

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. 2001-933

BATANGAS I ELECTRIC COOPERATIVE,
INC. (BATELEC I),

Applicant.

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DECISION

Before this Commission for resolution is the application filed on December 21, 2001 by Batangas I Electric Cooperative, Inc. (BATELEC I) for approval of its unbundled rates pursuant to the provision of Republic Act 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 April 15, 2002 were issued setting the same for hearing on May 29, 2002.

BATELEC 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, BATELEC I published the Notice

of Public Hearing in *People's Independent Media, Malaya* and *Liwayway* on May 4 and 11, 2002, May 4 and 11, 2002 and May 5 and 12, 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 Municipal Mayors of Agoncillo, Balayan, Calaca, Calatagan, Lemery, Liyan, Nasugbu, San Luis, San Nicolas, Santa Teresita, Taal and Tiu, all in the Province of Batangas 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 May 29, 2002, the counsel for BATELEC I appeared and entered his appearance. Intervenors representing the industrial customers likewise appeared and entered their appearances.

During the said hearing, BATELEC I presented proofs of compliance with the Commission's publication and posting of notice requirements which were duly marked as Exhibits "A" to "C-11", inclusive. Thereafter, BATELEC I presented its two (2) witnesses. The first witness, Mr. Demetrio V. Ellao, BATELEC I's Finance Manager, testified on the documents submitted in support of the application as well as on certain relevant schedules. In the

course of his testimony, several documents were presented, identified by reference and marked as Exhibits "D" to "KK", inclusive. The second witness, Mr. Ricardo Castillo, Jr., BATELEC I's Technical Services Department Manager, testified on the various technical aspects of the application. The Commission propounded clarificatory questions on the two (2) witnesses.

BATELEC I then moved that it be given fifteen (15) days from said date of hearing within which to submit all the required documents and Formal Offer of Evidence. Said motion was granted.

On September 20, 2002, BATELEC I submitted its "Formal Offer of Evidence" which was admitted by the Commission for the purposes for which they were offered.

I. SUMMARY OF BATELEC I's APPLICATION

I.A. REVENUE REQUIREMENT

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

Account Name	HISTORICAL YEAR
kWh Sales	124,847,868
Purchased Power PhP	508,415,000
Payroll	44,376,000
Operation and Maintenance (less Purchased Power & Payroll)	52,814,000
Other Expenses	0
Debt Service (plus cash working capital)	22,258,000
Revenue Requirement PhP	627,863,000
Less: Other Revenue Items	0
Reinvestment Fund (5%) ¹	30,924,000
TOTAL REVENUE REQUIREMENT PhP	658,787,000
Existing Revenue	579,703,529
Required Increase	79,083,471
Required Increase PhP /kWh	0.6334

BATELEC I's proposed revenue requirement was PhP 658,787,000 based on historical costs for the year 2000. The Overall Average Tariff Adjustment (OATA) published was PhP 0.6334/kWh. The same OATA was stated by witness Ellao, in his testimony on May 29, 2002 (Transcript of Stenographic Notes (TSN), May 29, 2002, pages 12 and 22).

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

I.B. RATE STRUCTURE/DESIGN

The unbundled rates proposed by BATELEC I were as follows:

Residential Customers	
Retail Customer Charge	PhP 5.2400 /customer/month
Metering Charge	4.7600 /customer/month
Energy Charge	5.5286 /kWh
Commercial Customers	
Retail Customer Charge	PhP 35.2100 /customer/month
Metering Charge	31.9200 /customer/month
Energy Charge	4.5589 /kWh

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

Industrial Customers			
Retail Customer Charge	PhP	35.2100	/customer/month
Metering Charge		31.9200	/customer/month
Energy Charge		4.3260	/kWh
Demand Charge		69.30	/kW NCP
Water Works			
Retail Customer Charge	PhP	35.2100	/customer/month
Metering Charge		31.9200	/customer/month
Energy Charge		4.3309	/kWh
Demand Charge		70.9900	/kW NCP
Public Buildings			
Retail Customer Charge	PhP	35.2100	/customer/month
Metering Charge		31.9200	/customer/month
Energy Charge		4.5869	/kWh
Street Lights			
Energy Charge	PhP	6.6028	/kWh

