

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 PROVISION
OF REPUBLIC ACT NO. 9136

ERC CASE NO. 2001-939

SIARGAO ELECTRIC COOPERATIVE, INC.
(SIARELCO),

Applicant.

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D E C I S I O N

On December 20, 2001, applicant Siargao Electric Cooperative, Inc. (SIARELCO) filed an application for approval of its unbundled rates pursuant to the provisions of Republic Act No. 9136 docketed as ERC Case No. 2001-939. Subsequently, applicant filed a "Supplemental Compliance" last January 18, 2002.

However, upon evaluation, it was found that applicant failed to indicate the specific rates applied for. It was thus directed to indicate its Overall Average Tariff Adjustment (OATA) in the Order dated February 14, 2002.

On April 2, 2002, applicant submitted its "Additional Compliance" showing the amount of PhP 0.5122/kWh as its proposed OATA as a result of its unbundling of rates.

Having now found said application to be sufficient in form and substance with the required fees having been paid, the same was set for hearing on May 23, 2002.

In the same Order, applicant 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 nationwide 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.

The Office of Solicitor General (OSG), the Commission on Audit 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 representative present at the said hearing. The Offices of the City/Municipal Mayors within the SIARELCO's franchise area were likewise furnished with copies of the Order and the Notice of Public Hearing for appropriate posting thereof on their respective bulletin boards.

At the initial hearing on May 23, 2002, only the counsel for SIARELCO appeared and entered his appearance. No oppositor appeared nor was there any opposition registered.

During the initial hearing, applicant presented its proofs of compliance with the Commission's posting and publication of notice requirements and had the same marked as Exhibits "A" to "AA", inclusive. Thereafter, the applicant's Finance Manager, Ms. Maria Luz T. Solis was presented as first witness to testify on the submission of the rate unbundling requirements together with the schedules and

financial reports submitted along with the application. The Commission noted inconsistencies in the computation of the proposed tariff adjustment and in the cross subsidies and thus required a re-computation of the same.

Applicant's Technical Services Manager, Mr. Bethzel F. Sapuras, was then presented as second witness to testify on the technical matters including system losses incurred by the applicant. The Commission asked the said witness clarificatory questions. Applicant then manifested that it would make its formal offer of evidence as soon as the transcript of stenographic notes (TSN) of the proceedings are available. Applicant was ordered to submit its formal offer of evidence within fifteen (15) days from receipt of said TSN.

On June 24, 2002, in compliance to the Commission's directives, the applicant submitted a corrected set of schedules. Re-computation of the same yielded a lower OATA of PhP 0.2605/kWh.

On July 24, 2002, applicant filed its "Formal Offer of Evidence". Thereafter, applicant submitted its "Post-Hearing Compliance" indicating its proposed tariff adjustment and cross-subsidies.

In a letter dated August 5, 2002, the Commission observed that applicant's compliance did not satisfy the expected detailed descriptions of applicant's expense accounts and thereby directed it to comply thereafter within five (5) days from receipt of the said letter. Pursuant thereto SIARELCO submitted additional documents received by the Commission on December 23, 2002, February 13, 2003 and February 20, 2003.

I. SUMMARY OF SIARELCO's APPLICATION

1.A. REVENUE REQUIREMENT

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

ACCOUNT NAME	HISTORICAL YEAR
kWh Sales	4,333,412
Purchased Power	PhP 10,422,996
Payroll	3,232,716
Operation & Maintenance (less Purchased Power & Payroll)	5,386,000
Debt Service Plus Cash Working Capital	4,898,090
Revenue Requirement	PhP 23,939,803
Less: Other Revenue Items	0
Reinvestment Fund (13%)*	3,015,711
TOTAL REVENUE REQUIREMENT	PhP 26,955,514
EXISTING REVENUE	25,826,661
Required Increase	PhP 1,128,853

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

SIARELCO's proposed revenue requirement was PhP 26,955,514 based on historical year 2000 as evidenced by its submitted OATA of PhP 0.2605/kWh.

