

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. 2001-1012**

QUIRINO ELECTRIC COOPERATIVE, INC.  
(QUIRELCO),

*Applicant.*

X- -----X

**DECISION**

Before this Commission for resolution is the application filed on December 26, 2001 by Quirino Electric Cooperative, Inc. (QUIRELCO) for the approval of its unbundled rates pursuant to the provisions of Republic Act No. 9136 (R.A. 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 12, 2002 were issued setting the same for hearing on May 27, 2002.

QUIRELCO 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, QUIRELCO published the Notice of Public Hearing in *Malaya and Balita* on 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 Aglipay, Cabarroguis, Diffun, Maddela, Nagtipunan and Saguday all in the Province of Quirino, and San Agustin in the Province of Isabela, 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 27, 2002, only the counsel for QUIRELCO appeared and entered his appearance. No oppositor appeared nor was there any opposition registered.

During the said hearing, QUIRELCO submitted proofs of compliance with the Commission's publication and posting of notice requirements which were duly marked as Exhibits "A" to "C-6", inclusive. Thereafter, QUIRELCO presented its two (2) witnesses. The first witness, Ms. Lani S. Meña, QUIRELCO's Finance Manager, testified on the documents submitted in support of the application as well as on certain relevant schedules. The second witness, Engr. Serafin dela Cruz, QUIRELCO's Chief of Engineering Section, testified on the various technical aspects of the application. In the course of

their direct examinations, documents were presented, identified by reference and marked as Exhibits “D” to “JJ”, inclusive. The Commission propounded clarificatory questions on the said witnesses. In the course thereof, QUIRELCO was directed to submit the following: a) Year 2001 Actual Payroll Distribution Cost; b) Comparative Payroll/SSS/Medicare/Pag-ibig for Year 2000 vs. Year 2002 and Year 2001 vs. Year 2002; c) National Electrification Administration (NEA) approved salary standardization for 1999 including Salary Scale, Position Grouping and Board Resolutions; d) Cash Operating Budget (COB): Year 2000 with Board Resolution, Liberalized Coop- Category A 1998; e) COB Year 2001 with Board Resolution, Liberalized Coop-Category A 1999; f) COB Year 2002 with Board Resolutions and Approval of NEA, Category B 2000; and g) NEA Memo of Historical Coop Categorization from 1982 - 2001. There being no other witness to be presented, the hearing was adjourned.

On September 5, 2002, QUIRELCO filed its “Manifestation with Post Hearing Compliance”.

On September 27, 2002, QUIRELCO filed its “Formal Offer of Evidence” which was admitted by the Commission for the purpose for which they were offered.

## **I. SUMMARY OF QUIRELCO’s APPLICATION**

### **I.A. REVENUE REQUIREMENT**

QUIRELCO’s revenue requirement per unbundled application based on historical year 2000 was as follows:

ACCOUNT NAME	HISTORICAL YEAR	
KWh Sales		10,932,804
Purchased Power	<b>PhP</b>	43,400,825
Payroll		9,244,777
Operation & Maintenance (less Purchased Power & Payroll)		13,382,517
Less: Other Revenue Items		0
Debt Service Plus Cash Working Capital		7,526,741
Reinvestment Fund (4%) *		2,628,349
<b>TOTAL REVENUE REQUIREMENT</b>		<b>76,183,208</b>
<b>EXISTING REVENUE</b>		<b>70,753,012</b>
<b>Required Increase</b>	<b>PhP</b>	<b>5,430,196</b>

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

QUIRELCO's proposed revenue requirement is PhP 76,183,208 based on historical test year 2000. The Overall Tariff Adjustment (OATA) published was PhP 0.3285/kWh. However, a testimony on May 27, 2002 stated that QUIRELCO's unbundling application resulted to an OATA of PhP 0.3255/kWh (Transcript of Stenographic Notes (TSN), May 27, 2002, pp. 26 - 27).

QUIRELCO also submitted Audited Financial Statements for the year 2000.