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

Residential Distribution Wheeling Service			
Distribution Charges:			
Metering Charge	PhP	4.7600	/customer/month
Distribution System Charge		1.2557	/kWh
Commercial Distribution Wheeling Service			
Distribution Charges:			
Metering Charge	PhP	31.92	/customer/month
Distribution System Charge		0.2860	/kWh
Irrigation Distribution Wheeling Charge			
Distribution Charges:			
Metering Charge	PhP	31.92	/customer/month
Distribution System Charge		0.0780	/kWh
Demand Charge		77.00	/kWh
Industrial Distribution Wheeling Service			
Distribution Charges:			
Metering Charge	PhP	31.92	/customer/month
Distribution System Charge		0.0531	/kWh
Demand Charge		69.30	/kWh

Water Works Distribution Wheeling Service			
Distribution Charges:			
Metering Charge	PhP	31.92	/customer/month
Distribution System Charge		0.0580	/kWh
Demand Charge		70.99	/kWh
Public Building Distribution Wheeling Service			
Distribution Charges:			
Metering Charge	PhP	31.92	/customer/month
Distribution System Charge		0.3140	/kWh
Demand Charge		70.99	/kWh

I.B.1. FUNCTIONALIZATION, CLASSIFICATION and ALLOCATION

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

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

I.B.2. SYSTEM LOSS

Witness Ellao, in his testimony stated that the system loss used in preparing BATELEC I's unbundled rate application was 19.97% which was the average system loss for the year 2000 (May 29, 2002, TSN, page 34).

Witness Castillo also confirmed the said system loss rate used (May 29, 2002, TSN, page 59). He further added that the system loss included

pilferages and also that some meters were old and slow in registering the correct kilo-Watthour consumption of its consumers.

I.B.3. INTER-CLASS CROSS SUBSIDY

BATELEC 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 EXISTING (PhP)	INTER-CLASS CROSS SUBSIDIES (PhP)
Residential	395,682,654	427,480,331	31,797,676
Commercial	166,788,445	143,732,055	(23,056,421)
Irrigation	68,823	60,904	(7,919)
Industrial	49,231,895	41,368,123	(7,863,773)
Water Works	22,544,150	19,592,082	(2,952,068)
Public Buildings	15,243,143	13,486,768	(1,396,375)
Street Lights	9,228,332	12,707,211	3,478,879
Total	658,787,443	658,787,443²	0.00

I.B.4. LIFELINE RATE and LEVEL

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

	Option 1 (At Existing Rates)	Option 2 (At Proposed Customer Charges)
LEVEL	10 kWh	10 kWh
Rate	PhP 4.7612/kWh	PhP 55.498/customer/month

² Does not tally

During the hearing of the subject case, witness Ellao stated that BATELEC I's proposed lifeline level is 0 to 10 kilowatthours which at PhP 4.761/kWh is equivalent to PhP 47.61 per customer per month (August 09, 2002, TSN, p. 25).

I.C. OTHER CHARGES

BATELEC I, in its subsequent submission, provided this Commission with information on its existing other charges as shown below. BATELEC I did not propose any adjustments to these charges.