I.B. RATE STRUCTURE/DESIGN

The unbundled rates proposed by SIARELCO were as follows:

Residential		
Energy Charge	PhP	4.9001/kWh
Retail Customer Charge		46.52/customer/month
Metering Charge		14.38/customer/month

Small Commercial		
Energy Charge	PhP	4.5788/kWh
Retail Customer Charge		70.73/customer/month
Metering Charge		29.27/customer/month

Industrial	
Demand Charge	PhP 375.03/NCP kW
Energy Charge	3.3646/kWh
Retail Customer Charge	19.98/customer/month
Metering Charge	90.02/customer/month
Public Buildings	
Energy Charge	4.8540/kWh
Retail Customer Charge	57.97/customer/month
Metering Charge	22.03/customer/month
Street Lights	
Energy Charge	4.8152/kWh
Dist. Facilities Charge	60.00/customer/month

I.B.1. FUNCTIONALIZATION, CLASSIFICATION and ALLOCATION

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

I.B.2. SYSTEM LOSS

Based on the documents submitted by SIARELCO, its actual system loss for the year 2000 was 10%. SIARELCO adopted the actual purchased power cost net of Primary Voltage and Power Factor Discounts. However, witness Sapuras in his testimony, admitted that the figure submitted was erroneous (TSN, May 23, 2002, p. 96 - 97).

I.B.3. INTER-CLASS CROSS SUBSIDY

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

CUSTOMER TYPES	ADJUSTED EXISTING (PhP)	PROPOSED (PhP)	INTER-CLASS CROSS SUBSIDIES (PhP)
Residential	19,985,784	20,774,201	788,418
Commercial	3,442,802	2,784,247	(658,555)
Industrial	804,297	1,075,451	271,154
Street Lights	1,068,593	877,206	(191,388)
Public Buildings	1,654,038	1,444,409	(209,629)
TOTAL	26,955,514	26,955,514	0

I.B.4. LIFELINE RATE AND LEVEL

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

	Option 1 (At Existing Rates)	Option 2 (At Proposed Customer Charges)
Level	7 kWh	7 kWh
Rate	PhP 5.1398/kWh	PhP 60.00/customer/mo.

I.C. OTHER CHARGES

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

***Other Charges and/or
Non-Recurring Charges****Rates**

Membership Fees	PhP	5.00	/Customer	
Inspection Fees		50.00	/Customer	
Others: Reconnection		39.00	/Customer	
		65.00	/Customer	
Relocation Fees		50.00	/Customer	
		80.00	/Customer	
		100.00	/Customer	
Service Fees		65.00	/Customer	
Service Dropping	PhP	20.00	/Customer	
			31-50 meters	- Dapa/Gen. Luna/Del Carmen
		25.00	/Customer	
			31-50 meters	- San Isidro/Pilar
		30.00	/Customer	
			51-100 meters	- Dapa/Gen. Luna/Del Carmen
		35.00	/Customer	
			51-100 meters	- San Isidro/Pilar
		40.00	/Customer	
			101-200 meters	- Dapa/Gen. Luna/Del Carmen
			/Customer	
		45.00	101-200 meters	- San Isidro/Pilar
		50.00	/Customer	
			101-200 meters	- Socorro
		60.00	/Customer	
			51-100 meters	- Sta. Monica/San Benito/ Burgos
		80.00	/Customer	
			101-200 meters	- Sta. Monica/San Benito/ Burgos
		90.00	/Customer	
			201-300 meters	- San Isidro/Pilar

II. COMMISSION DISCUSSIONS AND CONCLUSIONS**II.A. DETERMINATION OF TOTAL REVENUE REQUIREMENT****II.A.1. TEST YEAR**

The Commission finds SIARELCO's proposal to use the test year 2000 in its unbundled rate application acceptable since it is consistent with Rule 15, Section 6(c) of the Implementing Rules and Regulations (IRR) of R.A. 9136. Therefore, the

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

II.A.2 GENERATION and TRANSMISSION COSTS

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

The Generation and Transmission charges shall reflect the power supplier's generation and transmission charges of the National Transmission Corporation (TRANSCO) as approved in ERC Orders dated September 6 and 20, 2002, 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 Charge used pertains to the supply month of February 2003. A separate charge to account for the allowable system losses 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 the generation and transmission. *Annualization*¹ of the billing determinants was applied.

