

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. 2001-959

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

Applicant.

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D E C I S I O N

Before this Commission for resolution is the application filed on December 26, 2001 by Cebu I Electric Cooperative, Inc. (CEBECO I) for the approval of its unbundled rates pursuant to the provisions 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 20, 2002.

CEBECO I was directed to cause the publication of the Notice of Public Hearing, at its own expense, twice (2x) for two (2) successive weeks in two (2) newspapers of general circulation in the country, the last date of publication to be made not later than two (2) weeks before the scheduled date of initial hearing. In compliance with the said directive, CEBECO I published the Notice of Public Hearing in *Malaya* and *Taliba* on May 23 and 29, 2002 and May 28 and June 4, 2002, respectively.

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 Alcantara, Alcoy, Alegria, Argao, Basian, Barili, Boljoon, Carcar, Dalaguete, Dumanjug, Ginatilan, Malabujoc, Moalboal, Oslob, Ronda, Samboan, Santander and Sibonga, 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 20, 2002, only the counsel for CEBECO I appeared and entered his appearance. No oppositor appeared nor was there any opposition registered.

During the said hearing, CEBECO I submitted proofs of compliance with the Commission's publication and posting of notice requirements which were duly marked as Exhibits "A" to "C-17", inclusive. Thereafter, CEBECO I presented its two (2) witnesses. The first witness, Ms. Fe Amao, CEBECO I's Finance Manager testified on the documents submitted in support of the application as well as on certain relevant schedules. The second witness, Engr. Getulio Crodua, CEBECO I's Chief Engineer, testified on the various technical aspects of the application. In the course of their direct testimonies, documents were presented, identified by reference and marked as Exhibits "D" to "T", inclusive. The Commission propounded clarificatory questions on the two (2) witnesses. In the course thereof, CEBECO I was directed to submit the following : a) Listing of Allowances and Benefits; b) Corrected Reinvestment Allowance; and c) Schedule of Outages for years 2001 to 2002.

On September 23, 2002, CEBECO I filed its "Manifestation and Additional Compliance".

On October 15, 2002, CEBECO I submitted its "Formal Offer of Evidence" which was admitted by the Commission for the purposes for which they were offered.

I. SUMMARY OF CEBECO I's APPLICATION

I.A. REVENUE REQUIREMENT

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

Account Name	HISTORICAL YEAR	
kWh Sales		58,359,151
Purchased Power	PhP	241,026,000
Payroll		32,527,000
Operation and Maintenance (less Purchased Power & Payroll)		20,866,000
Debt Service		16,793,000
Revenue Requirement	PhP	311,212,000
Less: Other Revenue Items		0
Reinvestment Fund (5%) ¹		15,561,000
TOTAL REVENUE REQUIREMENT	PhP	326,773,000
EXISTING REVENUE		310,757,000
Required Increase	PhP	16,016,000
Required Increase	PhP/kWh	0.2744

CEBECO I's proposed revenue requirement was PhP 326,773,000 based on historical test year 2000. The Overall Average Tariff Adjustment (OATA) published was PhP 0.2744/kWh. The same OATA was stated by witness Amao in her testimony on June 20, 2002 (Transcript of Stenographic Notes (TSN), June 20, 2002, page 18).

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

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

I.B. RATE STRUCTURE/DESIGN

The unbundled rates proposed by CEBECO I were as follows:

Residential Customers		
Generation Charge	Per kWh	3.1931
Transmission Charge		1.2789
Distribution Charge		1.1060
Supply Charges:		
Retail Customer Charge	/customer/month	7.98
Metering Charge		7.02
Commercial Customers		
Generation Charge	Per kWh	3.1972
Transmission Charge		1.2789
Distribution Charge		0.6551
Supply Charges:		
Retail Customer Charge	/customer/month	19.13
Metering Charge		20.87
Industrial Customers		
Generation Charge	Per kWh	3.1972
Transmission Charge		1.2789
Distribution Charge:		
Distribution System Charge	per NCP kW	75.10
Energy Charge	per kWh	0.3859
Supply Charges:		
Retail Customer Charge	/customer/month	104.83
Metering Charge		895.17
Large Load Customers		
Generation Charge	Per kWh	3.3776
Transmission Charge		1.2789
Distribution Charge:		
Distribution System Charge	per NCP kW	83.48
Energy Charge	per kWh	0.3635
Supply Charges:		
Retail Customer Charge	/customer/month	1,396.54
Metering Charge		13,603.46
Public Buildings Customers		
Generation Charge	Per kWh	3.2471
Transmission Charge		1.2789
Distribution Charge		0.9255
Supply Charges:		
Retail Customer Charge	/customer/month	19.87
Metering Charge		20.13
Street Lights Customers		
Generation Charge	Per kWh	3.2471
Transmission Charge		1.2789
Distribution Charge		1.3015
Distribution Facilities Charge	/customer/month	1.00

