge					P 138.92	P 175.73	P 169.99
Transmission System Charge	P 0.1583	P 0.5183	P 0.5574	P 0.5775			
Year 3							
Demand Charge					P 127.95	P 161.86	P 156.57
Transmission System Charge	P 0.1458	P 0.4774	P 0.5134	P 0.5319			
Year 4							
Demand Charge					P 117.00	P 148.01	P 143.17
Transmission System Charge	P 0.1333	P 0.4365	P 0.4695	P 0.4864			

II.H.3. 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.

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 existing line loss caps prescribed in R.A. 7832 whichever are lower. In arriving at this decision, the Commission recognizes that the distribution utility faces some risk 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-use consumers. When line losses are within the allowable cap, the distribution utility shall recover from the end-use customers 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, 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 9.5% ceiling allowed for year 2000.

The Commission believes that the present cap on System Loss of 9.5% should be used in the calculation of revenue requirements at this time. This would however be subject to change upon the approval of a new policy by the Commission. The actual system loss or cap of 9.5% plus 1% of company use (which should not include personal consumption of VECO's officers and

employees) or actual whichever is lower shall be deducted from total power cost and to be billed separately as Line Loss Charge.

II.H.4. Distribution Charge

In order to be consistent with the Commission's decision in ERC Case No. 2001-901 (In the Matter of the Application for Approval of the Revised Unbundled Power Rates, NPC, Applicant), the distribution charge shall be billed on a fixed rate per maximum monthly demand (kW) for those customers with demand meters and per kWh for all other customers.

II.H.5. Metering and Supply Charges

VECO proposes two fixed monthly charges (customer charges) for the metering and supply functions. The Commission acknowledges that cost-causation rate design principles suggest the recovery of customer-related costs through fixed monthly charges. In addition to this cost of service principle, however, the Commission must also consider rate design impacts across the spectrum of customers within each rate class. The rate design proposed by VECO for the metering and supply functions will increase the monthly bills of below-average consumption customers and significantly increase the bills of low consumption customers particularly within the residential and small commercial rate classes. Although RA 9136 requires the removal of interclass cross subsidies, the law does not require removal of intra-class cross subsidies. The Commission, therefore, has the flexibility to consider factors outside cost of service ratemaking in determining rate design for a particular class of customers.

The Commission finds that the rate design proposed by VECO for the metering and supply functions will adversely affect a subgroup of residential and

small commercial customers. To mitigate this effect, the supply charge for these rate classes shall be a rate per kWh calculated from the unbundled revenue requirement of the supply function while the combination of fixed monthly charge and peso per kilowatt-hour rate shall be used for the metering function.

II.H.6. Franchise Taxes

Franchise tax obligations paid by the distribution utility are a straight percent of gross receipts. Hence, it is logical that the rate design should include a separate line item on the customers' bills that appears as a percent of the subtotal of the customer bill. It then follows that there is no need to functionalize the franchise fee rate. The percent charged by VECO shall not exceed the combined percent levied by all government authorities. VECO is not authorized to unilaterally change the franchise fee rate component on customers' bills. If VECO needs to change the franchise fee rate component due to any changes in franchise fee obligations, it shall petition the ERC for such authority and include in its filing all documentation necessary to verify the change.

II.I. Affiliate Data

Based on the 2000 audited financial statements, the Commission notes that a joint venture between VECO and Cebu Private Power Corporation exists. It appears to the Commission that Cebu Private Power Corporation comes within the meaning of affiliate as defined in Section 45 of R.A. 9136 and its implementing rules and regulations. Thus, VECO is ordered to submit details on its joint venture with Cebu Private Power Corporation in accordance with Schedule G of the UFR.