PARTICULARS	RATES
<p>1. Service Connection Fee</p> <p>Charged to all service applicants for second and subsequent connections and those with exclusive transformer, as follows:</p> <p>a. Second and subsequent connections without transformer</p> <p>b. With exclusive transformer</p> <p> 20 kw load</p> <p> 21 kw to 40 kw load</p> <p> 41 kw and above</p>	<p>PhP</p> <p>35.00</p> <p>200.00</p> <p>400.00</p> <p>600.00</p>
<p>2. Cost of Wires</p> <p>Charged for the cost of service dropping per meter:</p> <p>a. Service drop # 6</p> <p>b. Service drop # 2</p> <p>c. Service drop # 4</p> <p>d. Service drop # 2/0</p> <p>e. Service drop #1/0</p>	<p>18.00</p> <p>42.35</p> <p>27.00</p> <p>64.35</p> <p>67.80</p>
<p>3. Membership Fee</p> <p>Charged per Membership Application</p>	<p>5.00</p>

<p>4. Transformer Installation Fee</p> <p>Charged for transformer installation or dismantling of consumers with exclusive transformer:</p> <ul style="list-style-type: none"> a. 10 KVA b. 15 KVA c. 25 KVA d. Above 25 KVA 	<p style="text-align: right;">200.00</p> <p style="text-align: right;">300.00</p> <p style="text-align: right;">400.00</p> <p style="text-align: right;">500.00</p>
<p>5. Service Fee</p> <p>Charged to all consumers whose delinquent account reach two (2) or more months</p>	<p style="text-align: right;">5.00</p>
<p>6. Reconnection Fee</p> <p>Charged to disconnected services prior to reconnection</p>	<p style="text-align: right;">100.00</p>
<p>7. Interest on Power Bill</p> <p>Charged to delinquent consumers</p>	<p style="text-align: right;">1.5% per month</p>
<p>8. Coop Share on Housewiring</p> <p>Charged to new connection as follows:</p> <ul style="list-style-type: none"> 1. Typical wiring installation <ul style="list-style-type: none"> a. Service entrance and main disconnect safety switch b. Lamp holder per unit c. Tumbler switch per unit d. Convenience outlet 2. Knobs, Moulding and Conduit, Service Entrance and Main Disconnect Safety Switch <ul style="list-style-type: none"> a. 60 amperes and above b. Panel Board c. 30 amperes d. Lamp holder per unit e. Tumbler switch per unit f. Convenience outlet 	<p style="text-align: right;">PhP</p> <p style="text-align: right;">5.00</p> <p style="text-align: right;">1.50</p> <p style="text-align: right;">1.50</p> <p style="text-align: right;">1.50</p> <p style="text-align: right;">10.00</p> <p style="text-align: right;">7.50</p> <p style="text-align: right;">7.50</p> <p style="text-align: right;">7.50</p> <p style="text-align: right;">2.50</p> <p style="text-align: right;">2.50</p>
<p>9. Joint Use of Poles</p> <p>Charged to telecom companies and CATV operators who use the coop's poles.</p>	<p style="text-align: right;">108.00/ pole/year</p>

10. Transformer Rental Charged to customers who rent transformers from the coop	<u>2 times actual cost</u> 18 months
11. Meter Deposit Assessed from new connections	1,000.00
12. Guarantee Deposit 13. Assessed from new connections with exclusive Transformer	2 months estimated monthly bill

II. COMMISSION DISCUSSIONS and CONCLUSIONS

II.A. DETERMINATION OF TOTAL REVENUE REQUIREMENT

II.A.1. TEST YEAR

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

II.A.2. GENERATION and TRANSMISSION COSTS

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

The Generation and Transmission charges shall reflect the power supplier's 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 (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. *Annualization*³ of billing determinants was applied.

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

³ *The annualization of kWh sales is calculated by multiplying the average kWh consumption of a specific class by their respective year-end number of customers.*

Purchased Power Cost		Amount (PhP)
Generation Charge		309,628,297
Transmission Charge		91,833,012
Actual System Loss ⁴		120,541,956
Total Purchased Power Cost		522,003,266
Less: Adjustment to System Loss		
Actual System Loss	PhP 120,541,956	
Less: Recoverable System Loss	<u>67,185,435</u>	
Excess of actual system loss over the Allowable Recoverable		
System Loss	PhP 53,356,522	53,356,522
Adjusted Purchased Power Cost		468,646,744
Rounded off to		468,647,000
BATELEC I's Proposed Purchased Power		508,415,000
Adjustment to the Purchased Power component of the BATELEC I's Revenue Requirement		(39,769,000)

The Commission adjusted system loss to PhP 53,356,522 which is the excess of actual system loss over the allowable recoverable cap of PhP 67,185,435.