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

Residential Distribution Wheeling Service		
Distribution Charge	Per kWh	1.1060
Supply Charge:		
Metering Charge (optional)	/customer/month	7.02
Commercial Wheeling Service		
Distribution Charge	Per kWh	0.6551
Supply Charge:		
Metering Charge (optional)	/customer/month	20.87
Industrial Wheeling Service		
Distribution Charge:		
Distribution System Charge	per NCP kW	75.10
Supply Charge:		
Metering Charge (optional)	/customer/month	895.17
Large Load Wheeling Service		
Distribution Charge:		
Distribution System Charge	per NCP kW	83.48
Supply Charges:		
Metering Charge (optional)	/customer/month	13,603.46
Public Buildings Wheeling Service		
Distribution Charge	Per kWh	0.9255
Supply Charge:		
Metering Charge (optional)	/customer/month	20.13

I.B.1. FUNCTIONALIZATION, CLASSIFICATION and ALLOCATION

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

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

I.B.2. SYSTEM LOSS

Witness Amao, in her testimony stated that the system loss used in preparing CEBECO I's unbundled rate application was 7.00% which is the average system loss for the year 2000 (June 20, 2002, TSN, page 25).

Witness Crodua confirmed the use of said system loss rate (June 20, 2002, TSN, page 54). Further, witness Crodua testified that CEBECO I's system loss program is a routinary activity. Furthermore, witness Crodua testified that .20% or less than 1% of the system loss is non-technical loss and about 6.80%, rounded of to 7.00% is technical loss (June 20, 2002, TSN, page 54).

Witness Crodua stated that CEBECO I intends to undertake programs which include the following: Power factor improvement, Installation of power transmission particularly upgrading or conversion of existing lines and highlight of existing distribution (June 20, 2002, TSN, page 57).

I.B.3. INTER-CLASS CROSS SUBSIDY

CEBECO I 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	167,790,099	172,346,645	4,556,546
Commercial	85,277,069	80,192,255	(5,084,814)
Industrial	33,095,287	31,532,983	(1,562,304)
Large Load	24,655,235	26,233,928	1,578,693
Public Buildings	11,163,685	11,269,541	105,856
Street Lights	4,791,413	5,197,436	406,023
TOTAL	326,772,788	326,772,788	0

I.B.4. LIFELINE RATE and LEVEL

CEBECO I 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 4.8499/kWh	PhP 15.00/kWh	PhP 60.00/cust./mo

However, during the hearing of the subject case, witness Amao stated, “For the regular residential there is a fixed customer charge of P15.00 and energy charge of P6.5781 and in the lifeline using the existing rate only of P4.8499 and those of customer charge of P15.00” (June 22, 2002, TSN, pp. 21 - 22).

I.C. OTHER CHARGES

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

PARTICULARS		RATES
I. STANDARD FEES		
1. Membership Fee	PhP 5.00	PhP 5.00
2. Inspection Fee	50.00	50.00
3. Service Connection Fee	50.00	100.00
4. Reconnection Fee	20.00	100.00
5. Calibration Fee	50.00	50.00
6. Meter Deposit	1,000.00	
7. Meter Glass Broken		100.00
8. Meter Transfer & Relocation		50.00
9. Voluntary Disconnection		
a. Single Phase, Residential		20.00
b. Other types		100.00
10. Special Lighting Permit-Deposit of not less than PhP 1,000.00		
11. Special Light Bill		
a. Single Phase, Ordinary		1,000.00
b. Single Phase w/ Special Loads		5,000.00
12. Installation of Street Lights		20.00
II. TRANSFORMER CHARGES		
1. Installation and Retirement		
5 Kva up to 37.5 (per unit)		800.00
50 Kva and above (per Kva)		25.00
2. Rental		
10 Kva (per month)		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
III. OTHER CHARGES		
1. Pole Rentals (per pole/month)		11.00

