

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. 2001-973

**CEBU II ELECTRIC COOPERATIVE,
INC. (CEBECO II),**

Applicant.

X-----X

D E C I S I O N

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

Having found said application sufficient in form and substance with the required fees having been paid, an Order and a Notice of Public Hearing both dated May 20, 2002 were issued setting the same for hearing on June 28, 2002.

CEBECO II 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, CEBECO II published the Notice of Public Hearing in *Balita* and *Taliba* both on May 28 and June 4, 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 City/Municipal Mayors of Bogu, Borbon, Carmen, Catmon, Compostela, Daan-Bantayan, Medellin, San Remigio, Sogod, Tabogon, Tabuelan, Tuburan and Danao City, all in the Province of Cebu, 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 28, 2002, only the counsel for CEBECO II appeared and entered his appearance. No oppositor appeared nor was there any opposition registered.

During the said hearing, CEBECO II submitted proofs of compliance with the Commission's publication and posting of notice requirements which were duly marked as Exhibits "A" to "C-12", inclusive. Thereafter, CEBECO II presented its two (2) witnesses. The first witness, Ms. Amelita Valencia, CEBECO II'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 "V", inclusive. The second witness, Mr. Peter Alan Señeres, CEBECO II's Engineering Department Manager, testified on the various technical aspects of the application. The Commission propounded clarificatory questions on the said witnesses. There being no other witnesses to be presented, the hearing was adjourned.

On September 2, 2002, CEBECO II submitted its "Formal Offer of Evidence" which was admitted by the Commission for the purpose for which they were offered.

I. SUMMARY OF CEBECO II's APPLICATION

I.A. REVENUE REQUIREMENT

CEBECO II's revenue requirement per unbundled application based on historical test year 2000 was as follows:

Account Name	HISTORICAL YEAR	
kWh Sales		98,328,302
Purchased Power	PhP	433,820,000
Payroll		23,794,000
Operation and Maintenance (less Purchased Power & Payroll)		40,110,000
Debt Service		12,528,000
Revenue Requirement	PhP	510,252,000
Less: Other Revenue Items		0
Reinvestment Fund (5%) ¹		25,415,000
TOTAL REVENUE REQUIREMENT	PhP	535,667,000
EXISTING REVENUE		500,971,000
Required Increase	PhP	34,696,000

CEBECO II's proposed revenue requirement was PhP 535,667,000 based on historical test year 2000. Witness Valencia, in her testimony on June 28, 2002, stated that CEBECO II's unbundling application resulted to an Overall Average Tariff Adjustment (OATA) of PhP 0.3529/kWh but only the amount of PhP 0.3339/kWh was filed (Transcript of Stenographic Notes (TSN), June 28, 2002, page 16).

CEBECO II also submitted Audited Financial Statements for the year 2000.

I.B. RATE STRUCTURE/DESIGN

The unbundled rates proposed by CEBECO II were as follows:

Residential Customers

Retail Customer Charge	PhP	6.64/customer/month
Metering Charge		8.36/customer/month
Energy Charge		5.7264/kWh

¹ In the UFR, this item is reflected as "Plus Percentage for Cooperative Investment".

Commercial Customers

Retail Customer Charge	PhP 21.38/customer/month
Metering Charge	38.62/customer/month
Energy Charge	5.0452/kWh

Industrial Customers

Retail Customer Charge	PhP 130.93/customer/month
Metering Charge	869.07/customer/month
Energy Charge	4.6065/kWh
Demand Charge	143.40/kW NCP

Large Load- LLOYDS

Retail Customer Charge	PhP 12,275.17/customer/month
Metering Charge	87,724.83/customer/month
Energy Charge	4.5656/kWh
Demand Charge	153.39/kW/NCP

Large Load- BOMEDCO

Retail Customer Charge	PhP 1,242.17/customer/month
Metering Charge	8,757.83/customer/month
Energy Charge	4.5757/kWh
Demand Charge	140.73/kW/NCP

Public Buildings

Retail Customer Charge	PhP 11.70/customer/month
Metering Charge	18.30/customer/month
Energy Charge	5.4652/kWh

Street Lights

Distribution Facilities Charge	PhP 10.00/customer/month
Energy Charge	5.2640/kWh

CEBECO II also submitted its proposed distribution wheeling rates for each service, to wit:

Residential Retail Service

Metering Charge (optional)	PhP 8.36/customer/month
Distribution System Charge	1.313/kWh

Commercial Wheeling Service

Metering Charge (optional)	PhP 38.62/customer/month
Distribution System Charge	0.6319/kWh

Industrial (Non-Large Load) Distribution Wheeling Service

Metering Charge (optional)	PhP 869.07/customer/month
Distribution System Charge	143.40/NCP/kW

Large Industrial Distribution Wheeling Service (LLOYDS)

Metering Charge (optional)	PhP 87,724.83/customer/month
Distribution System Charge	153.39/NCP kW

Large Industrial Distribution Wheeling Service (BOMEDCO)

Metering Charge (optional)	PhP 8,757.83/customer/month
Distribution System Charge	140.73/NCP kW

Public Building Wheeling Service

Metering Charge (optional)	PhP 18.30/customer/month
Distribution System Charge	1.0518/kWh

I.B.1. FUNCTIONALIZATION, CLASSIFICATION and ALLOCATION

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

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

I.B.2. SYSTEM LOSS

Witness Valencia, in her testimony, stated that the system loss used in preparing CEBECO II's unbundled rate application was 6.88% which is the average system loss for the year 2000 (June 28, 2002, TSN, page 26).