The net upward adjustment made by the Commission to Purchased Power of PhP 197,365 consisted of the following:

¹ 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.

Adjustment to Purchased Power Cost	PhP	290,155
Less: Adjustments to System Loss		92,790
Net Adjustment	PhP	197,365

The adjustment to Purchased Power Cost of PhP 290,155 pertains to the difference between the proposed Purchased Power of SIARELCO amounting to PhP 10,422,996 and the allowed purchased power cost based on the new rate of NPC and TRANSCO amounting to PhP 10,713,151.

SIARELCO's witness testified that the cooperatives' actual system loss in year 2000 was 10%. However, records show that SIARELCO's actual system loss for the year 2000 was 15.90%. The Commission allowed a system loss of 14% in the calculation of SIARELCO's revenue requirement as discussed in Section II.B.2.c of this Decision. The Commission made an adjustment to system loss of PhP 92,790 to exclude the excess of actual system loss over the allowable recoverable cap of PhP 1,576,422.

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

Generation Charge	5,639,887
Transmission Charge	3,404,052
Recoverable System Loss	1,576,422
Total	10,620,361

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

II.A.3. PAYROLL

The Commission adjusted the payroll account upwards by PhP 762,171 to update it to the level approved by SIARELCO's Board Resolution No 80, Series of 2001. This brought the amount of Payroll to PhP 3,994,887.

The Commission reviewed the Wage Adjustment Clause (WAC) Formula authorized by the previous Energy Regulatory Board through ERB Case No. 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.

The Commission noted that SIARELCO did not avail of the WAC Formula.

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

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

The Commission made a downward adjustment on SIARELCO’s Operation and Maintenance (O & M) Expenses by the following amounts:

Particulars	Amount
Disallowed Expenses	PhP 649,798
Unsupported Expenses	140,764
Total Adjustments	PhP 790,562

The disallowed expenses of PhP 649,798 which were charged under Overhead Line, Meter, Maintenance of Line Transformer, Maintenance of Overhead Line, Maintenance of Meter, Office Supplies & Expenses, Outside Services Employed, Injuries & Damages, Pensions & Benefits, Maintenance of Office & General Plant, Officers' Allowance & Benefits, Travel Expenses, and Miscellaneous General 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 0.1498 /kWh, which the Commission considers material.

SIARELCO's unsupported expenses amounting to PhP 140,764 under accounts Overhead Line, Meter, Rental Expenses, Maintenance of Overhead Lines, Maintenance of Transformers, Maintenance of Meters, Meter Reading Expenses, and Office Supplies & Expenses were disallowed.

For future rate cases, SIARELCO will continue to be required to make full disclosure of all its O & M Expenses for the Commission to determine the prudence of its expenditures. SIARELCO 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 454,519 (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 breakdown is shown below:

Other Revenues and Expenses	Amount
Other Revenues:	
Prompt Payment Discount (50% of PhP 210,773)	105,387
Other Electric Revenue	184,745
Merchandising, Jobbing & Contract Work	34,743
Non-Operating Rental Income	45,144
Interest and Dividend Income	108,475
Misc. Non-Operating Income	6,870
Total Revenues	485,364
Less: Other Expenses	
Expenses from Merchandising, Jobbing & Contract Work	30,845
Net Other Revenues	PhP 454,519

The Commission believes that the cooperative and end-users should share 50/50 in the prompt payment discount. The 50% retained by SIARELCO 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 an upward adjustment of PhP 156,042 to assure that the debt service included in SIARELCO's revenue requirement is consistent with NEA's record. The details of the adjustment are shown below:

LOANS	PER NEA (PhP)
A	687,960
C-FR	34,308
D	1,194,692
E	873,004
F	1,051,456
Emergency Loan : Poles	128,752
Restructured Loans	1,083,960
Total Amortization	5,054,132²
Less: SIARELCO's Actual Amortization	4,898,090
Difference	156,042

Thus, the total allowable amount for debt service in the determination of the revenue requirement should be PhP 5,054,132

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 issue in a separate Decision.