II. COMMISSION DISCUSSIONS and CONCLUSIONS

II.A. DETERMINATION OF TOTAL REVENUE REQUIREMENT

II.A.1. TEST YEAR

The Commission finds CEBECO I's proposal to use the test year 2000 in its unbundled rate application acceptable since it is consistent with Rule 15 Section 6 (c) of the Implementing Rules and Regulations (IRR) of 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 I is buying power from two (2) sources, namely: National Power Corporation (NPC) and CEBU III Electric Cooperative (CEBECO III). CEBECO I also generates its own power through its three (3) mini-hydro owned-generation plants namely: Mantayupan, Basak and Matutinao. The Commission notes that the contractual arrangement between CEBECO I and CEBECO III had no prior approval from the then Energy Regulatory Board (ERB). The Commission further notes that the average power rate charged by CEBECO III for the year 2002 is higher than that of NPC. In view thereof, pending the Commission's of the purchased power agreement between CEBECO I and CEBECO III, the cost of electric power supplied by CEBECO III shall be pegged at the existing NPC generation rate.

Thus, the Generation and Transmission charges shall reflect the power suppliers' generation charges and transmission charges of the National Transmission Corporation (TRANSCO) as approved in ERC Orders dated September 6 and 20, 2002, and ERC Case No. 2001-901 (In the Matter of the Application for the Approval of the Revised Unbundled Power Rates, National Power Corporation (NPC) – Applicant). The FOREX component of 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 in the bill to end-users (please refer to Section II.B.2.c for details). Hence, a distribution utility with a system loss that is within the allowable caps can recover from its end-users the total cost of generation and transmission. *Annualization*² of the billing determinants was applied.

The adjustment made by the Commission to Purchased Power of PhP 28,819,000 pertains to the difference between the proposed Purchased Power of CEBECO I amounting to PhP 241,026,000 and the Generation and Transmission Charges based on the new rates of NPC and TRANSCO amounting to PhP 212,207,000.

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

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

Generation Charge	PhP	146,927,000
Transmission Charge		48,876,000
Recoverable System loss		16,404,000
Total	PhP	212,207,000

CEBECO I shall discontinue charging the Purchased Power Adjustment (PPA) upon effectivity of the unbundled rates. Any changes in the cost of power purchased shall be reflected as deferred charges or credits which shall be recovered in accordance with the Generation Rate Adjustment Mechanism (GRAM) and Incremental Currency Exchange Recovery Adjustment (ICERA) as approved in ERC 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)].

II.A.3. PAYROLL

The Commission made a downward adjustment on the payroll account by PhP 8,163,000 consisting of the disallowance of the 14th month pay granted to CEBECO I officers and employees amounting to PhP 2,249,000 and the exclusion of the Power Production Payroll Expense amounting to PhP 5,914,000 because the same was already part of the cost of purchased power.

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 I 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 I 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-users, 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-user. 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 I 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 I'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 I's viability. To this end, CEBECO I should view a petition for an increase in rates to be the last recourse. In future filings, CEBECO I 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 request to increase rates.

Upon review of the components of the expenses included in the revenue requirement, the Commission disallowed expenses of PhP 7,452,000 which consist of lodging expenses of visitors, snacks, meals, sportsfest and other miscellaneous expenses were found to have gone beyond the necessity by which these expenses were meant for. The disallowed expenses were excluded for revenue requirement determination. These expenses translate to PhP 0.1246/kWh, which the Commission considers material.

For future rate cases, CEBECO I 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 I 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 REVENUE ITEMS

Other revenues amounting to PhP 9,090,000 (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 of this is shown below:

Other Revenues	(PhP)	
	Amount	
Prompt Payment Discount*, Net – 50%		2,345,643
Interest Income		588,970
Others :		
Penalty, Re-connection Fee	446,610	
Revenue from Merchandising, Jobbing	238,818	
Rental Income	4,180,755	
Miscellaneous	1,289,997	6,156,180
TOTAL		9,090,793
Rounded off to		9,090,000

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

Prompt Payment Discount availed from NPC	5,228,666
Less: Prompt Payment discount granted to customers	537,380
Net Prompt Payment Discount	4,691,286
Fifty Percent (50%) of PPD	2,345,643