Witness Señeres confirmed the use of said system loss rate (June 28, 2002, TSN, page 63). Further, witness Señeres testified that CEBECO II's system loss program is a routinary activity. CEBECO II continuously monitors its transformers such that it will not exceed its capacity. Furthermore, witness Señeres testified that .69% or less than 1% of the system loss is non-technical loss attributed to meter reading errors, pilferage and right of way (June 28, 2002, TSN, pp. 69 - 70).

Witness Señeres stated that CEBECO II prepared a reinvestment program on monitoring and reducing further the system loss. He further mentioned that particularly in the year 2000, CEBECO II allocated about PhP 9M for rehabilitation and upgrading of its distribution lines. The construction of the 10 MVA power station had a budget of PhP 737,000 (June 28, 2002, TSN, page 74).

I.B.3. INTER-CLASS CROSS SUBSIDY

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

CUSTOMER TYPE	ADJUSTED EXISTING (PhP)	PROPOSED (PhP)	INTER-CLASS CROSS SUBSIDIES (PhP)
Residential	222,498,033	232,895,826	10,397,794
Commercial	95,108,993	85,573,790	(9,535,202)
Industrial	104,752,775	95,086,898	(9,665,876)
LL – LLOYDS	85,303,583	94,570,347	9,266,765
Public Buildings	13,028,941	12,809,015	(219,926)
Street Lights	6,649,150	6,581,373	(67,776)
LL – BOMEDCO	8,325,567	8,149,789	(175,777)
TOTAL	535,667,040	535,667,040	0

I.B.4. LIFELINE RATE and LEVEL

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

	Option 1 (At Existing Rates)	Option 2 (At Proposed Customer Charges)	Option 3 (Equal to Fixed Monthly Customer Charge)
Level	15 kWh	15 kWh	15 kWh
Rate	PhP 5.5400/kWh	PhP 15.00/cust./mo.	PhP 60.00/cust./mo.

However, during the hearing of the subject case, witness Valencia stated, “We consider our minimum billers 15 kilowatthours below as our lifeline customers and our proposal when we prepared our rate unbundling which is P5.54 or equivalent to P83.10 per customer” (June 28, 2002, TSN, pp. 19 - 20).

I.C. OTHER CHARGES

CEBECO II, in its subsequent submission, provided this Commission with information on its existing Other Charges as shown below. CEBECO II did not propose any adjustment to these charges.

PARTICULARS	RATES
Standard Fees	
1. ID/Certification	PhP 5.00
2. Membership Fee	5.00
3. Inspection Fee	
Residential/Commercial	20.00
Commercial (1-p w/ X;mer)	50.00
Three-Phase Loads	100.00
4. Service Connection Fee	
Residential/Commercial	50.00
Commercial (1-p w/ X;mer)	100.00
Three-Phase Loads	150.00
5. Reconnection Fee	
Residential/Commercial	20.00
Commercial (1-p w/ X;mer)	100.00
Three-Phase Loads	200.00
6. Calibration Fee	
Residential/Commercial	20.00
Commercial (1-p w/ X;mer)	20.00
Three-Phase Loads	100.00
7. Metering Fee	
Commercial (1-p w/ X;mer)	150.00
Three-Phase Loads	350.00