II.A.7. REINVESTMENT FUND

SIARELCO made a proposal for the provision for reinvestment fund in its unbundling of rates application in the amount of PhP 3,015,711.

² Rural Electrification Loan B amounting to PhP 3,427,693 was excluded from the approved Debt Service as it is yet to fall due on March, 2003.

The Commission permits a reinvestment fund equivalent to 5% of SIARELCO'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 Loss Reduction Plan. One of the main purposes of providing the 5% Reinvestment is for end-users of SIARELCO to shoulder part of their 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 a downward adjustment of PhP 1,762,537 on the reinvestment fund account resulting in an adjusted amount of PhP 1,253,174.

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 SIARELCO;
- (c) SIARELCO is further required to submit a progress report not later than one (1) year after the date of this Decision and every year thereafter using the format prescribed by the Commission. The progress report

shall include detailed accounting itemizing total collections, the actual use of all disbursements, and actual current system losses;

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

- (d) SIARELCO shall submit a new System Rehabilitation/Upgrading and/or System Loss Reduction Plan covering the period 2004-2008, one (1) year after the date of this Decision using the format to be prescribed by the Commission.

II.A.8. REVENUE REQUIREMENT SUMMARY

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

ACCOUNT NAME	SIARELCO PROPOSAL	ADJUSTMENT	ERC APPROVAL
Purchased Power	10,422,996	197,365	10,620,361
Payroll	3,232,716	762,171	3,994,887
Operating & Maintenance (less of PP & Payroll)	5,386,000	(790,562)	4,595,438
Debt Service	4,898,090	156,042	5,054,132
Reinvestment Fund ³	3,015,711	(1,762,537)	1,253,174
Other Revenues, net	0	(454,519)	(454,519)
Total Revenue Requirement	26,955,514	(1,892,042)	25,063,472

SIARELCO proposed an OATA of PhP 0.2605/kWh using rates of 2000. The OATA is a measurement tool based on the formula: (Total Revenue Requirement

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

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 1,892,042, approves a total revenue requirement of PhP 25,063,472 based on the year 2000 equivalent to an OATA of (PhP 0.0327) /kWh. The actual impact to end-users will depend on the level of rates currently being charged. This impact is illustrated in Section II.B.7 of this Decision.

II.B. RATE STRUCTURE/DESIGN DETERMINATION

II.B.1. FUNCTIONALIZATION, CLASSIFICATION and ALLOCATION

The functionalization and allocation factors used by SIARELCO were the default factors provided for in the UFR issued by the Commission on October 30, 2001. In the case of SIARELCO, 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 SIARELCO 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 considered Other Revenue Items (ORI) not included by SIARELCO 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:

Factor Name	Functionalization Factor Description	Total Check	Generation	Transmission	Distribution	Supply	Metering
ORI	Other Revenue Items	1.0000	-	-	0.3137	0.3726	0.3137

SIARELCO submitted allocation of distribution cost into demand and customer-related cost using the Minimum Plant Method ⁴. This method resulted to a 66% - 34% 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

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

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 the National Transmission Corporation (TRANSCO) without automatic adjustments. Since the transmission rates to be paid by SIARELCO 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 SIARELCO have been calculated based on the approved TRANSCO rates which include cross subsidy elements to be phased out over the three-year period.