The downward adjustment made by the Commission to Purchased Power of PhP 39,769,000 pertains to the difference between the proposed Purchased Power of BATELEC I amounting to PhP 508,415,000 and the Generation and Transmission Charges based on the new rates of NPC and TRANSCO amounting to PhP 468,647,000.

BATELEC I's approved generation charge shall remain fixed until changes in NPC's generation rate are approved and authorized by the

⁴ Inclusive of utility's use of power for its own operations as discussed in Section II.B.2.c of this Decision.

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, BATELEC I shall bill its end-users the new generation rate charged by NPC. In the meantime, BATELEC I shall discontinue charging the Purchased Power Adjustment (PPA) upon effectivity of the unbundled rates.

II.A.3. PAYROLL

The Commission made an upward adjustment to the payroll account by PhP 1,694,000 to update it to the current salary levels. This takes into account salary increases including those related to Wage Order Nos. IV-07 and IV-08 implemented in October 19, 2000 and February 15, 2002, respectively.

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.

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 BATELEC 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-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 maybe not 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 BATELEC 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. BATELEC 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 BATELEC I's viability. To this end, BATELEC I should view a petition for an increase in rates to be the last recourse. In future filings, BATELEC I will have 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 7,100,000 which consist of meals, snacks, accommodation of guests/visitors, financial assistance, incentive commission, health insurance, and excess representation allowances which were found to have gone beyond the necessity by which these expenses were meant for. Further, the Commission limits the expenses pertaining to the contribution required to provide pension benefit to an amount equivalent to one month's basic salary of BATELEC I's employees; the excess amount was disallowed as a recoverable expense.

The disallowed expenses were excluded for revenue requirement determination. These expenses translate to PhP 0.0566/kWh which the Commission considers material.

For future rate cases, BATELEC 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. BATELEC I should ensure that procedures are put in place to ensure that in future filings, all expenditures that are included in the determination of revenue requirement are adequately documented and that such documentation is reasonably accessible to the ERC.

II.A.5. OTHER REVENUE ITEMS

Other revenues amounting to PhP 16,556,000 [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		AMOUNT
Forfeited Discount	PhP	3,988,311
Rent from Electric Property		932,221
Other Electric Revenues		8,468,573
Royalty		1,190,398
Prompt Payment Discount (50% of PhP 3,952,960)*		1,976,480
Total Other Revenues	PhP	16,555,982
Rounded Off to	PhP	16,556,000

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

Prompt Payment Discount (PPD) 50%		
PPD Availed from NPC	PhP	4,559,883
Less: PPD Given to Consumers		606,923
Net PPD	PhP	3,952,960
Fifty Percent (50%) of PPD	PhP	1,976,480

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

II.A.6. DEBT SERVICE

BATELEC I's debt service account reflected an amount of PhP 22,258,000 consisting of actual payments of its NEA loans in the amount of PhP 15,911,000 and interest cost of Cash Working Capital amounting to PhP 6,347,000. However, BATELEC I did not provide the Commission the details of its debt service account.

The Commission made a net adjustment of PhP 233,000 on BATELEC I's debt service. The details of the adjustment are shown below.