PARTICULARS	RATES
8. Surchages Residential/Commercial Commercial (1-p w/ X;mer)1% but not less than Three-Phase Loads	PhP 20.00 500.00 1% but not less than
9. Card Holder (Residential/Commercial)	50.00
10. Swinging Clevis (Residential/Commercial)	30.00
11. Meter Deposit/Damage Meter Single Phase (10/30 Amps and 30/60 Amps.) Single Phase (GE – F72) Single Phase (Class 100, Class 200 w/round type socket Three Phase, All Type	1,000.00 2,000.00 3,500.00 25,000.00
12. Meter Base Socket Round Type Socket Box Type Socket	350.00 2,000.00
13. Meter Glass Broken Single Phase, All Types Three Phase , All Types	150.00 2,000.00
14. Meter Transfer and Relocation Residential/Commercial Single Phase, Commercial w/ Transformer Three-Phase, All type	35.00 200.00 450.00
15. Voluntary Disconnection Single Phase, Residential & Commercial Single Phase, Commercial w/ Transformer Three-Phase, All types	20.00 200.00 500.00
16. Special Lighting Permit <ul style="list-style-type: none"> • All installation will be inspected and tapped by CEBECO II's lineman • Only funeral cases will be allowed to series w/ nearest neighbor as long as with consent from house owner • Fiestas, wedding, birthdays and other related occasions will secure kWh meter with corresponding minimum energy deposit 	70.00
17. Special Light Bill Single Phase, Ordinary Single Phase with Special Loads <ul style="list-style-type: none"> • Meter Deposit (refer to item no. 9) • Energy Deposit (minimum) will be based on the actual load presented • Other fees that are necessary 	1,160.00 5,000.00 70.00
18. Installation Fees for Street Lights (per lamp) Ordinary Bulb or Fluorescent Lamp Luminaire and Sodium Lamps	50.00 100.00
19. Penalty, Illegal Tapping (Flying Connections)	1,000.00
20. Cost of Metering Box Small Large	1,000.00 2,500.00

PARTICULARS		
Transformer Charges		RATES
1. Installation and Retirement		
10 kVa and 15 kVa		PhP 1,000.00
25 kVa, 37.5 kVa and 50 kVa		2,000.00
Above 50 (per kVa)		50.00
2. Supervision Cost		25% of Installation and Retirement Cost
3. Rental (per month)		
10 kVa		400.00
15 kVa		600.00
25 kVa		800.00
37.5 kVa		1,000.00
50 kVa		1,200.00
75 kVa		1,500.00
100 kVa		2,000.00
167 kVa		3,000.00
4. Rewinding and Repair (will be based on actual estimates from Tech. Sev.)		
5. Megger Testing Fee (per kVa)		5.00 Min. of PhP 100/unit
Other Charges		
Pole Rental		11.00 pole per month
Certification (in lieu of lost Electric Bill Receipt)		25.00 pole per month

Penalties, Meter Tampering and Pilferage of Electricity

Apprehension and Disconnection procedures, penalties and computations shall strictly follow the Energy Regulatory Board's (ERB) Implementing Rules and Regulations of Republic Act No. 7832 otherwise known as the "Anti-Pilferage of Electricity and Theft of Electric Transmission Lines/Materials Act of 1994".

II. COMMISSION DISCUSSIONS and CONCLUSIONS

II.A. DETERMINATION OF TOTAL REVENUE REQUIREMENT

II.A.1. TEST YEAR

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

II.A.2. GENERATION and TRANSMISSION COSTS

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

The Generation and Transmission charges shall reflect the power supplier's generation and transmission charges of the National Transmission Corporation (TRANSCO) as approved in ERC Orders dated September 6 and 20, 2002, and Case No. 2001-901 (In the Matter of the Application for the Approval of the Revised Unbundled Power Rates, National Power Corporation (NPC) – Applicant). The FOREX component of the NPC's Generation Rate used pertains to the supply month of February 2003.

A separate charge to account for the allowable system loss shall likewise be provided (please refer to Section II.B.2.c for details). Hence, a distribution utility with a system loss that is within the allowable cap can recover from its end-users the total cost of generation and transmission.

The Commission notes that to date, large load customer – LLOYDS is no longer connected with CEBECO II since it had already closed its operations on November 22, 2001. Therefore, in the annualization² of the billing determinants the same was not considered.

The Commission made a downward adjustment to Purchased Power of PhP 133,629,000 which pertains to the difference between the proposed Purchased Power of CEBECO II amounting to PhP 433,820,000 and the Generation and Transmission Charges based on the new rates of NPC and TRANSCO amounting to PhP 300,191,000.

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

Generation Charge	PhP	186,858,000
Transmission Charge		86,316,000
Recoverable System Loss		27,017,000
Total	PhP	300,191,000

² The annualized kWh sales is calculated by multiplying the average kWh consumption of a specific customer class by their respective year-end number of customers.

CEBECO II's approved generation charge shall remain fixed until changes in NPC's generation rate are approved and authorized by the Commission pursuant to its Order dated February 24, 2003, Case No. 2003-44 [In the Matter of the Adoption of the Generation Rate Adjustment Mechanism (GRAM) and Incremental Currency Exchange Recovery Adjustment (ICERA)]. In which case, CEBECO II shall bill its end-users the new generation rate charged by NPC. In the meantime, CEBECO II shall discontinue charging the Purchased Power Adjustment (PPA) upon effectivity of the unbundled rates.

II.A.3. PAYROLL

The Commission finds CEBECO II's payroll amounting to PhP 23,794,000 acceptable.