II.J. Cross Subsidies

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

	TOTAL	FX/FZ	II-R	III-S	IV-P	V-P	VI-P	VII-P
New Cost-Based Revenue Requirements	P5,309,395,860	P63,940,161	P2,119,170,391	P788,287,862	P361,774,709	P460,338,087	P1,376,817,729	P139,066,922
Existing Rates Revenue	5,152,524,748	69,868,649	1,771,391,934	759,974,253	361,155,934	511,805,845	1,522,440,069	155,888,065
Total Change in Revenue	P156,871,112	-P5,928,488	P347,778,458	P28,313,608	P618,775	-P51,467,758	-P145,622,340	-P16,821,143
Normalized Existing Revenue	5,309,395,860	71,995,834	1,825,322,819	783,112,038	372,151,501	527,388,022	1,568,791,494	160,634,152
Interclass cross Subsidy	P -	P8,055,673	-P293,847,572	-P5,175,824	P10,376,792	P67,049,935	P191,973,765	P21,567,231
Class Billing Determinant, kWh	1,201,655,640	15,923,061	409,385,293	171,230,575	80,736,857	110,689,736	371,358,937	42,331,181
Interclass cross Subsidy Rates (P/kWh)	P -	P0.5059	-P0.7178	-P0.0302	P0.1285	P0.6058	P0.5170	P0.5095

II.J.1 Cross Subsidy Removal

Section 74 of R.A. 9136 and Rule 16, Section 5 of the Implementing Rules and Regulations thereof provide that 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, ERC Case No. 2001-901 which impacts the unbundled transmission rates for VECO's end-users. This impact is reflected in the three-year schedule for unbundled transmission charges provided in Section II.I.2 above.

In the instant case, the Commission will order the cross subsidy removal process at a later date following the establishment of the Universal Charge. Until such time, VECO will continue to charge the inter-class cross subsidy rates set forth in Section II.K.1 above.

II.K. 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 full cost. Pursuant to Section 73 of R.A. 9136, the Commission hereby sets the level of lifeline consumption and rate.

The lifeline level of consumption to be provided to the marginalized end-users, the Commission finds VECO's Option 3 with 50 kilowatt-hour as the reasonable threshold level for the reason that VECO's existing Residential (II-R) and General Service (III-S) consuming 100 kWh are being subsidized. Thus, the Commission sets the lifeline consumption maximum level at 55 kWh for VECO. 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 VECO. The graduated scale is also based on the recognition that individual end-user consumption may likely vary from month to month.

50 kWh and below	35.00%
51 kWh	30.00%
52 kWh	25.00%
53 kWh	20.00%
54 kWh	15.00%
55 kWh	10.00%

VECO 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 55 kWh in a particular billing period shall not be entitled to any lifeline rate for said period.

The cost of subsidy to lifeline end-users shall be passed on to all non-lifeline end-users. For VECO, the lifeline discounts result in a Subsidy on Lifeline Charge by other end-user equal to P0.0912/kWh.

II.L. Non-Recurring Rates

VECO's existing Other Charges as previously presented were considered in the determination of its revenue requirement. The revenues derived from these charges were appropriately deducted from the determination of the revenue requirement allowed to VECO.

The Other Charges of VECO are hereby pegged at their existing levels until such time that the Commission sets new rates on the same. Further, VECO 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.

The Commission accepts VECO's proposed non-recurring rates.

II.M. Local Franchise Taxes

The Local Franchise Tax Arrears (1994 – 1999) rate was proposed by VECO with the intent to recover, over a three-year period, unpaid local franchise tax due for the years 1994-1999. VECO, however, indicated in a letter dated February 14, 2002, that it already began charging their customers in February

2002, citing authorization from ERB Case No. 96-26 Order dated November 5, 1996. VECO is authorized by ERB Decision, Case No. 90-133, dated October 11, 1993, “to pass on to the consumers residing within a particular city or municipality within its franchise area a local franchise tax.” However, the Memorandum of Agreement dated January 29, 2002, between VECO and the City Government of Cebu reveals that the amount to be recovered should be considered a settlement amount, only a part of which is unpaid franchise tax, and is not a simple tax component. The recovery mechanism started by VECO without benefit of prior approval, therefore, falls outside the scope of passing on a local franchise tax. The Commission is concerned that a distribution utility would unilaterally impose an additional charge on its customers without ERC approval to do so.