Increase in the amount of debt service to reconcile BATELEC I's proposed debt service with that of NEA's records	PhP	6,114,000
Less: Disallowance of Interest Cost on Cash Working Capital (CWC)		(6,347,000)
Net Adjustments	PhP	(233,000)

The upward adjustment was made by the Commission to reconcile BATELEC I's debt service amounting to PhP 15,911,000 with that of NEA's records which reflected an amortization cost of PhP 22,025,000⁵. On the other hand, the Commission disallowed the interest cost on cash working capital amounting to PhP 6,347,000 as calculated by BATELEC I, due to lack of justification. Thus, the total allowable amount for debt service in the determination or revenue requirement should only be PhP 22,025,000. The details are shown below.

LOANS	PER NEA (PhP)
RURAL ELECTRIFICATION:	
A	1,064,192
B	562,669
C	333,665
D	374,376
E	468,712
F	2,051,884
G	303,628
H	997,420
I	8,963,948
COMPAC 2:	
BRAZIL	93,284
USA	423,528
WORLDBANK-RERP:	
CONSTRUCTION	4,631,260
LOGISTICAL	865,900
STAGING AREA	890,684
SHORT-TERM LOAN:	
GSIS-INSURANCE	2,431,270
TOTAL	24,456,419
Less: GSIS-Insurance (fully paid)	2,431,270
Net NEA Loans	22,025,149
Rounded off to	22,025,000

⁵ Net of the GSIS Short-Term Insurance Loan which was already fully paid in 2001.

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 applied 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. The Commission will resolve this matter in a separate Decision.

II.A.7. REINVESTMENT FUND

The Commission permits a reinvestment fund equivalent to 5% of BATELEC I's Gross Revenue to finance expansion and rehabilitation/upgrading of its existing electric power line in accordance with the submitted System Rehabilitation/Upgrading and/or System Loss Reduction Plan. This resulted in a downward adjustment of PhP 1,140,000 representing the excess of the proposed reinvestment fund over the 5% allowed by the Commission.

One of the main purposes of providing the 5% Reinvestment Fund is for the end-users of BATELEC 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 BATELEC I;
- c) BATELEC 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 loss.

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

- d) BATELEC 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. PROVISIONAL AUTHORITY GRANTED BY ERB

The Commission takes note of BATELEC I's provisional rate increase of PhP 0.1522/kWh which the previous Board granted on September 22, 2000 in

ERB Case No. 2000-42. The finality of the said provisional authority will be addressed in a separate decision which the Commission will issue.

II.A.9. REVENUE REQUIREMENT SUMMARY

The table provided below is a comparison of the approved revenue requirement with that proposed by BATELEC I:

	BATELEC I Proposal (PhP)	Adjustments (PhP)	ERC Approval (PhP)
Purchased Power	508,415,000	(39,769,000)	468,647,000
Payroll	44,376,000	1,694,000	46,070,000
O & M (less PP & Payroll)	52,814,000	(7,100,000)	45,714,000
Other Expenses	0	0	0
Debt Service	22,258,000	(233,000)	22,025,000
Reinvestment Fund ¹	30,924,000	(1,140,000)	29,784,000
Less: Other Revenue Items	0	16,556,000	16,556,000
Total Revenue Requirement	658,787,000	(63,104,000)	595,684,000

BATELEC I proposed an OATA of PhP 0.6334/kWh using rates of 2000. 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.

The Commission, after considering adjustments of PhP 63,104,000 approves a total revenue requirement of PhP 595,684,000 equivalent to an OATA of PhP 0.1021/kWh also based on year 2000. The actual impact to end-users will depend on the level of rates currently being charged. This impact is illustrated in Section 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 BATELEC I were the default factors provided for in the UFR issued by the Commission on October 30, 2001. In the case of BATELEC I, a number of the default factors were found not to represent the best alternative among possible factors. Thus, the following three (3) default factors used by BATELEC I for functionalization and allocation were modified, to wit:

First, the use of 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 is used as a default factor to functionalize costs under outside services was replaced with the factor "Total Payroll Excluding Administrative & General Payroll" (PAYXAG) in order to remove the possibility of allocating a portion of outside services costs to the transmission function.