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

II.A.6. DEBT SERVICE

The Commission made a downward adjustment of PhP 1,925,000 to assure that the debt service account included in CEBECO I's revenue requirement is consistent with NEA's records. The details of the adjustment are shown below:

LOANS	LOAN PROFILE		Adjustment (PhP)
	PER NEA (PhP)	PER CEBECO I (PhP)	
Rural Electrification:			
A	980,977	980,977	0
B	592,892	592,932	(40)
C	721,935	721,935	0
D	68,112	68,112	0
E	30,652	30,652	0
F OD – new	1,662,344	1,662,344	0
G	2,693,736	2,693,736	0
World Bank – RERP	4,233,080	4,233,080	0
WB-RERP-Logistics	0	1,050,664	(1,050,664)
Sub total	10,983,728	12,034,432	(1,050,704)
Compac 1 (re loans)			
COMPAC 1-USA	1,535,552	1,535,552	0
COMPAC I-D	11,796	11,796	0
COMPAC Brazil	31,500	31,500	0
COMPAC I-B	7,268	7,268	0
COMPAC I-A	228,216	230,820	(2,604)
Sub total	1,814,332	1,816,936	(2,604)
Minihydro:			
Matutinao	2,070,167	1,595,683	474,484
Basak	0	300,268	(300,268)
Sub total	2,070,167	1,895,951	174,215
Add: 2001 loans			
RE loan – F Advance		36,020	(36,020)
WB-RERP- RE loan		865,832	(865,832)
WB-RERP log-loan		144,036	(144,036)
Sub total		1,045,888	(1,045,888)
GRAND TOTAL	14,868,227	16,793,207	1,924,980
Rounded off to			1,925,000

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

II.A.7. REINVESTMENT FUND

The Commission notes that CEBECO I's existing authorized rate does not include a component for the provision for reinvestment fund. However, CEBECO I made a proposal for the same in its unbundling of rates application in the amount of PhP 15,561,000.

The Commission permits a reinvestment fund equivalent to 5% of CEBECO I'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 2,100,000 representing the excess of the proposed reinvestment fund over the 5% allowed by the Commission. Thus, the allowable amount for reinvestment fund in the determination of the revenue requirement should only be PhP 13,461,000.

One of the main purposes of providing the 5% Reinvestment Fund is for the end-users of CEBECO I 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 I;
- c) CEBECO I is further required to submit a progress report not 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 I to appear and show cause why it should continue collection of the reinvestment fund; and

- d) CEBECO I 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 the approved revenue requirement with that proposed by CEBECO I:

	CEBECO I Proposal	Adjustments	ERC Approval
KWh Sales ³			59,760,284
Purchased Power	241,026,000	(28,819,000)	212,207,000
Payroll	32,527,000	(8,163,000)	24,364,000
O & M (less PP & Payroll)	20,866,000	(7,452,000)	13,414,000
Debt Service	16,793,000	(1,925,000)	14,868,000
Less: Other Revenue Items	0	9,090,000	9,090,000
Reinvestment Fund ⁴	15,561,000	(2,100,000)	13,461,000
Total Revenue Requirement	326,773,000	(57,549,000)	269,224,000

The Commission, after considering adjustments of PhP 57,549,000 approves a total revenue requirement of PhP 269,224,000.

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 I proposed an OATA of PhP 0.2744/kWh using rates of year 2000.

³ Based on the Annualized kWh sales for the year 2000

⁴ In the UFR, this item is reflected as "Plus Percentage for Cooperative Investment".

After reviewing the evidence presented by the cooperative, the Commission approves CEBECO I's OATA of PhP 0.2744/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.

II.B. RATE STRUCTURE/DESIGN DETERMINATION

II.B.1 FUNCTIONALIZATION, CLASSIFICATION and ALLOCATION

The functionalization and allocation factors used by CEBECO I were the default factors provided for in the UFR issued by the Commission on October 30, 2001. In the case of CEBECO I, a number of the default factors were found not to represent the best alternative among possible factors. Thus, the following five (5) default factors used by CEBECO I 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 I 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	0.5489	0.3696	0.0815

Fourth, the Intangible Plant was deducted from the Net Plant in Service as this was already fully depreciated in the year 1993. Thus, the use of Net Plant in Service (PLTSVC-N) as a factor to functionalize Materials & Supplies, Debt Service, Property Insurance Expense, Taxes on Property was adjusted in order not to allocate a portion to generation function.