The Commission reviewed the Wage Adjustment Clause (WAC) Formula authorized by previous Energy Regulatory Board through ERB Case Nos. 94-25 and 94-96. The then Board allowed the implementation of the WAC Formula based on three (3) established criteria for it to be classified under automatic adjustment clauses. These are: 1) when such costs are extremely volatile, changing rapidly over a short period of time; 2) when such volatile cost changes represent significant portions of total utility operating expenses; and 3) when such volatile cost changes are beyond the ability of the utility to control.

Analysis shows that the wage adjustments do not warrant an automatic recovery clause. The Commission therefore rules that the application of the WAC Formula be discontinued. The growth in kWh sales will be sufficient for the electric cooperatives to absorb increases in salaries/wages mandated by the wage orders.

The Commission notes that CEBECO II correctly chose not to apply the WAC formula nor implement it as an automatic adjustment mechanism.

II.A.4. OPERATION and MAINTENANCE (less Purchased Power and Payroll)

In general, operating expenses allowed are those which are reasonably incurred in connection with business operations to yield revenue or income. These should be required or necessary in the operation of a utility, recurring and should redound to the service or benefit of end-users.

The Commission enjoins CEBECO II to incur only “prudent and reasonable costs” for inclusion in the determination of retail rates. While a distribution utility enjoys the benefit of passing its costs of purchased power and other reasonable costs to the end-user, it is obligated as a public utility to ensure that its costs of operations including payroll are kept at a minimum. The distribution utility must bear in mind that its very nature is that of a service company for its end-users, with a mandate to advocate and transact judiciously for and in their behalf.

“Reasonable costs” can be said to be the cost of those goods and services which, while may not be the lowest in price, need to be incurred with consideration of quality, efficiency, reliability and security, which are characteristics of the service delivered by the distribution utility. “Prudent costs” demand that the utility ensures that its purchases of goods and services are at their minimum, without sacrificing the foregoing characteristics. When making a purchase or executing a contract, it cannot simply rely on its right to pass on its costs to its end-users. As such, the Commission, in fulfillment of the policy of the EPIRA to establish a regime of free and fair competition and full public accountability to achieve greater operational and economic efficiency, enjoins CEBECO II to institute and report to the Commission its respective policies and procedures for cost-cutting and the transparent and competitive procurement of goods and services.

CEBECO II’s end-users have a right to receive safe, reliable and adequate service at a reasonable rate. On the other hand, these end-users should pay their power bills on time to ensure CEBECO II’s viability. To this end, CEBECO II should view a petition for an increase in rates to be the last recourse. In future filings, CEBECO II should be reminded that it has the burden of proving that all reasonable and appropriate cost cutting measures have been taken before resorting to a petition to increase rates.

The Commission made a downward adjustment of PhP 8,061,000 on the Operation and Maintenance expense account consisting of :

Amount Disallowed	PhP 6,007,000
Amount offset vs PPD of NPC	2,054,000
TOTAL	PhP 8,061,000

Upon review of the components of the expenses included in the revenue requirement, the Commission disallowed expenses of PhP 6,007,000 which consist of the Christmas and Anniversary Expenses, 14th month pay, group insurance, sportsfest, lodging expenses of visitors, snacks, meals and other miscellaneous expenses which were found to have gone beyond the need by which these expenses were meant for. The disallowed expenses were excluded for revenue requirement determination. These expenses translate to PhP 0.0756/kWh which the Commission considers material.

The amount of PhP 2,054,000 representing Consumer Prompt Payment Discount was excluded from the O & M account because the same was offset against the Prompt Payment Discount (PPD) from NPC in computing the net PPD to be shared 50/50 by the utility and the end-users. (See Section II.A.5 for this calculation).

For future rate cases, CEBECO II will continue to be required to make full disclosure of all its O & M expenses and be responsible in providing documentation to prove the reasonableness and prudence of all its expenditures. CEBECO II should ensure that procedures are put in place so

that all expenditures that are included in the determination of revenue requirements are adequately documented and that such documentation is reasonably accessible to the ERC.

II.A.5. OTHER REVENUES ITEMS

Other revenues amounting to PhP 13,629,000 [including fifty percent (50%) of the total prompt payment discount actually received] were deducted from the revenue requirement used to calculate the rates for the end-users. The breakdown is as follows:

Other Revenues	Amount (PhP)
Prompt Payment Discount * (50%)	3,989,000
Interest Income	4,690,000
Others ³	4,950,000
TOTAL Other Revenues	13,629,000

*Fifty percent of the Prompt Payment Discount was computed as follows:

Prompt Payment Discount availed from NPC	PhP	10,032,000
Less: Customer Prompt Payment Discount		2,054,000
Net Prompt Payment Discount		7,978,000
Fifty Percent (50%) of PPD	PhP	3,989,000

The Commission believes that the cooperative and the end-users should share 50/50 in the prompt payment discount. The 50% retained by CEBECO II is sufficient to provide incentive to improve efficiency in the payment of its purchased power costs.