Third, since the Commission is now including Other Revenue Items (ORI) not included by BATELEC 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	0.3961	0.4620	0.1419

BATELEC I submitted classification of certain distribution costs into demand and customer – related cost using the Minimum-Plant Method⁶. This method resulted in a 72% - 28% allocation on the average.

The Commission finds BATELEC I's use of the Coincident Peak (CP) allocation factor inappropriate in allocating its transmission costs considering that it does not allocate costs to Irrigation class of customer. Hence, the Average Excess Demand (AED) allocation factor was computed and adopted, to wit:

AED	Total	Res.	Comm.	Industrial	Irrigation	Communal	Street Lights	Public Bldgs.
Allocation Ratios	1.0000	0.7196	0.1896	0.0413	0.0001	0.0206	0.0113	0.0175

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

For certain distribution costs, BATELEC I submitted allocation of distribution costs into demand and customer-related cost using the Minimum Plant Method. This method resulted to a 72% - 28% demand - customer 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 NPC's Generation Charge 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 BATELEC 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 BATELEC 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	Comm'l	Industrial	Irrigation	Comm. H ₂ O System	Public Bldg.	Street Lights
Year 1								
Demand Charge	PhP/kW			22.00				
Transmission Line Charge	PhP/kWh	0.8690	0.5644	0.3211	0.7163	0.4132	0.5650	0.5316
Year 2								
Demand Charge	PhP/kW			22.00				
Transmission Line Charge	PhP/kWh	1.0411	0.6762	0.4023	0.8582	0.4951	0.6769	0.6369
Year 3								
Demand Charge	PhP/kW			22.00				
Transmission Line Charge	PhP/kWh	1.2133	0.7880	0.4835	1.0002	0.5770	0.7889	0.7422
Year 4								
Demand Charge	PhP/kW			22.00				
Transmission Line Charge	PhP/kWh	1.3854	0.8998	0.5647	1.1421	0.6588	0.9008	0.8475

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 charges in the bill to end-users. The System Loss Charge shall vary from one customer to the other depending on their respective contribution 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 BATELEC 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 cap shall not be recovered from the end-users as discussed in Section II.A.2 of this Decision.

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 System loss should not exceed the fourteen percent (14%) ceiling allowed for year 2000.

The Commission notes that BATELEC I's witnesses stated in their testimonies that the system loss used was 19.97% which was the average system loss for the year 2000 (as discussed in Section I.B.2 of this Decision). Records show that BATELEC I's actual system loss for the year 2000 was 23.09%. The Commission believes that the present cap on Technical and Non-Technical System loss of 14% should be used in the calculation of revenue requirements at this time. This would however be subject to change upon the approval of a new policy by the Commission. The actual System Loss or cap of

14% plus 1% cooperative own use (which should not include personal consumption of BATELEC I'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 all end-users. For end-users with demand meters, the distribution charge shall be billed using a combination of a fixed rate per kilowatt (kW) and a fixed rate per Kilowatt-hour (kWh).

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 BATELEC 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 the 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 customers within each rate class. Although, R.A. 9136 requires the removal of interclass 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 BATELEC I to use a combination of PhP 5.00 per meter per month and a PhP 0.1499 per kWh rate for the metering function and a PhP per kWh rate for the supply function. Street light end-users shall be billed a monthly customer charge for the supply function and no metering charge. Furthermore, the Commission orders BATELEC I to use a combination of fixed kilowatt-hour and monthly customer charge for both the meter and supply functions applicable to other end-users. The industrial customers shall be billed a fixed monthly customer charge.