Fifth, the portion of payroll and O & M allocated to the generation function was adjusted as these already form part of the purchased power cost.

However, for certain distribution costs, CEBECO I submitted allocation of distribution costs into demand and customer-related cost using the Minimum – Plant Method⁵. This method resulted in a 53% - 47% 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 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).

⁵ *The Minimum-Plant Method is a tool in the allocation of the distribution cost to demand and customer-related.*

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 I are fixed, it is the decision of the Commission to likewise fix the unbundled transmission rates billed to end-users. The transmission charges approved for billing by CEBECO I 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
YEAR 1						
Demand Charge PhP/kW			19.80			317.54
Transmission System Charge PhP/kWh	0.7577	0.7619	0.7735	0.8908	0.9541	
YEAR 2						
Demand Charge PhP/kW			19.80			340.15
Transmission System Charge PhP/kWh	0.8117	0.8162	0.8339	0.9542	1.0221	
YEAR 3						
Demand Charge PhP/kW			19.80			362.80
Transmission System Charge PhP/kWh	0.8657	0.8705	0.8944	1.0177	1.0901	
YEAR 4						
Demand Charge PhP/kW			19.80			385.41
Transmission System Charge PhP/kWh	0.9196	0.9247	0.9548	1.0812	1.1581	

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. However, due to limited information, the Commission is constrained to adopt a uniform allowable system loss charge for all end-users of CEBECO I.

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 risk 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.

The actual system loss or cap of 14% plus 1% cooperative own use whichever is lower shall be deducted from total power cost and to be billed separately as System Loss Charge.

In this case, CEBECO I's actual system loss for the year 2000 was 6.80%. More recent data showed that CEBECO I 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 7.00% as a more realistic cap in the calculation of CEBECO I's revenue requirement. This would however be subject to change upon the approval of a new policy by the Commission.

II.B.2.d. DISTRIBUTION CHARGE

The distribution charge shall be billed on a fixed rate per kilowatt-hour for Residential, Commercial, Public Buildings 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 I's industrial end-users, the distribution charge shall be billed using a combination of fixed rate per kilowatt (kW) and fixed rate per kiloWatt-hour (kWh)

CEBECO I's proposal for distribution wheeling rates is equivalent to its proposed distribution and metering charges per type of service. The Commission believes that wheeling rates are parallel to the cost of service

functionalized under Distribution. Thus, the Commission orders that the Distribution Charge provided on 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 I's facilities shall pay wheeling charges equivalent to Distribution Wheeling Charges for Industrial end-users.

The Commission's decision to allow a distribution utility to avail of the Distribution Wheeling Charges of another distribution utility is based on the general intent of R.A. 9136 to promote a competitive generation market. Distribution utilities that currently or in the future rely in full or in part on the distribution facilities of another distribution utility should not be held captive by the other distribution utility in the purchase of unbundled generation. Distribution utilities are, therefore, prohibited from bundling or tying the sale of generation or purchased power with the sale of unbundled distribution wheeling service.

II.B.2.e. METERING and SUPPLY CHARGES

The Commission acknowledges that cost-causation rate design principle suggests the recovery of customer-related costs associated with the metering and supply functions through fixed monthly charges. Along with this cost of service principle, however, the Commission also considers rate design impacts across the spectrum of end-users within each rate class. Although R.A. 9136 requires the removal of inter-class cross subsidies, the law does not require removal of revenue flows that may be characterized as intra-class cross

subsidies. The Commission has the flexibility to consider other factors in determining rate design for a particular class of end-users. Therefore, to mitigate the impact on below-average consumption of residential end-users, the Commission orders CEBECO I to use a PhP 5.00 per meter per month and PhP 0.2088 per kWh rate for the metering function. On the other hand, the Commission orders CEBECO I 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 I's metered customers.

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	269,224	142,537	65,671	24,325	9,638	4,401	22,652
Existing Rates Revenue	PhP	252,825	131,465	67,438	23,390	8,859	3,507	18,166
Total Change in Revenue	PhP	16,399	11,072	(1,767)	935	779	894	4,486
Percentage Change in Revenue		6.49%						
Normalized Existing Revenue	PhP	269,224	139,992	71,812	24,907	9,433	3,735	19,344
Inter-Class Cross-Subsidy Amounts	PhP	0.0000	(2,545)	6,140	583	(205)	(666)	(3,307)
Class Billing Determinants	kWh	59,760	30,722	15,712	5,579	2,064	866	4,817
Inter-Class Cross Subsidy Rates	PhP / kWh		(0.0828)	0.3908	0.1044	(0.0993)	(0.7694)	(0.6865)

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 I's end-users. This impact is reflected in the three-year schedule for unbundled transmission charges provided in Section II.B.2.b above.