³ Others includes Pole Rentals, Transformer Rentals, Connection Fees, Meter Installation Fees, Inspection Fees, Relocation of Meters, Transformer Installation, Meter Calibration Fees, etc.

II.A.6. DEBT SERVICE

The Commission made a downward adjustment of PhP 2,720,000 to assure that the debt service account included in CEBECO II's revenue requirement is consistent with NEA's records. The details of the adjustment are shown below. The amortization cost for the loan El Ruping was excluded because the same has been fully paid in 2002. Thus, the total allowable amount for debt service in the determination of the revenue requirement should only be PhP 9,808,000.

LOANS	LOAN PROFILE		DIFFERENCE (PhP)
	PER NEA (PhP)	PER CEBECO II (PhP)	
Rural Electrification:			
A	1,529,352	1,529,352	0
B	1,332,392	1,332,392	0
C	436,352	436,352	0
F	727,096	727,096	0
G	1,152,640	1,152,640	0
E (FR – HQ)	80,024	80,024	0
D (OD)	284,036	393,280	(109,244)
World Bank – RERP	2,100,264	2,100,264	0
WB-RERP-Logistics	252,084	252,084	0
El Ruping	0	2,610,912	(2,610,912)
Compac 1 (re loans)			
COM LOC A	606,872	606,872	0
COM KOR B	218,004	218,004	0
COM LOC C	28,252	28,252	0
COM BRA D	112,720	112,720	0
COM LOC E	11,496	11,496	0
COM USA F	936,604	936,604	0
TOTAL	9,808,188	12,528,344	(2,720,156)
Rounded off to			(2,720,000)

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. CEBECO II 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 Commission notes that CEBECO II's existing authorized rate does not include a component for the provision for reinvestment fund. However, CEBECO II made a proposal for the same in its unbundling of rates application in the amount of PhP 25,415,000.

The Commission permits a reinvestment fund equivalent to 5% of CEBECO II's Gross Revenue to finance expansion and rehabilitation/upgrading of its existing electric power system in accordance with the submitted System Rehabilitation/Upgrading and/or System Loss Reduction Plan. This resulted in a downward adjustment of PhP 6,877,000 in the reinvestment fund account resulting in an adjusted amount of PhP 18,538,000.

One of the main purposes of providing the 5% Reinvestment Fund is for the end-users of CEBECO II to shoulder part of their increasing capitalization requirements as outside sources of funding are getting scarce.

The Reinvestment Fund is authorized subject to the following conditions:

- a) This reinvestment fund shall not be used, even temporarily, for any purpose other than for those projects specified in the submitted plan;
- b) The amounts collected for the reinvestment fund shall be placed in a separate account and shall be disbursed in accordance with the plan submitted by CEBECO II;
- c) CEBECO II is further required to submit a progress report no later than one (1) year after the date of this Decision and every year thereafter using the format prescribed by the Commission. The progress report shall include detailed accounting itemizing total collections, the actual use of all disbursements, and actual current system losses.

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

- d) CEBECO II shall submit a new System Rehabilitation/Upgrading and/or System Loss Reduction Plan 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 a comparison of approved revenue requirement with that proposed by CEBECO II:

	CEBECO II Proposal	Adjustments	ERC Approval
KWh Sales ⁴			79,446,580
Purchased Power	433,820,000	(133,629,000)	300,191,000
Payroll	23,794,000	0	23,794,000
O & M (less PP & Payroll)	40,110,000	(8,061,000)	32,049,000
Debt Service	12,528,000	(2,720,000)	9,808,000
Less: Other Revenue Items	0	13,629,000	13,629,000
Reinvestment Fund ⁵	25,415,000	(6,877,000)	18,538,000
Total Revenue Requirement	535,667,000	(164,916,000)	370,751,000

The Commission, after considering adjustments of PhP 164,916,000 approves a total revenue requirement of PhP 370,751,000.

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.

CEBECO II proposed an OATA of PhP 0.3339/kWh using rates of year 2000.

After reviewing the evidence presented by the cooperative, the Commission approves CEBECO II's OATA of PhP 0.3339/kWh for which it asked for. The actual impact to end-users will depend on the level of rates currently being charged. This impact is illustrated in Sec. II.B.6 of this Decision.

⁴ Based on the Annualized kWh sales for the year 2000.

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

II.B. RATE STRUCTURE/DESIGN DETERMINATION

II.B.1 FUNCTIONALIZATION, CLASSIFICATION and ALLOCATION

The functionalization and allocation factors used by CEBECO II were the default factors provided for in the UFR issued by the Commission on October 30, 2001. In the case of CEBECO II, a number of default factors were found not to represent the best alternative among possible factors. Thus, the following three (3) default factors used by CEBECO II for functionalization and allocation were modified, to wit:

First, the use of the Net Plant in Service (PLTSVC-N) as a factor to functionalize and allocate Maintenance for Office and General Plant will cause skewed results by allocating these maintenance costs toward assets not part of such activity. The Commission, therefore, adopted a factor based on Net General Plant (GP-N) as a more reasonable method to allocate maintenance expense associated with general plant.

