

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. 2001-988

ZAMBOANGA DEL NORTE ELECTRIC COOPERATIVE, INC.
(ZANECO),

Applicant.

X- -----X

DECISION

Before this Commission for resolution is the application filed on December 26, 2001 by Zamboanga Del Norte Electric Cooperative, Inc. (ZANECO) for the approval of its unbundled rates pursuant to the provision 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 June 10, 2002 were issued setting the same for hearing on July 29, 2002.

ZANECO 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, ZANECO published the Notice of Public Hearing in *Taliba and Balita* on June 25 and July 1, 2002 and June 26 and July 3, 2002, respectively.

The Office of the Solicitor General (OSG), the Commission on Audit (COA) and the Committees on Energy of both Houses of Congress were furnished with copies of the Order and the Notice of Public Hearing and were requested to have their respective duly authorized representatives present at the aforesaid initial hearing.

Likewise, the City/Municipal Mayors of Dapitan City, Dipolog City, Katipunan, La Libertad, Liloy, Manukan, Mutia, Piñan, Polanco, Pres. Roxas, Rizal, Salug, Sibutad, Sindangan, Jose Dalman (Ponot) Sergio Osmeña, Gutalac, Siayan, Godod, Tampilisan and Bacungan, all in the Province of Zamboanga Del Norte, were furnished with copies of the Order and the Notice of Public Hearing for the appropriate posting thereof on their respective bulletin boards.

Subsequently, on June 24, 2002, ZANECO filed a revised compliance to revise some schedules it had previously submitted to conform to the actual data which were not available at the time of the preparation and filing of the application.

At the initial hearing on July 29, 2002, Atty. Zenon Suarez appeared as counsel for ZANECO while Engr. Robert F. Mallillin appeared as intervenor.

During the said hearing, ZANECO submitted proofs of compliance with the Commission's publication and posting of notice requirements which were duly

marked as Exhibits "A" to "C-22", inclusive. Thereafter, ZANECO presented its two (2) witnesses. The first witness, Ms. Anita Villanueva, ZANECO's Finance Manager, testified on certain relevant schedules and on documents submitted in support of the application. In the course of her testimony, additional documents were presented, identified by reference and marked as Exhibits "D" to "Y", inclusive. Engr. Mallillin conducted a short cross-examination mainly on ZANECO's financial records. Thereafter, the Commission propounded clarificatory questions on the same witness.

The second witness, Mr. Eduardo B. Castro, ZANECO's Head of Engineering Department, 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 "Z". Engr. Mallillin conducted a cross-examination and the Commission likewise propounded clarificatory questions on the said witnesses. In the course thereof, ZANECO was directed to submit the following: a) A Revised Uniform Filing Requirements (UFR) based on its Audited Financial Statement (AFS); b) its revised proposal for the lifeline rate; c) an itemized schedule of its General and Administrative Expenses and schedule of outages for the years 2000 to 2002. There being no other witnesses to be presented, the hearing was adjourned.

On August 26, 2002, ZANECO filed its "Manifestation with Post Hearing Compliance".

On January 10, 2003, ZANECO filed its "Formal Offer of Evidence" which was admitted on January 22, 2003 by the Commission for the purpose for which they were offered.

I. SUMMARY OF ZANECO'S APPLICATION

I.A. REVENUE REQUIREMENT

ZANECO's revenue requirement per unbundled application based on historical year 2000 is as follows:

ACCOUNT NAME	HISTORICAL YEAR	
KWh Sales		65,545,356
Purchased Power	PhP	157,761,864
Payroll		28,636,088
Operation & Maintenance (less Purchased Power & Payroll)		22,455,899
Debt Service Plus Cash Working Capital		18,522,000
Revenue Requirement	PhP	227,375,851
Less: Other Revenue Items		82,618
Reinvestment Fund (5%) *		11,743,000
TOTAL REVENUE REQUIREMENT	PhP	239,036,233
EXISTING REVENUE		222,516,929
Required Increase	PhP	16,519,304
Required Increase per kWh	PhP per kWh	0.2520

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

ZANECO's proposed revenue requirement is PhP 239,036,233 based on historical test year 2000. The Overall Tariff Adjustment (OATA) published was PhP 0.2520/kWh.