#### **I.B. RATE STRUCTURE/DESIGN**

The unbundled rates proposed by QUIRELCO were as follows:

##### Residential

Retail Customer Charge	PhP 42.71/customer/month
Metering Charge	34.00/customer/month
Energy Charge	5.7037/kWh

##### Small Commercial

Retail Customer Charge	PhP 53.72/customer/month
Metering Charge	42.76/customer/month
Energy Charge	4.8875/kWh

**Big Commercial**

Retail Customer Charge	PhP 83.52/customer/month
Metering Charge	66.48/customer/month
Energy Charge	5.0386/kWh
Demand Charge	23.8227/ kW NCP

**Industrial**

Retail Customer Charge	PhP 309.58/customer/month
Metering Charge	246.42/customer/month
Energy Charge	4.9926/kWh
Demand Charge	21.0867/ kW NCP

**Public Buildings**

Retail Customer Charge	PhP 42.71/customer/month
Metering Charge	34.00/customer/month
Energy Charge	4.8677/kWh

**Street Lights**

Distribution Facilities Charge	PhP 85.00/customer/month
Energy Charge	10.1089/kWh

**I.B.1. FUNCTIONALIZATION, CLASSIFICATION and ALLOCATION**

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

**I.B.2. SYSTEM LOSS**

The actual system loss for the year 2000 was 16.00%. QUIRELCO adopted the actual purchased power cost net of Primary Voltage and Power Factor Discounts.

Witness Dela Cruz stated, "Based on our study, our technical loss actually is nearly 12% standard loss for a typical cooperative" (May 27, 2002,

TSN p. 51). Most of QUIRELCO's non-technical loss is brought about by pilferages in its system in 2000.

According to witness Meña, the proposed reinvestment fund will be used to finance QUIRELCO's Five (5) Year System Loss Reduction Program amounting to a total of PhP 15 Million or an annual average of PhP 3.4 Million. (May 27, 2002, TSN pp. 24 - 48).

### **I.B.3. INTER-CLASS CROSS SUBSIDY**

QUIRELCO provided the amounts of cross subsidies for each customer type but did not include a program for the removal thereof.

<b>CUSTOMER TYPE</b>	<b>ADJUSTED EXISTING (PhP)</b>	<b>PROPOSED (PhP)</b>	<b>INTER-CLASS CROSS SUBSIDIES (PhP)</b>
Residential	51,735,059	56,134,685	4,399,626
Small Commercial	8,058,949	6,616,024	(1,442,924)
Large Commercial	4,807,374	4,234,230	(573,144)
Industrial	2,754,162	2,167,377	(586,785)
Public Buildings	8,390,311	6,341,942	(2,048,369)
Street Lights	437,349	688,946	251,596
<b>TOTAL</b>	<b>76,183,204</b>	<b>76,183,204</b>	<b>0</b>

### **I.B.4. LIFELINE RATE and LEVEL**

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

	<b>Option 1 (At Existing Rates)</b>	<b>Option 2 (At Proposed Customer Charges)</b>	<b>Option 3 (At Proposed Rate @ First 6 kWh)</b>
<b>Level</b>	12 kWh	12 kWh	6 kWh
<b>Rate</b>	PhP 6.3921/kWh	PhP 76.71/customer/month	PhP 5.7037/kWh and 76.71/Cust./Mo.

*Based on the submitted Supplemental Application, marked as Sub-schedule H-3*

The option that QUIRELCO intends to adopt is Option 1 which covers 1 to 12 kWh consumption levels and the rate pegged at its existing rate of PhP 6.3921/kWh. (May 27, 2002, TSN p. 22).

### **I.C. OTHER CHARGES**

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

<b>PARTICULARS</b>	<b>RATES</b>
<b>1. House Wiring Installation</b>	
a. 1 – 4 (Light Outlet) and 1 – 3 (Convenience Outlet) In Excess	PhP 345.00 /Customer 40.00 Each
b. 5 KVA Transformer and Above for Industrial Customer	720.00 /Customer
<b>2. Transformer Installation Fee (For Separate Sole-Use)</b>	
a. 10 KVA and Above	300.00 /Transformer
b. 5 KVA	150.00 /Unit
<b>3. Transformer Testing Fee ( Separate Privately-Owned )</b>	
- 5 KVA and Above	250.00 /Transformer
<b>4. Transformer Rental</b>	
a. 10 KVA	1,000.00 /Transformer
b. 15 KVA	1,500.00 /Transformer
c. 25 KVA	2,500.00 /Transformer
d. Transient	1,000.00 /Transformer
<b>5. kiloWattour Meter Installation Fee</b>	
a. For Residential, Small and Big Commercial, Public Bldg.	100.00 /Meter
b. For Industrial	
10 KVA and Above	100.00 /Meter
5 KVA and Above	100.00 /Meter