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

Third, since the Commission is now including Other Revenue Items (ORI) not included by CEBECO II in the calculation of its revenue requirement, it was necessary to functionalize and allocate these amounts. The Functionalization factors for ORI which were determined based on direct assignment are as follows:

Factor Name	Functionalization Factor Description	Total Check	Generation	Transmission	Distribution	Supply	Metering
ORI	Other Revenue Items	1.0000	0.0000	0.0000	0.3921	0.4428	0.1651

However, for certain distribution costs, CEBECO II submitted allocation of distribution costs into demand and customer-related cost using the *Minimum-Plant Method*⁶. This method resulted in a 27%-73% allocation on the average.

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 kilowatt-hour including Benefits to Host Communities and Franchise Charge and Foreign

⁶ *Minimum-Plant Method is a tool in the allocation of the distribution costs to demand and customer-related.*

Exchange Rate Adjustment (FOREX). The FOREX component of the NPC's Generation Rate used pertains to the supply month of February 2003. The NPC's approved rate will remain fixed until changes are authorized by the Commission pursuant to its Order dated February 24, 2003 as discussed in Section II.A.2 of this Decision. 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 TRANSCO without automatic adjustments. Since the transmission rates to be paid by CEBECO II 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 CEBECO II have been calculated based on the approved TRANSCO rates which include cross subsidy elements to be phased out over the three-year period.

Transmission Charges		Residential	Commercial	Industrial	Public Buildings	Street Lights	Large Load BOMEDCO
YEAR 1							
Demand Charge	PhP/kW			24.20			323.84
Transmission System Charge	PhP/kWh	1.0372	1.0884	1.0642	1.2962	1.3170	
YEAR 2							
Demand Charge	PhP/kW			24.20			324.34
Transmission System Charge	PhP/kWh	1.0388	1.0901	1.0660	1.2982	1.3190	
YEAR 3							
Demand Charge	PhP/kW			24.20			324.88
Transmission System Charge	PhP/kWh	1.0405	1.0919	1.0679	1.3004	1.3212	
YEAR 4							
Demand Charge	PhP/kW			24.20			325.38
Transmission System Charge	PhP/kWh	1.0421	1.0936	1.0696	1.3024	1.3232	

II.B.2.c. SYSTEM LOSS CHARGE

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

The Commission approves the recovery of allowed System Loss through the establishment of a separate System Loss Charge in the bill to end-users. The System Loss Charge shall vary from one customer class to another depending on their respective contributions to the system loss. However, due to limited information, the Commission is constrained to adopt a uniform allowable system loss charge for all end-users of CEBECO II.

The allowed system loss is equal to the actual system loss for the test year or the system loss cap whichever is lower. In arriving at this decision, the Commission recognizes that the distribution utility faces some risks of over - or under-recovery in the event its load characteristics change through time. The system loss not only results in additional unbundled generation costs but also additional unbundled transmission costs to be paid by end-users. When system loss is within the allowable cap, the distribution utility shall recover from the end-users all generation and transmission costs. Thus, system loss in excess of the allowable caps shall not be recovered from the end-users.

On December 8, 1994, Republic Act No. 7832, otherwise known as the Anti-Pilferage Law was enacted. In July 1995, the ERB promulgated the

Implementing Rules and Regulations (IRR) under ERB Case No. 95-05, to implement said law. Section 10 of R.A. 7832 and Rule IX, Section 1 of the IRR provide that the recoverable Technical and Non-Technical System Loss should not exceed the fourteen percent (14%) ceiling allowed for year 2000.

In this case, CEBECO II's actual system loss for the year 2000 was 6.86% (plus .14% utility's use of power for its own operations). More recent data showed that CEBECO II was unable to maintain such a low system loss in the following years. Thus, the Commission allowed the average system loss for the years 2000 to 2002 of 9.89% as a more realistic cap in the calculation of CEBECO II's revenue requirement. This would however be subject to change upon the approval of a new policy by the Commission.

The actual Technical and Non-Technical System Loss or cap of 14% plus 1% cooperative own use (which should not include the personal consumption of CEBECO II's Board of Directors, officers and staff) whichever is lower shall be deducted from total power cost and to be billed separately as System Loss Charge.

II.B.2.d. DISTRIBUTION CHARGE

The distribution charge shall be billed on a fixed rate per kiloWatt-hour for Residential, Commercial, Public Building and Street Lights end-users. The Large Load end-user shall be billed on a fixed rate per kilowatt (kW). In the case of CEBECO II's Industrial customers, the distribution charge shall be billed using a combination of fixed rate per kilowatt (kW) and fixed rate per kilowatt-hour (kWh).