ZANECO also submitted Audited Financial Statements for the year 2000.

I.B. RATE STRUCTURE/DESIGN

The unbundled rates proposed by ZANECO were as follows:

Residential

Retail Customer Charge	PhP 9.08/customer/month
Metering Charge	10.92/customer/month
Energy Charge	2.9600/kWh
Distribution Charge	0.8761/kWh

Commercial

Retail Customer Charge	PhP 22.70/customer/month
Metering Charge	27.30/customer/month
Energy Charge	2.4428/kWh
Distribution Charge	0.4087/kWh

Industrial

Retail Customer Charge	PhP 45.25/customer/month
Metering Charge	54.75/customer/month
Energy Charge	2.5825/kWh
Distribution Demand Charge	57.28/ kW NCP

Public Buildings

Retail Customer Charge	PhP 9.05/customer/month
Metering Charge	10.95/customer/month
Energy Charge	2.5529/kWh
Distribution Charge	0.4247/kWh

Street Lights

Distribution Facilities Charge	PhP 30.00/customer/month
Energy Charge	7.6615/kWh

I.B.1. FUNCTIONALIZATION, CLASSIFICATION and ALLOCATION

All the functionalization and the allocation factors used by ZANECO were default factors provided in the UFR prescribed by the Commission. These were adopted by ZANECO as applicable to its operations.

I.B.2. SYSTEM LOSS

The actual system loss for the year 2000 was 14.58%. ZANECO adopted the actual purchased power cost net of Primary Voltage and Power Factor Discounts.

Witness Castro stated, “ The fluctuating system loss were due to the expansion projects, pilferage and other technical losses. Another contributing factor is the government mandate to energize the remaining barangays which are not viable to energize.” He mentioned that despite the expansion and rehabilitation projects to be undertaken in the next five (5) years with a target of 3% to 5% reduction, ZANECO’s system loss will remain at the level of 14%-15% because of the extension of its system lines to far-flung barangay (July 29,2002, TSN pp. 75 - 81).

According to witness Castro, the proposed reinvestment fund will be used to finance ZANECO’s Five (5) Year System Loss Reduction Program amounting to a total of PhP 57 Million or an annual average of PhP 11.7 Million (July 29, 2002, TSN p. 79).

I.B.3. INTER-CLASS CROSS SUBSIDY

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

CUSTOMER TYPE	ADJUSTED EXISTING (PhP)	PROPOSED (PhP)	INTER-CLASS CROSS SUBSIDIES (PhP)
Residential	137,479,513	154,275,058	16,795,545
Commercial	35,609,602	29,198,679	(6,410,923)
Industrial	50,168,542	37,565,550	(12,602,992)
Public Buildings	12,108,808	10,146,345	(1,962,463)
Street Lights	3,669,756	7,850,589	4,180,832
TOTAL	239,036,222	239,036,222	0

Based on submitted Schedule H-1 Computation of Inter-class Cross-Subsidy

I.B.4. LIFELINE RATE and LEVEL

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

	OPTION 1 (At Existing Rates)	OPTION 2 (At Proposed Customer Charges)
Level	15 kWh	15 kWh
Rate	PhP 3.4047/kWh	PhP 20.00/Cust./Mo.