<b>6. Calibration Fee of kiloWatt-hour Meter</b>	
a. For Residential and Public Building.	100.00 /Meter
b. For Small Commercial and Big Commercial	200.00 /Meter
c. For Industrial	
10 KVA and Above	300.00 /Meter
5 KVA and Above	150.00 /Meter
<b>7. Testing Fee (Industrial Only) Sole Used 3 Phase Transformer</b>	
a. (2) Stator	300.00 /Transformer
b. (3) Stator	500.00 /Transformer
c. Current Transformer	200.00 /Transformer
d. Potential Transformer	200.00 /Transformer
<b>8. Labor Handling Fee for Industrial Consumers</b>	
5 KVA and Above	362.00 /Meter
<b>9. Service Fee</b>	
a. Relocation of kiloWatt-hour Meter/SDW	100.00 /Meter
b. Rehab of kiloWatt-hour Meter/SDW	100.00 /Meter
c. Maintenance of kiloWatt-hour Meter/SDW	100.00 /Meter
d. Dismantling of kiloWatt-hour Meter/SDW	100.00 /Meter
e. Reinstallation of kiloWatt-hour Meter/SDW	100.00 /Meter
<b>10. Reconnection Fee</b>	
a. Residential	100.00 /Customer
b. Commercial	100.00 /Customer
c. Industrial	200.00 /Customer
d. Public Building	100.00 /Customer
<b>11. Pole Rental</b>	9.00 /Pole
<b>12. Surcharges on Disconnection (% of Unpaid Bill)</b>	2.00% /Month

## II. COMMISSION DISCUSSIONS AND CONCLUSIONS

### II.A. DETERMINATION OF TOTAL REVENUE REQUIREMENT

#### II.A.1. TEST YEAR

The Commission finds QUIRELCO'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 historical test year 2000.

## II.A.2. GENERATION and TRANSMISSION COSTS

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

The Generation and Transmission charges shall reflect the power supplier's generation and transmission charges of the National Transmission Company (TRANSCO) as approved in ERC Orders dated September 6 and 20, 2002, Case No. 2001-901 (In the Matter of the Application for the Approval of the Revised Unbundled 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 cap can recover from its end-users the total cost of the generation and transmission. *Annualization*<sup>1</sup> of the billing determinants was applied.

The adjustment made by the Commission to Purchased Power of PhP 3,947,114 consisted of the following:

Adjustment to Purchased Power Cost	PhP	3,597,281
Add: Adjustment to System Loss	PhP	349,833
<b>Total Adjustments</b>	<b>PhP</b>	<b>3,947,114</b>

The adjustment to Purchased Power Cost of PhP 3,597,281 pertains to the difference between the proposed Purchased Power of QUIRELCO

<sup>1</sup>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.

amounting to PhP 43,400,825 and the allowed purchased power cost based on the new rates of NPC and TRANSCO amounting to PhP 39,803,544.

Records show that QUIRELCO's actual system loss for the year 2000 was 17.93%. The Commission allowed a system loss of 14% in the calculation of QUIRELCO's revenue requirement as discussed in Section II.B.2.c. of this Decision. Thus, the Commission made an adjustment to system loss of PhP 349,833 to exclude the excess of actual system loss over the allowable recoverable cap of PhP 5,671,669.

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

Generation Charge	PhP	27,613,960
Transmission Charge		6,168,081
Recoverable System Loss		5,671,669
<b>Total</b>	<b>PhP</b>	<b>39,453,710</b>

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

### **II.A.3. PAYROLL**

The Commission made an upward adjustment on the payroll account by PhP 3,125,666 to update it to the current salary level of PhP 12,370,442. The adjustment is due to salary increases including those related to Wage Order No.7 implemented in 2001 and the amount of PhP 556,121 reclassified to O&M Expenses.