CEBECO II's proposal for distribution wheeling rates is equivalent to its proposed distribution and metering charges per type of service. The Commission however believes that wheeling rates are parallel to the cost of service functionalized under Distribution. Thus, the Commission orders that the Distribution Charge provided on Rate Schedules be likewise utilized as Distribution Wheeling Charges available to the future contestable market. However, other distribution utilities requesting to wheel power across CEBECO II's facilities shall pay wheeling charges equivalent to Distribution Wheeling Charges for Industrial customers.

The Commission's decision to allow a distribution utility to avail of the Distribution Wheeling Charges of another distribution utility is based on the general intent of R.A. 9136 to promote a competitive generation market. Distribution utilities that currently or in the future 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 CEBECO II to use a PhP 5.00 per meter per month and PhP 0.2587 per kWh rate for the metering function. On the other hand, the Commission orders CEBECO II to use a PhP per kWh rate for the supply function.

In the case of streetlights customers, the Metering Charges shall only be charged to CEBECO II's metered end-users.

II.B.3. INTER-CLASS CROSS SUBSIDY

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

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

		Total	RES'L	COMM'L	IND'L	PUBLIC BLDGS.	STREET LIGHTS	LARGE LOAD
New Cost-Based Rev. Requirement	PhP	370,751	208,338	71,785	68,204	11,042	5,053	6,330
Existing Rates Revenue	PhP	344,224	175,851	75,336	71,475	10,417	4,939	6,206
Total Change in Revenue	PhP	26,527	32,487	(3,551)	(3,271)	625	114	124
Percentage Change in Revenue		7.71%						
Normalized Existing Revenue	PhP	370,751	189,403	81,142	76,983	11,220	5,319	6,684
Inter-Class Cross-Subsidy Amounts	PhP	0.0000	(18,935)	9,357	8,780	178	267	354
Class Billing Determinants	kWh	79,446	40,438	16,882	16,937	2,387	1,193	1,609
Inter-Class Cross Subsidy Rates	PhP / kWh		(0.4683)	0.5542	0.5184	0.0747	0.2234	0.2198

NOTE: Peso amount appearing in the above table is presented in thousand pesos.

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 extended 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 CEBECO II'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, CEBECO II 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. 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 CEBECO II. The graduated scale is also based on the recognition that individual end-user consumption may likely vary from month to month.

15 kWh and below	-	50%
16 kWh	-	40%
17 kWh	-	30%
18 kWh	-	20%
19 kWh	-	10%
20 kWh	-	5%

CEBECO II shall apply these discounts to the following residential charges: Generation, Transmission, Distribution, Supply, Metering and System Loss. In a given billing period, an end-user at any of the above-consumption levels shall be given the 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 CEBECO II, the lifeline discounts result in a Lifeline Rate Subsidy by other end-users equal to PhP 0.0614/kWh.

II.B.5. OTHER CHARGES

CEBECO II's additional submission to this Commission of its existing Other Charges as previously presented was 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 CEBECO II.

The Other Charges of CEBECO II are hereby pegged at their existing levels until such time that the Commission sets new rates on the same. Further, CEBECO II 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 the approval of Other Charges shall include rates that are cost-based, as well as all supporting cost justification for the rates, including but not limited to the amount of actual time and wages of employees performing each task encompassed by each type of Other Charges.

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 an average residential end-user consuming 64 kWh a month using rates based on CEBECO II's actual existing rates as of February 2003 against the unbundled rates approved by the Commission is shown below.

Based on Actual Existing Rates			Based on ERC Approved Unbundled Rates			
	PhP/kWh	Amount (PhP)			PhP/kWh	Amount (PhP)
Basic Rate	3.0720	196.61	Generation Charges:		2.3520	150.53
PPA	1.6280	104.19	Generation System Charge	2.0837		
PAR	(0.3000)	(19.20)	Benefits to Host Communities Charge	0.0177		
Univ. Charge	0.0168	1.08	FOREX	0.2506		
			Transmission Charge		1.0372	66.38
			System Loss Charge		0.3401	21.77
			Distribution Charge		0.9547	61.10
			Supply Charge		0.1323	8.46
			Metering Charges:			
			Retail Customer Charge per Month			5.00
			Metering System Charge		0.2587	16.56
			Inter-Class Cross Subsidy		(0.4683)	(29.97)
			Universal Charge:			
			Missionary Electrification Charge		0.0168	1.08
			Lifeline Rate [(Discount)/Subsidy]		0.0614	3.93
			Power Act Reduction		(0.3000)	(19.20)
TOTAL BILL		282.68	TOTAL BILL			285.63
PhP/kWh		4.4168	PhP/kWh			4.4630