In the instant case, the Commission will order the cross subsidy removal process at a later date following the establishment of the Universal Charge. Until such time, CEBECO I will continue to charge the inter-class cross subsidy rates set forth in Section II.B.3.a above.

II.B.4. LIFELINE RATE and LEVEL

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

In determining the lifeline level of consumption to be provided to the marginalized end-users, the Commission calculated the probable load requirement of typical low-income end-users by considering two (2) lighting facilities at 20 Watts each and a 50-Watt radio that are being used for a reasonable number of hours. 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 I. The graduated scale is also based on the recognition that individual end-user consumption may likely vary from month to month.

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

CEBECO I 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 I the lifeline discounts result in a Lifeline Rate Subsidy by other end-users equal to PhP 0.0887/kWh.

II.B.5. OTHER CHARGES

CEBECO I'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 I.

The Other Charges of CEBECO I are hereby pegged at their existing levels until such time that the Commission sets new rates on the same. Further, CEBECO I is ordered to make a compliance filing on its Other Charges a year from the date of this Decision using a format to be prescribed by the Commission.

The compliance filing for 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 68 kWh a month using rates based on CEBECO I'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	3.0862	209.86	Generation Charges:	2.4586	167.18
PPA	1.5619	106.21	Transmission Charge	0.7577	51.52
PAR	(0.2700)	(18.36)	System Loss Charge	0.2745	18.67
Others			Distribution Charge	0.6584	44.77
			Supply Charge	0.2088	14.20
			Metering Charges:		
			Retail Customer Charge		5.00
			Metering System Charge	0.2082	14.16
			Inter-Class Cross Subsidy	(0.0828)	(5.63)
			Universal Charge: Missionary Elec. Charge	0.0168	1.14
			Lifeline Rate (Discount)/Subsidy	0.0887	6.03
			Power Act Reduction	(0.2700)	(18.36)
TOTAL BILL		297.71	TOTAL BILL		298.68
PhP/kWh		4.3781	PhP/kWh		4.3924

Note: PPA is inclusive of Missionary Fund of PhP 0.0168/kWh

DISPOSITION

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

1. To approve the unbundled schedule of rates of CEBECO I, to be effective on 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	2.4586	2.4586	2.4586	2.4586	2.4586	2.4586
Transmission Charges:						
Demand Charge PhP/kWh			19.80			317.54
Transmission System Charge PhP/kWh	0.7577	0.7619	0.7735	0.8908	0.9541	
System Loss Charge PhP/kWh	0.2745	0.2745	0.2745	0.2745	0.2745	0.2745
Distribution Charges:						
Demand Charge PhP/kWh			19.80			165.83
Distribution System Charge PhP/kWh	0.6584	0.5271	0.6955	0.8321	1.3854	
Supply Charges:						
Retail Customer Charge PhP/Customer/Mo.		14.22	14.22	14.22	14.22	14.22
Supply System Charge PhP/kWh	0.2088					
Metering Charges:						
Retail Customer Charge PhP/Meter/ Mo.	5.00	19.18	228.92	19.18	19.18	345.29
Metering System Charge PhP/kWh	0.2082					
Inter-Class Cross Subsidy Charge PhP/kWh	(0.0828)	0.3908	0.1044	(0.0993)	(0.7694)	(0.6865)
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	0.0887	0.0887	0.0887	0.0887	0.0887	0.0887
Power Act Reduction PhP/kWh	(0.2700)					
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 I to comply with the following:
 - a) 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 through GRAM and ICERA;

- 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 no 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: a) five (5) sample bills for each end-users class; b) copy of the bills from the generation and transmission companies; and c) 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.

SO ORDERED.

Pasig City, March 28, 2002.

(Sgd) LETICIA V. IBAY
Acting Chairman

(Sgd) MARY ANNE B. COLAYCO
Commissioner

(Sgd) OLIVER B. BUTALID
Commissioner

(Sgd) CARLOS R. ALINDADA
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