The Commission reviewed the Wage Adjustment Clause (WAC) Formula authorized by the 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 established criteria for it to be classified under automatic adjustment clauses. These are: 1) when such costs are extremely volatile, changing rapidly over a short period of time; 2) when such volatile cost changes represent significant portions of total utility operating expenses; and 3) when such volatile cost changes are beyond the ability of the utility to control.

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

**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 QUIRELCO 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 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-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 QUIRELCO to institute and report to the Commission its policies and procedures for cost-cutting and the transparent and competitive procurement of goods and services.

QUIRELCO'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 QUIRELCO's viability. To this end, QUIRELCO should view a petition for an increase in rates to be the last recourse. In future filings, QUIRELCO should be reminded that it has the burden of proving that all reasonable and appropriate cost cutting measures have been taken, before resorting to a petition to increase rates.

The Commission made a net downward adjustment of PhP 2,145,278 on QUIRELCO's Operation and Maintenance (O&M) Expenses, as follows:

<b>PARTICULARS</b>	<b>AMOUNT</b>
Disallowed Expenses	PhP 3,754,319
Adjustments made on Officers' Allowances and Benefits	1,143,336
<b>Total</b>	<b>4,897,655</b>
Less: Reclassification from Payroll Account	556,121
Adjustments made on Pensions and Benefits Account	2,196,256
<b>NET ADJUSTMENT</b>	<b>PhP 2,145,278</b>

The disallowed expenses charged under Informational & Instructional Ads, Office Supplies, Outside Services, Maintenance of Overhead Lines, Meter Reading, Customer Records & Collection, Informational & Instructional Ads and Training Expenses were found to have gone beyond the need by which these

accounts were meant for. The Commission rules that these expenses did not fall under the qualification heretofore cited, hence, not allowed for revenue requirement determination. These expenses translate to PhP 0.3353/kWh which the Commission considers material

The downward adjustment to the Officers' Allowances and Benefits was brought about by limiting expenses to Per Diem, Representation and Rice Allowances. The amount provided for Rice Allowance in this respect is solely for QUIRELCO's Board of Directors as other officers were already given the same allocation under Pensions and Benefits.

Further, Pensions and Benefits Account was adjusted upwards by PhP 2,196,256. This represents updating of expenses pertaining to Rice, Medical and Clothing Allowances, SSS, PAG-IBIG, PHILHEALTH employer's share premiums. The amount also includes contribution required to provide for retirement fund equivalent to one month's basic salary of its employees.

For future rate cases, QUIRELCO will continue to be required to make full disclosure of all its O&M expenses for the Commission to determine the prudence of all its expenditures. QUIRELCO 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 ERC.

## II.A.5. OTHER REVENUES and EXPENSES

Other Revenues, net of Other Expenses, amounting to PhP 2,303,173 (including fifty percent (50%) of the prompt payment discount actually received) were deducted from the revenue requirement used to calculate the rates for the end-users. The composition of the amount is as follows:

OTHER REVENUES & EXPENSES	AMOUNT (PhP)
<b>Other Revenues</b>	
Revenue from Housewiring Installation	738,895
Prompt Payment Discount (50% of PhP 1,282,256)	641,128
Pole Rentals	89,246
Transformer Rentals	179,242
Calibration/Service/Installations Fees	635,019
Bank and Surcharges	72,682
Reconnection Fees	228,342
	<b>2,584,555</b>
<b>Less: Other Expenses</b>	
Expenses from Merchandising, Jobbing & Contract Work	281,382
<b>Net Other Revenues</b>	<b>2,303,173</b>

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

## II.A.6. DEBT SERVICE

The Commission made a downward adjustment of PhP 1,112,097 (inclusive of the interest on cash working capital) to assure that the debt service included in QUIRELCO's revenue requirement is consistent with NEA's records. The details of the adjustment is shown below.