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

I.C. OTHER CHARGES

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

PARTICULARS	RATES
1. Electric Service Fee	
a. Residential	
Single-phase	PhP 75.00 Each
Three-phase	175.00
b. Commercial	
Single-phase	125.00 Each
Three-phase	300.00
c. Street Lights	
Below 100 watts	10.00 Each
100 watts and above	50.00
d. Reinspection Fee	
Single-phase	25.00 Each
Three-phase	75.00
2. Electric Meter/Service Drop Wire Transfer	
Single-phase	75.00 Each
Three-phase	100.00
3. Disconnection (Owner's Request)	
Single-phase	30.00 Each
Three-phase	100.00
4. Reconnection	
a. Owner's Request	
Single-phase	30.00 Each
Three-phase 10 KVA	100.00
b. Delinquency	
Single-phase	100.00 Each
Three-phase	200.00

5. Calibration

Single-phase	50.00	Each
Three-phase	150.00	

6. Meter Charge

Single-phase	25.00	Each
Three-phase	125.00	

7. Installation of Street Lights

Below 100 watts	50.00	Each
100 watts & above	75.00	

8. Temporary Connection

a. Residential

Single-phase	50.00	Each
Three-phase	100.00	

b. Industrial and Commercial

Single-phase	150.00	Each
Three-phase	300.00	

9. Installation of Transformer

20.00 /KVA

10. Removal of Transformer

15.00 /KVA

11. Rental of Cooperative-Owned Transformer

10 KVA	97.00	/KVA/year
15 KVA	71.00	/KVA/year
25 KVA	54.00	/KVA/year
37.5 KVA	52.00	/KVA/year
50 KVA	50.00	/KVA/year
100 KVA	35.00	/KVA/year
167 KVA	30.00	/KVA/year

12. Pole Rental

0.20 lbs. & below	20.00	/Pole
0.20 lbs & above	40.00	/Pole

II. COMMISSION DISCUSSIONS AND CONCLUSIONS

In reaching its conclusions herein, the Commission took into consideration the documents, data, comments and issues submitted by the applicant, intervenors and other interested who manifested parties their respective positions on this present application.

II.A. DETERMINATION OF TOTAL REVENUE REQUIREMENT

II.A.1. TEST YEAR

The Commission finds ZANECO'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, ZANECO 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

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 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 system loss that is within the allowable caps can recover from its end-users the total cost of the generation and transmission. *Annualization*¹ of the billing determinants was applied.

The adjustments made by the Commission to Purchased Power of PhP 11,287,177 consisted of the following:

Adjustment to Purchased Power Cost	PhP	11,723,721
Less: Adjustment to System Loss	PhP	436,544
Total Adjustments	PhP	11,287,177

The adjustment to Purchased Power Cost of PhP 11,723,721 pertains to the difference between the proposed Purchased Power of ZANECO amounting to PhP 157,761,863 and the purchased power cost based on the new rates of NPC and TRANSCO amounting to PhP 169,485,584. The allowed purchased power cost for ZANECO considered the excess of actual system loss over the allowable recoverable cap.

Records show that ZANECO’s actual system loss for the year 2000 was 14.58%. The Commission allowed a system loss of 14% in the calculation of ZANECO’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 436,544 to

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.

exclude the excess of actual system loss over the allowable recoverable cap of PhP 24,190,072.

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

Generation Charge	PhP	89,302,537
Transmission Charge		55,556,432
Recoverable System Loss		24,190,072
Total	PhP	169,049,041

ZANECO'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 23, 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, ZANECO shall bill its end-users the new generation rate charged by NPC. In the meantime, ZANECO shall discontinue charging the Purchased Power Adjustment (PPA) upon effectivity of the unbundled rates.

II.A.3. PAYROLL

The Commission made downward adjustments of PhP 5,263,258 on payroll account resulting to an adjusted amount of PhP 23,372,830. The adjustments took into account (a) the new upgraded salary scale and (b) the new reorganized plantilla positions approved by NEA in the year 2001 which provided for the actual number of employees. Only the basic salary and 13th Month Pay were included in the Payroll

computation. The other benefits such as Employer's share on SSS, Medicare, Pag-Ibig Fund, and Retirement Benefits were reclassified to the proper account- Employee's Pension & Benefits.