	RESIDENTIAL	COMMERCIAL	PUBLIC BLDG	STREET LIGHT
Year 1				
Transmission System Charge (PhP/kWh)	0.7858	0.7243	0.8655	0.8264
Year 2				
Transmission System Charge (PhP/kWh)	0.9282	0.8556	1.0223	0.9762
Year 3				
Transmission System Charge (PhP/kWh)	1.0706	0.9868	1.1791	1.1259
Year 4				
Transmission System Charge (PhP/kWh)	1.2130	1.1180	1.3359	1.2757

The Commission utilized the Coincident Peak Allocation Method on the transmission costs considering that it yielded the most reasonable results for SIARELCO'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 SIARELCO.

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

SIARELCO did not propose for distribution wheeling rate. 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 SIARELCO'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 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 SIARELCO to use a PhP 5.00 per

meter per month and PhP 0.4081 per kWh rate for the metering function. On the other hand, the Commission orders SIARELCO to use a PhP 1.7192 per kWh rate for the supply function. Furthermore, the Commission likewise orders SIARELCO 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	Public Bldg	Streetlights
New Cost-Based Rev. Requirement (PhP)	25,063,472	20,704,507	2,301,426	1,314,642	742,896
Existing Rates Revenue (PhP)	25,205,473	19,205,047	3,262,036	1,673,275	1,065,116
Total Change in Revenue (PhP)	(142,001)	1,499,461	(960,610)	(358,632)	(322,220)
Percentage Change In Revenue	- 0.56%				
Normalized Existing Revenue (PhP)	25,063,472	19,096,850	3,243,659	1,663,848	1,059,115
Inter-Class Cross Subsidy Amts. (PhP)	0	(1,607,657)	942,232	349,206	316,219
Class Billing Determinants (in kWh)	4,336,707	3,307,964	557,070	288,212	183,460
Inter-Class Cross Subsidy Rates (PhP/kWh)		(0.4860)	1.6914	1.2116	1.7236

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 rate for SIARELCO'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, SIARELCO 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-user 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 SIARELCO. 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	-	25 %
16 kWh	-	20 %
17 kWh	-	15 %
18 kWh	-	5 %

SIARELCO 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 18 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 SIARELCO, the lifeline discounts result in a Lifeline Rate Subsidy to other end-user of PhP 0.0974 /kWh.

II.B.5. OTHER CHARGES

SIARELCO's additional submissions 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 SIARELCO.

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

SIARELCO in its unbundled rate case included a customer which composed the entire industrial class as classified in the application. In 2001, however, this particular industrial ceased its operations. According to SIARELCO's Finance Manager, there is still no certainty as to when a new industrial customer will be contracted. In view thereof, the Commission has excluded in its evaluation this specific industrial class. As such, the kWh sales and purchases attributed to this

particular customer class were not considered in the computation of SIARELCO's unbundled rates.

II.B.7. ESTIMATED IMPACT ON 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 36 kWh a month using rates based on SIARELCO's actual existing rates as of February, 2003 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 Rate	5.1398	185.03	Generation Charges		
			Generation System Charge	1.0217	36.78
(FPCA/FOREX) PPA	0.6659	23.97	Franchise & Benefits to Host		
			Communities Charge	0.0282	1.02
Power Act Rate Reduction	(0.3000)	(12.90)	FOREX	0.2506	9.02
Universal Charges:	0.0168	0.60	Transmission System Charge	0.7858	28.29
			System Charge	0.3635	13.09
			Distribution Charge	1.5431	55.55
			Supply Charge	1.7192	61.89
			Metering Charges:		
			Retail Customer Charge/Month		5.00
			Metering System Charge	0.4081	14.69
			Inter-class Cross Subsidy Charge	(0.4860)	(17.50)
			Universal Charges:		
			Missionary Electrification Charge	0.0168	0.60
			Lifeline Rate(Discount)/Subsidy	0.0974	3.51
			Power Act Rate Reduction	(0.3000)	(10.80)
TOTAL BILL		<u>196.70</u>	TOTAL BILL		<u>201.14</u>
PhP/kWh		<u>5.5225</u>	PhP/kWh		<u>5.5873</u>