LOANS	LOAN PROFILE		
	PER NEA (PhP)	PER QUIRELCO (PhP)	DIFFERENCE (PhP)
<b>Rural Electrification:</b>			
<b>A</b>	370,820	369,464	1,356
<b>B1</b>	340,292	340,292	
<b>B2</b>	375,696	375,696	
<b>C</b>	184,321	184,321	
<b>D</b>	751,928	751,928	
<b>E</b>	18,892	18,892	
<b>F</b>	53,760	53,760	
<b>G</b>	4,287,952	4,308,547	(20,595)
<b>Concessional</b>	30,983	0	30,983
<b>Restructured</b>		<b>1,121,054</b>	(1,121,054)
<b>0.04% Interest on CCWC</b>		<b>3,674</b>	(3,674)
<b>Less: To correct QUIRELCO's submission</b>		<b>886</b>	886
<b>TOTAL</b>	<b>6,414,643 <sup>2</sup></b>	<b>7,526,741</b>	<b>(1,112,097)</b>

The Commission disallowed the interest cost associated with cash working capital, as calculated by QUIRELCO, due to lack of justification. Thus, the total allowable amount for debt service in the determination of the revenue requirement should be PhP 6,414,643.

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.

<sup>2</sup> Net of GSIS Insurance in the amount of PhP 590,298 which had been fully paid in February 2002.

## **II.A.7. REINVESTMENT FUND**

QUIRELCO made a proposal for the provision for reinvestment fund in its unbundling of rates application in the amount of PhP 2,628,349.

The Commission permits a reinvestment fund equivalent to 5% of QUIRELCO'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. One of the main purposes of providing the 5% Reinvestment is for the end-users of QUIRELCO to shoulder part of the increasing capitalization requirements as outside sources of funding are getting scarce.

The Commission considered the System Rehabilitation/Upgrading and/or Loss Reduction Plan costs and made an upward adjustment of PhP 907,065 on the reinvestment fund account resulting in an adjusted amount of PhP 3,535,414.

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 QUIRELCO;

- (c) QUIRELCO is further required to submit a progress report no later than one (1) year after the date of this Decision and every year thereafter using the format prescribed by the Commission. The progress report shall include detailed accounting itemizing total collections, the actual use of all disbursements, and actual current system losses;

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

- (d) QUIRELCO 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 QUIRELCO's provisional rate increase of PhP 0.6389/kWh which the previous Board granted on July 29, 1996 in ERB Case No. 95-205. 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 approved revenue requirement with that proposed by QUIRELCO:

ACCOUNT NAME	QUIRELCO PROPOSAL	ADJUSTMENTS	ERC APPROVAL
Purchased Power PhP	43,400,825	(3,947,114)	39,453,710
Payroll	9,244,777	3,125,666	12,370,442
O & M (less PP & Payroll)	13,382,517	(2,145,278)	11,237,240
Other Revenues, net	0	(2,303,173)	(2,303,173)
Debt Service plus Interest on Cash Working Capital	7,526,741	(1,112,097)	6,414,643
Reinvestment Fund <sup>3</sup>	2,628,349	907,065	3,535,414
<b>TOTAL REVENUE REQUIREMENT PhP</b>	<b>76,183,208</b>	<b>5,474,932</b>	<b>70,708,276</b>

QUIRELCO proposed an OATA of PhP 0.3285/kWh using rates of year 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 5,474,932, approves a total revenue requirement of PhP 70,708,276 based on the year 2000 equivalent to an OATA of (PhP 0.1433)/kWh. 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 QUIRELCO were the default factors provided for in the UFR issued by the Commission on October 30, 2001. In the case of QUIRELCO, a number of the default factors were found not to represent the best alternative among possible factors. Thus,

<sup>3</sup> In the UFR, this item is reflected as "Plus Percentage for Cooperative Investment".

the following three (3) default factors used by QUIRELCO 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 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 the transmission function.

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

<b>Factor Name</b>	<b>Functionalization Factor Description</b>	<b>Total Check</b>	<b>Generation</b>	<b>Transmission</b>	<b>Distribution</b>	<b>Supply</b>	<b>Metering</b>
ORI	Other Revenue Items	1.0000	0.0000	0.0000	0.4246	0.4378	0.1376

QUIRELCO submitted allocation of distribution costs into demand and customer-related cost using the *Minimum-Plant Method*<sup>4</sup>. This method resulted in a 40%-60% 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 Rate used pertains to the supply month of February 2003. The NPC's approved rate will remain fixed until changes are authorized by the Commission pursuant to its Order dated February 24, 2003 as discussed in Section II.A.2 of this Decision. This eliminates the need for future Purchased Power Adjustment (PPA).