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.

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

“Reasonable costs” can be said to be the cost of those goods and services which, while may not be the lowest in price, need to be incurred with consideration of quality, efficiency, reliability and security, which are characteristics of the service delivered by the distribution utility. “Prudent costs” demand that the utility ensures that its purchases of goods and services are at their minimum, without sacrificing the foregoing characteristics. When making a purchase or executing a contract, it cannot simply rely on its right to pass on its cost 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 ZANECO to institute and report to the Commission its policies and procedures for cost-cutting and the transparent and competitive procurement of goods and services.

ZANECO’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 ZANECO’s viability. To this end, ZANECO should view a petition for an increase in rates to be the last recourse. In future filings, ZANECO 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.

Upon review of the components of the expenses included in the revenue requirement, the Commission adjusted ZANECO's Operation and Maintenance (O&M) Expenses by the following amounts:

PARTICULARS	AMOUNT
Disallowed Expenses	PhP
414-585-00 Street Lights & Signal System	(355,967)
420-905-00 Information & Instructional Advertising Exp.	(33,054)
430-921-00 Office Supplies & Expenses	(526,503)
430-923-00 Outside Services Employed	(10,846)
430-938-00 Miscellaneous General Expenses	(2,841,191)
430-926-00 Employees Pensions & Benefits	(452,223)
TOTAL ADJUSTMENTS	PhP (4,219,783)

The disallowed expenses were found to have gone beyond the need by which these accounts were meant for. Account No. 414-585-00 Street Lights & Signal System was adjusted to conform with the amount reflected in the cooperative's audited financial statement and submitted detailed breakdown. ZANECO's Employees' Pensions and Benefits account includes contribution for a retirement fund. The Commission allows the recovery equivalent to the amount of one month's basic salary of its employees; the excess amount is disallowed as a recoverable expense.

These disallowed expenses translate to PhP 0.0614/kWh, which the Commission considers material.

For future rate cases, ZANECO 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. ZANECO 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

The Commission made an upward adjustment which resulted to Other Revenues amounting to PhP 4,088,731 and as describe below as items to be deducted from the revenue requirement used to calculate the rates for the end-users.

OTHER REVENUES	AMOUNT (PhP)
Non-Operating Rental Income	(876,863)
Interest & Dividend Income	(991,442)
Misc. Non-Operating Income	(945,011)
Other Electric Revenue	(1,275,415)
Total	(4,088,731)

II.A.6. DEBT SERVICE

The Commission made downward adjustments of PhP 6,596,925 on debt service to exclude the advance payment amortization of PhP 6, 399,481 and the World Bank-RERP (LOG) of PhP 197,444 which was fully paid by ZANECO in 2002. This is to assure that the debt service included in ZANECO's revenue requirement is consistent with NEA's records. The details of the adjustment is shown below:

LOANS	Annual Amortization		Difference
	PER ZANECO (PhP)	PER NEA (PhP)	
Rural Electrification:			
A	813,721	813,721	
B	641,057	641,057	
C	1,611,740	1,611,740	
D	149,172	149,172	
E(FR)	184,632	184,632	
F	3,974,976	3,974,976	
Compac 1- Korea	183,900	183,900	
Local –A	385,588	385,588	
Local –C	106,648	106,642	
Local –D	22,360	22,360	
USA	933,532	933,532	
WB- ESL – A	678,136	678,136	
WB- ESL – B	325,792	325,792	
WB-RERP (RE)	1,913,820	1,913,820	
WB-RERP (LOG)	197,444		197,444
Total Annual Amortization	12,122,519	11,925,075	197,444
Advance Payment of Amortization	6,399,481		6,399,481
TOTAL	18,522,000	11,925,075	6,596,925

Thus, the total allowable amount of debt service in the determination of the revenue requirement should be PhP 11,925,075.