DISPOSITION

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

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

		Residential	Commercial	Public Bldg.	Street lights
Generation Charges:					
Generation System Charge	PhP/kWh	1.0217	1.0217	1.0217	1.0217
Franchise & Benefits to Host Communities Charge	PhP/kWh	0.0282	0.0282	0.0282	0.0282
FOREX Adjustment Charge	PhP/kWh	0.2506	0.2506	0.2506	0.2506
Transmission Charges:					
Transmission System Charge	PhP/kWh	0.7858	0.7243	0.8655	0.8264
System Loss Charge	PhP/kWh	0.3635	0.3635	0.3635	0.3635
Distribution Charges:					
Demand Charge	PhP/kWh				
Distribution System Charge	PhP/kWh	1.5431	1.2786	1.3737	1.1999
Supply Charges:					
Retail Customer Charge	PhP/Cust./Mo.		30.00	30.00	30.00
Supply System Charge	PhP/kWh	1.7192	0.1615	0.2216	0.2178
Metering Charges:					
Retail Customer Charge	PhP/Meter/Mo.	5.00	10.00	10.00	
Metering System Charge	PhP/kWh	0.4081	0.1090	0.1669	
Inter-Class Cross Subsidy Charge	PhP/kWh	(0.4860)	1.6914	1.2116	1.7236
Universal Charge:					
Missionary Electrification Charge	PhP/kWh	0.0168	0.0168	0.0168	0.0168
Lifeline Rate (Discount)/Subsidy	PhP/kWh	0.0974	0.0974	0.0974	0.0974
Power Act Rate Reduction	PhP/kWh	(0.3000)			
Lifeline Rate (Discount)/Subsidy To be based on Residential Rate in a graduated scale as provided in Sec. II.B.4 of this Decision.					

2. To direct SIARELCO to comply with the following:
 - a. Discontinue charging the PPA upon effectivity of the approved unbundled rates; SIARELCO shall automatically bill its end-users

the new Generation Rate charged by NPC as approved and authorized by the Commission;

- b. Bill PhP 0.0168/kWh representing the missionary electrification portion of the Universal Charge in accordance with the Order of the Commission in ERC Case No. 2002-165 (In the Matter of the Petition for the Availments from the Universal Charge the Share for Missionary Electrification, NPC-SPUG, Applicant);
- c. Bill its respective end-users using a billing format which contains at least the rate elements provided in Annex A of this Decision upon the effectivity of the approved unbundled rates;
- d. Inform the end-users within its franchise area of the said approved unbundled rates no later than thirty (30) days after receipt of this Decision;
- e. Submit for verification and confirmation purposes on or before the twentieth (20th) day of the month following the effectivity of the approved unbundled rates and every month thereafter: a) five (5) sample bills for each end-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;

- f. Make a formal application with the Commission for the approval of existing or future contracts with any entity for the wholesale purchases of power not yet approved by the Commission;
- g. Make a formal application to continue the use of Other Charges within one (1) year from date of this Decision using a format to be prescribed by the Commission;
- h. File a progress report on the reinvestment fund one (1) year after the date of this Decision and every year thereafter using the prescribed formats provided in Annexes B 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;
- i. Submit a new System Rehabilitation/Upgrading and/or System Loss Reduction Plan covering the period 2004 to 2008, one (1) year after the date of this Decision using a format to be prescribed by the Commission; and
- j. Institute policies and procedures for cost-cutting and transparent and competitive procurement of goods and services and submit a report thereon to the Commission within six (6) months from receipt of this decision.

SO ORDERED.

Pasig City, April 8, 2003

(Sgd) LETICIA V. IBAY
Acting Chairman

(Sgd) OLIVER B. BUTALID
Commissioner

(Sgd) MARY ANNE B. COLAYCO
Commissioner

(Sgd) CARLOS R. ALINDADA
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