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	IRRIGAT'N	COMMUNAL	PUBLIC BUILDING	STREET LIGHTS
New Cost-Based Revenue Requirement PhP	595,685	383,836	134,482	34,800	66	18,023	14,205	10,272
Existing Rates Revenue PhP	582,867	350,101	146,766	43,322	61	20,965	13,413	8,238
Total Change in Revenue PhP	12,818	33,735	(12,284)	(8,522)	5	(2,942)	792	2,034
Percentage Change in Revenue	2.20%							
Normalized Existing Rev. PhP	595,685	357,801	149,994	44,275	62	21,426	13,708	8,419
Cross-Subsidy Amounts PhP	0	(26,035)	15,512	9,475	(4)	3,403	(497)	(1,853)
Class Billing Determinants in MWh	125,539	76,044	30,854	9,252	13	4,578	2,845	1,952
Cross-Subsidy Rates PhP/kWh	0	(0.3424)	0.5027	1.0241	(0.3273)	0.7433	(0.1748)	(0.9491)

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 BATELEC 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, BATELEC 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 rate.

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 BATELEC 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%

BATELEC 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 BATELEC I, the lifeline discounts result in a Lifeline Rate Subsidy by other end-users equal to PhP 0.0311/kWh.

II.B.5. OTHER CHARGES

BATELEC 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 BATELEC I.

The Other Charges of BATELEC I are hereby pegged at their existing levels until such time that the Commission sets new rates on the same. Further, BATELEC 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 89 kWh a month using rates based on BATELEC I's actual existing rates as of January 2003 (latest available) against the unbundled rates approved by the Commission is shown below.

Based on Actual Existing Rate			Based on ERC Approved Unbundled Rates		
	PhP/kWh	PhP		PhP/kWh	PhP
Basic	3.3231	295.76	Generation Charges:		
PPA	1.5963	142.07	Generation	2.1913	195.0257
WAC	0.0273	2.4297	Benefits to HC	0.0245	2.1805
Power Act			FOREX	0.2506	22.3034
Reduction	(0.3000)	(26.70)	Transmission Charge	0.8690	77.3410
			System loss Charge	0.5352	47.6328
			Distribution Charge	0.6449	57.3961
			Supply Charge	0.3206	28.5334
			Metering Charge		
			PhP/customer/month	5.0000	5.000
			PhP/kWh	0.1499	13.3411
			Inter-Class Cross		
			Subsidy	(0.3424)	(30.4736)
			Universal Charge:		
			Missionary electrification Charge	0.0168	1.4952
			Lifeline Rate(Discount)/Charge	0.0311	2.7679
			Power Act		
			Reduction	(0.3000)	(26.70)
TOTAL BILL		413.56	TOTAL BILL		395.8435
PhP/kWh		4.6467	PhP/kWh		4.4477

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DISPOSITION

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

1. To approve the unbundled schedule of rates of BATELEC I, to be effective the first billing cycle thirty days after receipt of this

Decision:

	Res'l	Com'l	Ind'l	Irrigat'n	Communal H ₂ O	Public Bldgs.	Street Lights
Generation Charges:	2.4664	2.4664	2.4664	2.4664	2.4664	2.4664	2.4664
Generation Line Charge (PhP/kWh)	2.1913	2.1913	2.1913	2.1913	2.1913	2.1913	2.1913
Franchise & Benefits to Host Communities Charge (PhP/kWh)	0.0245	0.0245	0.0245	0.0245	0.0245	0.0245	0.0245
FOREX Adjustment Charge (PhP/kWh)	0.2506	0.2506	0.2506	0.2506	0.2506	0.2506	0.2506
Transmission Charges:							
Demand Charge (PhP/kW)			22.00				
Transmission System Charge (PhP/kWh)	0.8690	0.5644	0.3211	0.7163	0.4132	0.5650	0.5316
System loss Charge (PhP/kWh)	0.5352	0.5352	0.5352	0.5352	0.5352	0.5352	0.5352
Distribution Charges:							
Demand Charge (PhP/kW)			22.00				
Distribution System Charge (PhP/kWh)	0.6449	0.4128	0.2505	0.4239	0.3457	0.4269	1.6957
Supply Charges:							
Retail Customer Charge (PhP/Customer/Month)		26.02	26.02	26.02	26.02	26.02	16.20
Supply System Charge (PhP/kWh)	0.3206						
Metering Charges:							
Retail Customer Charge (PhP/Meter/Month)	5.0000	26.02	471.53	26.02	26.02	26.02	
Metering System Charge (PhP/kWh)	0.1499	0.3027		0.8668	0.1505	0.7827	
Inter-class Cross Subsidy Charge (PhP/kWh)	(0.3424)	0.5027	1.0241	(0.3273)	0.7433	(0.1748)	(0.9491)
Universal Charge:							
Missionary Electrification Charge (PhP/kWh)	0.0168	0.0168	0.0168	0.0168	0.0168	0.0168	0.0168
Lifeline Rate Discount/Subsidy (PhP/kWh)	0.0311	0.0311	0.0311	0.0311	0.0311	0.0311	0.0311
Power Act Reduction	(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 order BATELEC I to comply with the following:
 - a) Discontinue charging the PPA upon effectivity of the approved unbundled rates;
 - b) Discontinue the application of the Wage Adjustment Clause (WAC) formula upon effectivity of the approved unbundled rates;
 - 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) Bill P 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);
 - e) 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;