### **II.B.2.b. TRANSMISSION CHARGE**

The Commission's Decision in ERC Case No. 2001-901 dated June 26, 2002 and Order dated September 20, 2002 set the transmission charges for

---

<sup>4</sup> *Minimum-Plant Method* is a tool in the allocation of the distribution costs to demand and customer-related.

the TRANSCO without automatic adjustments. Since the transmission rates to be paid by QUIRELCO 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 QUIRELCO have been calculated based on the approved TRANSCO rates which include cross subsidy elements to be phased out over a three-year period.

Transmission Charges	Residential	Small Commercial	Big Commercial	Industrial	Public Bldg.	Street Lights
Year 1						
Demand Charge PhP/kW				24.98		
Transmission System Charge PhP/kWh	0.5470	0.5383	0.6145	0.1120	0.5764	0.4132
Year 2						
Demand Charge PhP/kW				24.98		
Transmission System Charge PhP/kWh	0.7962	0.7835	0.8944	0.3385	0.8390	0.6014
Year 3						
Demand Charge PhP/kW				24.98		
Transmission System Charge PhP/kWh	1.0454	1.0288	1.1745	0.5651	1.1017	0.7897
Year 4						
Demand Charge PhP/kW				24.98		
Transmission System Charge PhP/kWh	1.2946	1.2740	1.4544	0.7916	1.3643	0.9779

The Commission utilized the Coincident Peak Allocation Method on the transmission costs considering that it yielded the most reasonable result for QUIRELCO's end-users.

#### **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 contribution to the system loss. However, due to limited information, the Commission is constrained to adopt a uniform System Loss Charge for all end-users of QUIRELCO.

The allowed system loss is equal to the actual system loss for the test year or the system loss cap whichever is lower. In arriving at this decision, the Commission recognizes that the distribution utility faces some risks of over- or under-recovery in the event its load characteristics change through time. The system loss not only results in additional unbundled generation costs but also additional unbundled transmission costs to be paid by end-users. When system loss is within the allowable caps, 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 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 Technical and Non-Technical System Loss should not exceed the fourteen percent (14%) ceiling allowed for year 2000.

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 Technical and Non-Technical System Loss or cap of 14% plus 1% cooperative own use (which

should not include personal consumption of QUIRELCO'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 fixed rate per kilowatt-hour (kWh).

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

The Commission's decision to allow a distribution utility to avail of the Distribution Wheeling Charges of another distribution utility is based on the general intent of R.A. 9136 to promote a competitive generation market. Distribution utilities that currently or in the future rely in full or in part on the distribution facilities of another distribution utility should not be held captive by

the other distribution utility in the purchase of unbundled generation. Distribution utilities are, therefore, prohibited from bundling or tying the sale of generation or purchased power with the sale of unbundled distribution wheeling service.

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

The Commission acknowledges that cost-causation rate design principle suggests the recovery of customer-related costs associated with the metering and supply functions through fixed monthly charges. Along with this cost of service principle, however, the Commission also considers rate design impacts across the spectrum of end-users within each rate class. Although R.A. 9136 requires the removal of inter-class cross subsidies, the law does not require removal of revenue flows that may be characterized as intra-class cross subsidies. The Commission has the flexibility to consider other factors in determining rate design for a particular class of end-users. Therefore, to mitigate the impact on below-average consumption of residential end-users, the Commission orders QUIRELCO to use a PhP 5.00 per meter per month and PhP 0.4274 per kWh rate for the metering function. On the other hand, the Commission orders QUIRELCO to use 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 QUIRELCO to use a combination of fixed kilowatt-hour and monthly customer charge for both the meter and supply functions applicable to other end-users .