The Commission believes that the record in this case is not sufficient to authorize VECO to recover the settlement amounts from its customers over the 36-month period agreed to by VECO. Fair consideration of this issue requires the Commission to thoroughly review the facts pertaining to VECO’s non-payment during those years and the terms of the Memorandum of Agreement. A proper decision can only be rendered following due consideration of the facts. VECO is hereby ordered to appear and show cause why it is collecting the above mentioned local franchise tax. The Commission issues this order without prejudice to any future petition that may be filed by VECO for authorization to levy a charge for recovery of the amounts agreed to by VECO.

II.N. Estimated Impact on Average Residential Consumer

A comparison of the estimated impact of all adjustments on the revenue requirement on the monthly bill of a residential end-user consuming 150 kWh a

month using rates based on VECO's actual existing rates as of November 2002 against the unbundled rates approved by the Commission is shown below.

Based on Existing Rate			Based on ERC Approved Unbundled Rates		
150 kWh	Peso/kWh	Amount		Peso/kWh	Amount
Basic Charge	P3.0863	P462.95	Generation Charge	P2.6723	P400.85
PCA	1.3565	203.48	Transmission System Charge	0.5592	83.87
Tax Adjustment	0.1267	19.01	Line Loss Charge	0.5440	81.60
Local Tax Recovery	0.0553	8.29	Distribution Charge	0.9028	137.84
Power Act Reduction	(0.1718)	(25.77)	Supply Charge	0.2709	40.64
CERA	0.0034	0.50	Metering Charge		5.00
			Retail Customer Charge/Mo.		
			Metering System Charge	0.1956	29.34
			Inter-Class Cross Subsidy Charge	(0.7178)	(107.67)
			Subsidy on Lifeline	0.0912	13.67
			Power Act Reduction	(0.1718)	(25.77)
			CERA	0.0034	0.50
			Universal Charge	0.0168	2.52
			Franchise Tax	0.1210	18.15
TOTAL BILL		P668.46			P678.12
Peso/kWh		P4.4564			P4.5208
Inc. (Dec.) In Rates					P 0.0644

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DISPOSITION

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

- To approve the unbundled schedule of rates of VECO, to be effective on the next billing cycle after the date of this Decision, to wit:

VISAYAN ELECTRIC COMPANY, INC.(VECO) ERC CASE NO. 2002-06 RATE SCHEDULE									
TYPE OF CONSUMERS	Distribution Charge	Universal Charge	CERA P/kWh *	Trans. & Sub-trans. Charge	Generation Charge P/kWh	CUSTOMER CHARGES		Line Loss Charge	Recovery of Lifeline Rate Subsidy P/kWh
						Supply Charge/mo.	Metering Charge/mo.		
Schedule I-FX/FZ: Streetlight(rate= watt /mo. Except supply)	0.0788	0.0060	0.0012	0.1708	0.9620	42.70		0.2330	0.0328
Schedule II-R: Res. Metered(rate=P/kWh except metering)	0.9028	0.0168	0.0034	0.5592	2.6723	0.2709/kWh	5.00/mo. 0.1956/kwh	0.5440	0.0912
Lifeline Rate –Res.	To be based on Residential Rate in a graduated scale as provided in this Decision.								
Schedule II-RW: RM Wheeling	0.9028	0.0168	0.0034			42.70	35.83		0.0912
Schedule III-S(A): General Service (rate=P/kWh metering)	0.6133	0.0168	0.0034	0.6014	2.6723	0.1602/kWh	87.78	0.5250	0.0912
Schedule III-S: General Service (rate=P/kWh except supply & metering)	0.6133	0.0168	0.0034	0.6014	2.6723	42.70	87.78	0.5250	0.0912
Min. Charge-up to 3000 watts	69.74	0.0168	0.0034	0.6014	2.6723	42.70	87.78	0.5250	0.0912
Per mo. -3001-10,000 watts	202.82	0.0168	0.0034	0.6014	2.6723	42.70	87.78	0.5250	0.0912
-above 10,000 watts	678.57	0.0168	0.0034	0.6014	2.6723	42.70	87.78	0.5250	0.0912
Schedule III-SW: GS Wheeling	0.6133	0.0168	0.0034			42.70	87.78		0.0912
Schedule IV-P:General Power (rate=P/kWh except supply & metering)	0.5376	0.0168	0.0034	0.6231	2.6723	85.40	268.70	0.5416	0.0912
Min. Charge-up to 25 Kw	77.70	0.0168	0.0034	0.6231	2.6723	85.40	268.70	0.5416	0.0912
Per mo. -above 25kW	62.16	0.0168	0.0034	0.6231	2.6723	85.40	268.70	0.5416	0.0912
Schedule IV-P:GP Wheeling	0.5376	0.0168	0.0034			85.40	268.70		0.0912
Schedule V-P: Bulk Power(rate=P/kW except supply, Metering, cross subsidy and Generation)	127.15	0.0168	0.0034	149.87	2.6723	128.10	626.97	0.1949	0.0912
Schedule V-PW:BP Wheeling	127.15	0.0168	0.0034			128.10	626.97		0.0912
Schedule VI-P: Wholesale Power (rate=P/kw except supply ,metering, cross subsidy & Generation)	91.65	0.0168	0.0034	189.59	2.6723	213.49	7,523.61	0.0883	0.0912
Schedule VI-PW:WP Wheeling	91.65	0.0168	0.0034			213.49	7,523.61		0.0912
Schedule VII-P: Special Wholesale (rate=P/kW except supply, metering, cross subsidy and Generation)	12.29	0.0168	0.0034	183.39	2.6723	213.49	44,783.41	0.0322	0.0912
Schedule VII-PW:SW Wheeling	12.29	0.0168	0.0034			213.49	44,783.41		0.0912