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

ZANECO made a proposal for the provision for reinvestment fund in its unbundling of rates application in the amount of PhP 11,743,000.

The Commission permits a reinvestment fund equivalent to 5% of ZANECO'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 ZANECO 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 243,298 on the reinvestment fund account resulting in an adjusted amount of PhP 11,499,702.

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 ZANECO;

- c. ZANECO 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 ZANECO to appear and show cause why it should continue collection of the reinvestment fund; and

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

II.A.8. REVENUE REQUIREMENT SUMMARY

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

ACCOUNT NAME		ZANECO PROPOSAL	ADJUSTMENTS	ERC APPROVAL
Purchased Power	PhP	157,761,864	11,287,177	169,049,041
Payroll		28,636,088	(5,263,258)	23,372,830
O & M (less PP & Payroll)		22,455,899	(4,219,783)	18,236,116
Less: Other Revenues		82,618	4,006,113	4,088,731
Debt Service		18,522,000	(6,596,925)	11,925,075
Reinvestment Fund ²		11,743,000	(243,298)	11,499,702
TOTAL REVENUE REQUIREMENT	PhP	239,036,233	(9,042,201)	229,994,032

² This item is reflected as "Plus Percentage for Cooperative Investment".

ZANECO proposed an OATA of PhP 0.2520/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 downward adjustments of PhP 9,042,201 approves a total revenue requirement of PhP 229,994,032 for ZANECO based on the year 2000 equivalent to an OATA of (PhP 0.0453)/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 ZANECO were the default factors provided for in the UFR issued by the Commission on October 30, 2001. In the case of ZANECO, the default factors were found not to represent the best alternative among possible factors. Thus, the following three (3) default factors used by ZANECO 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) 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	0.0000	0.0000	0.5110	0.2458	0.2432

ZANECO submitted allocation of distribution costs into demand and customer-related cost using the Minimum-Plant Method ³. The method resulted in a 30% - 70% 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

³ *Minimum-Plant Method is a tool in the allocation of the distribution costs to demand and customer-related.*

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 ZANECO 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 ZANECO 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	Commercial	Industrial	Public Bldgs.	Street Lights
Year 1					
Demand Charge PhP/kW			19.80		
Transmission System Charge PhP/kWh	0.8120	0.7991	0.7629	0.8479	0.9369
Year 2					
Demand Charge PhP/kW			19.80		
Transmission System Charge PhP/kWh	0.8428	0.8295	0.7929	0.8801	0.9725
Year 3					
Demand Charge PhP/kW			19.80		
Transmission System Charge PhP/kWh	0.8740	0.8602	0.8232	0.9126	1.0085
Year 4					
Demand Charge PhP/kW			19.80		
Transmission System Charge PhP/kWh	0.9053	0.8909	0.8537	0.9453	1.0446

The Commission utilized the Coincident Peak Allocation Method on the transmission costs considering that it yielded the most reasonable result for ZANECO'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 to another depending on their respective contribution to the system loss. However, due to limited information, the Commission is constrained to adopt a uniform allowable system loss charge for all end-users of ZANECO.

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 at this time. This would however be subject to change upon the approval of a new policy by the Commission. The actual Technical System Loss or cap of 14% plus 1% cooperative own use (which should not include personal consumption of ZANECO'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).