### II.B.3. INTER-CLASS CROSS SUBSIDY

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

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

	Total	Residential	Commercial		Industrial	Public Building	Street Lights
			Small	Big			
New Cost-Based Rev. Reqs. PhP	70,708,276	51,032,566	6,143,060	4,221,644	2,253,881	6,418,088	639,038
Existing Rates Rev. PhP	72,312,576	49,502,575	7,652,109	4,406,460	2,626,968	7,802,483	321,981
Total Change in Rev. PhP	(1,604,300)	1,529,992	(1,509,049)	(184,816)	(373,087)	(1,384,395)	317,057
%Change in Revenue	(2.22%)						
Normalized Existing Rev. PhP	70,708,276	48,404,329	7,482,343	4,308,700	2,568,687	7,629,380	314,838
Inter-Class Cross Subsidy PhP		(2,628,237)	1,339,283	87,056	314,806	1,211,292	(324,200)
Class Billing Determinants kWh	11,196,057	7,672,082	1,180,280	679,087	405,559	1,207,983	51,066
Inter-Class Cross Subsidy Charge PhP/kWh		(0.3426)	1.1347	0.1282	0.7762	1.0027	(6.3486)

#### 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 QUIRELCO'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, QUIRELCO 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 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 QUIRELCO. 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	-	15%
16 kWh	-	10%
17 kWh	-	5%

QUIRELCO 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 17 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 QUIRELCO, the lifeline discounts result in a Lifeline Rate Subsidy by other end-users equal to PhP 0.0995/kWh.

#### **II.B.5. OTHER CHARGES**

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

The Other Charges of QUIRELCO are hereby pegged at their existing level until such time that the Commission sets new rates on the same. Further, QUIRELCO is ordered to make a compliance filing on its Other Charges a year

from the date of this Decision using a format to be prescribed by the Commission.

The compliance filing for approval of Other Charges shall include rates that are cost-based as well as all supporting cost justification for the rates, including but not limited to the amount of actual time and wages of employees performing each task encompassed by each type of Other Charges.

## II.B.6. ESTIMATED IMPACT ON AVERAGE RESIDENTIAL CONSUMER

A comparison of the estimated impact of all adjustments on the revenue requirement on the monthly bill of an average residential end-user consuming 47 kWh a month using rates based on QUIRELCO's actual existing rates as of February 2003 against the unbundled rates approved by the Commission is shown below.

BASED ON ACTUAL EXISTING RATE			ERC APPROVED UNBUNDLED RATES		
	PhP/kWh	Amount PhP		PhP/kWh	Amount PhP
Basic Rate	4.7400	222.78	Generation Charges:		
PPA	1.4106	66.30	Generation System Charge	2.1913	102.99
WAC	0.0851	4.00	Franchise & Benefits to HC	0.0245	1.15
Power Act Reduction	(0.3000)	(14.10)	FOREX	0.2506	11.78
Universal Charge	0.0168	0.79	Transmission System Charge	0.5470	25.71
			System Loss Charge	0.5066	23.81
			Distribution Charge	1.6741	78.68
			Supply Charge	0.9131	42.92
			Metering Charges		
			Retail Customer Charge/Month		5.00
			Metering System Charge	0.4274	20.09
			Inter-class Cross Subsidy Charge	(0.3426)	(16.10)
			Universal Charge:		
			Missionary Electrification Charge	0.0168	0.79
			Lifeline Rate [(Discount)/Subsidy]	0.0995	4.68
			Power Act Rate Reduction	(0.3000)	(14.10)
<b>TOTAL BILL</b>		<b><u>279.77</u></b>	<b>TOTAL BILL</b>		<b><u>287.39</u></b>
<b>PhP/kWh</b>		<b><u>5.9525</u></b>	<b>PhP/kWh</b>		<b><u>6.1146</u></b>

## DISPOSITION

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

1. To approve the unbundled schedule of rates of QUIRELCO to be effective the first billing cycle thirty (30) days after receipt of this Decision:

	Residential	Small Comm'l.	Big Comm'l.	Industrial	Public Buildings	Street Lights
<b>Generation Charges:</b>						
Generation System Charge      PhP/kWh	2.1913	2.1913	2.1913	2.1913	2.1913	2.1913
Franchise & Benefits to Host Communities Charge      PhP/kWh	0.0245	0.0245	0.0245	0.0245	0.0245	0.0245
FOREX Adjustment Charge      PhP/kWh	0.2506	0.2506	0.2506	0.2506	0.2506	0.2506
<b>Transmission Charges:</b>						
Demand Charge      PhP/kWh				24.98		
Transmission System Charge      PhP/kWh	0.5470	0.5383	0.6145	0.1120	0.5764	0.4132
<b>System Loss Charge</b> PhP/kWh	0.5066	0.5066	0.5066	0.5066	0.5066	0.5066
<b>Distribution Charges:</b>						
Demand Charge      PhP/kWh				24.98		
Distribution System Charge      PhP/kWh	1.6741	0.9947	2.0068	1.4153	0.7923	8.9389
<b>Supply Charges:</b>						
Retail Customer Charge      PhP/Cust./Mo.		30.00	30.00	30.00	30.00	27.72
Supply System Charge      PhP/kWh	0.9131	0.0961	0.0680	0.0348	0.0676	
<b>Metering Charges:</b>						
Retail Customer Charge      PhP/Meter/Mo.	5.00	30.00	30.00	30.00	30.00	
Metering System Charge      PhP/kWh	0.4274	0.0781	0.2469	0.2025	0.5995	
<b>Inter-Class Cross Subsidy Charge</b> PhP/kWh	(0.3426)	1.1347	0.1282	0.7762	1.0027	(6.3486)
<b>Universal Charge:</b>						
Missionary Electrification Charge      PhP/kWh	0.0168	0.0168	0.0168	0.0168	0.0168	0.0168
<b>Lifeline Rate (Discount)/Subsidy</b> PhP/kWh	0.0995	0.0995	0.0995	0.0995	0.0995	0.0995
<b>Power Act Rate Reduction</b> PhP/kWh	(0.3000)					
<b>Lifeline Rate (Discount)/Subsidy</b>	To be based on Residential Rate in a graduated scale as provided in Sec. II.B.4 of this Decision.					

2. To direct QUIRELCO to comply with the following:
  - a.) Discontinue charging the PPA upon effectivity of the approved unbundled rates; QUIRELCO shall automatically

bill its end-users the new Generation Rate charged by NPC as approved and authorized by the Commission;

- b.) Discontinue the application of the WAC formula and its implementation upon effectivity of this Decision;
- c.) 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);
- d.) 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;
- e.) Inform the end-users within its franchise area of the 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 (20<sup>th</sup>) day of the month following the effectivity of the approved unbundled rates and every month thereafter: a) five (5) sample bills for each end-user class; b) copy of the bills from the generation and transmission

companies; and c) Monthly Financial 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 date of this Decision using a format to be prescribed by the Commission;
- i.) File a progress report on the reinvestment fund one year after the date of this Decision and every year thereafter using the 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; and actual current system losses;
- j.) 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; 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) months from receipt of this Decision.

**SO ORDERED.**

Pasig City, April 8, 2003

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

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

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

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

**Copy furnished:**

1. **Atty. Zenon S. Suarez**  
Counsel for QUIRELCO  
4/F Casman Building, 1198 Quezon Avenue  
Quezon City 1100
2. **Office of the Solicitor General**  
134 Amorsolo Street, Legaspi Village  
1229 Makati City 1229
3. **Commission on Audit**  
Commonwealth Avenue  
1121 Quezon City
4. **Senate Committee on Energy**  
GSIS Building, Roxas Blvd.  
1300 Pasay City

5. **House Committee on Energy**  
Batasan Hills  
1126 Quezon City
6. **The Municipal Mayor**  
Aglipay  
3403 Quirino
7. **The Municipal Mayor**  
Cabarroguis  
3400 Quirino
8. **The Municipal Mayor**  
Diffun  
3401 Quirino
9. **The Municipal Mayor**  
Madela  
3404 Quirino
10. **The Municipal Mayor**  
Nagtipunan  
3405 Quirino
11. **The Municipal Mayor**  
Saguday  
3402 Quirino
12. **Quirino Electric Cooperative, Inc.**  
Diffun  
3401 Quirino
13. **The Municipal Mayor**  
San Agustin  
Isabela
14. **National Electrification Administration**  
Diliman, Quezon City
15. **Hon. Ernesto C. Pablo**  
Representative-Party-List  
APEC  
Room 604, North Wing Building  
House of Representatives  
Constitution Hills, Quezon City