PLUS : Local and National Franchise Taxes

* subject to confirmation.

2. To order VECO:

- a) To discontinue charging the PPA upon effectivity of the approved unbundled rates; any change in the cost of power purchased shall be reflected as deferred charges or credits which shall be recovered in accordance with a recovery mechanism to be prescribed by the Commission;
- b) To 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) To stop using the Tax Recovery Adjustment Clause and show cause as to why the amounts recovered in the past three years were appropriate;
- d) To file within thirty (30) days from receipt of this Decision, a complete reconciliation of the amounts collected from the "Tax Recovery Adjustment Clause" and the actual income taxes paid for the period starting with the inception of the adjustment clause through February 28, 2003. Should this reconciliation show an over recovery of income taxes, VECO is to propose a mechanism to refund such over recovery to its customers;
- e) To show cause why it should not be penalized for collecting local franchise tax arrears for 1994 – 1999 and submit an explanation within fifteen (15) days from receipt thereof;
- f) To fix the CERA at P0.0034/kWh upon effectivity of this Decision until such time that the Commission issues a notice for the implementation of a new CERA;

- g) To bill P0.0168/kWh representing the missionary electrification portion of the Universal Charge in accordance with the Decision of the Commission in ERC Case No. 2001-165 (In the Matter of the Petition for the Availments from the Universal Charge the Share for Missionary Electrification, NPC-SPUG, Applicant);
- h) To set up a depreciation fund each year corresponding to the whole amount of depreciation that it has recorded on its books. The setting up of this fund should be done on a monthly basis corresponding to the monthly depreciation. VECO is required to strictly account for the expenditures out of this fund which should be used strictly for investment in electric plant and all withdrawals from this fund should be reported to the Commission within thirty (30) days from withdrawal;
- i) To submit details on its "joint-venture" with Cebu Private Power Corporation, a power supplier, within thirty (30) days from receipt of this Decision;
- j) To submit detailed schedule on the subsidies granted to VECO's officers and employees for their electric bills from 2000 to 2002, and latest approved Collective Bargaining Agreement (CBA);
- k) To inform the end-users within its franchise area of the approved unbundled rates not later than thirty (30) days after receipt of this Decision;
- l) To 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) M001 and M002
with all related schedules; and

- m) To 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.

SO ORDERED.

Pasig City, January 29, 2003.

(Sgd) LETICIA V. IBAY
Acting Chairman

(Sgd) MARY ANNE B. COLAYCO
Commissioner

(Sgd) OLIVER B. BUTALID
Commissioner

(Sgd) CARLOS R. ALINDADA
Commissioner

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