- f) 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 bills from the generation and transmission companies; and
 - 3) Monthly Financial and Statistical Reports (MFSRs) complete with all related schedules;
- g) 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;
- h) Make a formal application to continue the use of Other Charges within one (1) year from the date of this Decision using a format to be prescribed by the Commission;
- i) File a progress report on the reinvestment fund one (1) year from the date of this Decision and every year thereafter using the prescribed formats provided in Annexes B and C of this Decision. The report shall include detailed accounting of actual collections and deposits, specific transactions and withdrawals for all disbursements, actual current system losses;
- j) Submit a new Systems Rehabilitation/Upgrading and/or System Loss Reduction Program covering the period 2004 to

2008, one (1) year after the date of this Decision using the format prescribed by the Commission; and

- k) 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) month from receipt of this Decision.

SO ORDERED.

Pasig City, March 28 , 2003.

(Sgd) LETICIA V. IBAY
Acting Chairman

(Sgd) MARY ANNE B. COLAYCO
Commissioner

(Sgd) OLIVER B. BUTALID
Commissioner

(Sgd) CARLOS R. ALINDADA
Commissioner

Copy furnished:

1. Atty. Zenon Suarez
Counsel for Applicant
4/F Casman Bldg.,
Quezon Avenue, Quezon City 1100

2. Engr. Leovino I. Perez
General Manager
Batangas I Electric Cooperative, Inc.
Calaca, Batangas 4212

3. Mr. Demetrio Ellao
Finance Manager
Batangas I Electric Cooperative, Inc.
Calaca, Batangas 4212

4. Office of the Solicitor General
134 Amorsolo Street, Legaspi Village
City of Makati 1229

5. Commission on Audit
Commonwealth Avenue
Quezon City 0880

6. Senate Committee on Energy
GSIS Building, Roxas Boulevard
Pasay City 1307

7. House Committee on Energy
Batasan Hills, Quezon City 1126

8. Hon. Ernesto Pablo
The Municipal Mayor
Agoncillo, Batangas 4212

9. The Municipal Mayor
Balayan, Batangas 4212

10. The Municipal Mayor
Calaca, Batangas 4212
11. The Municipal Mayor
Calatagan, Batangas 4212
12. The Municipal Mayor
Lemery, Batangas 4212
13. The Municipal Mayor
Liyan, Batangas 4212
14. The Municipal Mayor
Nasugbu, Batangas 4212
15. The Municipal Mayor
San Luis, Batangas 4212
16. The Municipal Mayor
San Nicolas, Batangas 4212
17. The Municipal Mayor
Sta. Teresita, Batangas 4212
18. The Municipal Mayor
Taal, Batangas 4212
19. The Municipal Mayor
Tiu, Batangas 4212