DISPOSITION

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

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

		Residential	Commercial	Industrial	Public Building	Street Lights	Large Load
Generation Charges:							
Generation System Charge	PhP/kWh	2.0837	2.0837	2.0837	2.0837	2.0837	2.0837
Franchise & Benefits to Host Communities Charge	PhP/kWh	0.0177	0.0177	0.0177	0.0177	0.0177	0.0177
FOREX Adjustment Charge	PhP/kWh	0.2506	0.2506	0.2506	0.2506	0.2506	0.2506
Transmission Charges:							
Demand Charge	PhP/kWh			24.20			323.84
Transmission System Charge	PhP/kWh	1.0372	1.0884	1.0642	1.2962	1.3170	
System Loss Charge	PhP/kWh	0.3401	0.3401	0.3401	0.3401	0.3401	0.3401
Distribution Charges:							
Demand Charge	PhP/kWh			24.20			42.64
Distribution System Charge	PhP/kWh	0.9547	0.3003	0.0605	0.4881	0.2063	
Supply Charges:							
Retail Customer Charge	PhP/Customer/Mo.		8.57	8.57	8.57	8.57	8.57
Supply System Charge	PhP/kWh	0.1323					
Metering Charges:							
Retail Customer Charge	PhP/Meter/ Mo.	5.00	46.60	578.99	21.77	21.77	1,502.08
Metering System Charge	PhP/kWh	0.2587					
Inter-Class Cross Subsidy Charge	PhP/kWh	(0.4683)	0.5542	0.5184	0.0747	0.2234	0.2198
Universal Charge:							
Missionary Electrification Charge	PhP/kWh	0.0168	0.0168	0.0168	0.0168	0.0168	0.0168
Lifeline Rate (Discount)/Subsidy	PhP/kWh	0.0614	0.0614	0.0614	0.0614	0.0614	0.0614
Power Act 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 CEBECO II to comply with the following:
 - a) Discontinue charging the PPA upon effectivity of the approved unbundled rates; CEBECO II shall automatically bill its end-users the new Generation Rate charged by NPC as approved and authorized by the Commission;

- b) Bill PhP 0.0168/kWh representing the missionary electrification portion of the Universal Charge in accordance with the Order of the Commission in ERC Case No. 2002-165 (In the Matter of the Petition for the Availments from the Universal Charge the Share for Missionary Electrification, NPC-SPUG, Applicant);

- c) 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;

- d) 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;

- e) 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:
 - 1) five (5) sample bills for each end-users class; 2) copy of the bills from the generation and transmission companies; and
 - 3) Monthly Financial and Statistical Reports (MFSRs) complete with all related schedules;

- f) 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;
- g) 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;
- h) File a progress report on the reinvestment fund one (1) year after the date of this Decision and every year thereafter, using the prescribed formats provided in Annexes B & C of this Decision. The report shall include detailed accounting of actual collections and deposits, specific transactions and withdrawals for all disbursements; and actual current system losses;
- i) Submit a new System Rehabilitation/Upgrading and/or System Loss Reduction Plan covering the period 2004 to 2008, one (1) year after the date of this Decision using a format to be prescribed by the Commission; and
- j) Institute policies and procedures for cost-cutting and transparent and competitive procurement of goods and services and submit a report thereon to the Commission within six (6) months from receipt of this Decision.

Copy furnished:

1. ATTY. ZENON SUAREZ
Counsel for Applicant
4/F Casman Bldg.,
1198 Quezon Avenue, Quezon City
2. CEBU II Electric Cooperative, Inc.
Malingin, Bogu, Cebu 6010
3. Engr. EDECIO C. SATINA
General Manager
Cebu II Electric Cooperative, Inc.
Malingin, Bogu, Cebu 6010
4. Office of the Solicitor General
134 Amorsolo Street, Legaspi Village
City of Makati – 1229
5. Commission on Audit
Commonwealth Avenue
Quezon City – 1121
6. Senate Committee on Energy
GSIS Building, Roxas Boulevard
Pasay City – 1300
7. House Committee on Energy
Batasan Hills, Quezon City –1126
8. Hon. Ernesto C. Pablo
Representative-Party-List
APEC
Room 604, North Wing Building
House of Representatives
Constitution Hills, Q.C.
9. The Municipal Mayor
Catmon, Cebu –6040
10. The Municipal Mayor
Bogu, Cebu – 6010
11. The Municipal Mayor
Borbon, Cebu-6008
12. The Municipal Mayor
Compostela , Cebu -6003
13. The Municipal Mayor
Daanbantayan, Cebu-6013

14. The Municipal Mayor
Madellin, Cebu -6012
15. The Municipal Mayor
San Remegio, Cebu - 6011
16. The Municipal Mayor
Sogod, Cebu - 6007
17. The Municipal Mayor
Tabogon, Cebu - 6009
18. The Municipal Mayor
Tabuelan, Cebu - 6044
19. The Municipal Mayor
Tuburan, Cebu - 6043
20. The City Mayor
Danao, Cebu – 6004
21. The Municipal Mayor
Carmen, Cebu - 6005