ZANECO did not submit proposal for distribution wheeling rates. 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 ZANECO'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 ZANECO to use a PhP 5.00 per customer per month and PhP 0.2121 per kWh rate for the metering function. On the other hand, the Commission orders ZANECO to use a PhP per kWh rate for the supply function. Industrial consumers shall be billed a combination of fixed kilowatt-hour and monthly customer charge for both the meter and supply functions. Furthermore, the Commission orders ZANECO to use a monthly customer charge for the supply and metering 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 Buildings	Street Lights
New Cost-Based Rev. Reqs.	PhP	229,994,032	147,975,042	28,356,193	39,381,396	10,158,025	4,123,376
Existing Rates Rev.	PhP	233,107,249	135,497,813	33,305,016	49,323,491	11,589,846	3,391,083
Total Change in Rev.	PhP	(3,113,217)	12,477,229	(4,948,823)	(9,942,095)	(1,431,821)	732,293
%Change in Revenue		(1.34%)					
Normalized Existing Rev.	PhP	229,994,032	133,688,199	32,860,217	48,664,761	11,435,060	3,345,795
Inter-Class Cross Subsidy	PhP		(14,286,843)	4,504,025	9,283,365	1,277,035	(777,582)
Class Billing Determinants	KWh	68,667,848	39,797,284	9,749,997	14,700,173	3,422,165	998,229
Inter-Class Cross Subsidy Charge	PhP/kWh		(0.3590)	0.4620	0.6315	0.3732	(0.7790)

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 ZANECO'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, ZANECO 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 ZANECO. 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%

ZANECO 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 ZANECO, the lifeline discounts result in a Lifeline Rate Subsidy by other end-users equal to PhP 0.0299 /kWh.

II.B.5. OTHER CHARGES

ZANECO'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 ZANECO.

The Other Charges of ZANECO are hereby pegged at their existing level until such time that the Commission sets new rates on the same. Further, ZANECO 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 86

kWh a month using rates based on ZANECO's actual existing rates as of February 2003 against the unbundled rates approved by the Commission is shown below.

BASED ON ACTUAL EXISTING RATES			BASED ON ERC APPROVED UNBUNDLED RATES	
	Php/kWh	Amount (PhP)		Amount (PhP)
Basic Rate	2.8446	244.64	Generation Charges:	
			Generation System Charge	1.0217 87.87
PPA	0.8803	75.71	Benefits to Host Comm. Charge	0.0282 2.43
			FOREX	0.2506 21.55
WAC	0.0000	0.00	Transmission System Charge	0.8120 69.83
			System Loss Charge	0.3523 30.30
PPA Reduction	(0.0000)	0.00	Distribution Charge	0.6313 54.29
			Supply Charge	0.3468 29.82
Power Act Rate			Metering Charges	
Reduction	(0.3000)	(25.80)	Retail Customer Charge/Month	5.00
			Metering System Charge	0.2121 18.24
Universal Charge	0.0168	1.44	Inter-class Cross Subsidy Charge	(0.3590) (30.87)
			Universal Charge:	
			Missionary Electrification Charge	0.0168 1.44
			Lifeline Rate: [(Discount)/Charge	0.0299 2.57
			Power Act Rate Reduction	(0.3000) (25.80)
TOTAL BILL		295.99	TOTAL BILL	266.66
PhP/kWh		3.4417	PhP/kWh	3.1007

DISPOSITION

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

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

		Residential	Commercial	Industrial	Public Buildings	Street Lights
Generation Charges:						
Generation System Charge	PhP/kWh	1.0217	1.0217	1.0217	1.0217	1.0217
Benefits to Host Communities Charge	PhP/kWh	0.0282	0.0282	0.0282	0.0282	0.0282
FOREX Adjustment Charge	PhP/kWh	0.2506	0.2506	0.2506	0.2506	0.2506
Transmission Charges:						
Demand Charge	PhP/kWh			19.80		
Transmission System Charge	PhP/kWh	0.8120	0.7991	0.7629	0.8479	0.9369
System Loss Charge	PhP/kWh	0.3523	0.3523	0.3523	0.3523	0.3523
Distribution Charges:						
Demand Charge	PhP/kWh			19.80		
Distribution System Charge	PhP/kWh	0.6313	0.3023	0.1618	0.2955	1.2975
Supply Charges:						
Retail Customer Charge	PhP/Cust./Mo.		27.38	30.00	28.15	28.15
Supply System Charge	PhP/kWh	0.3468		0.0152		
Metering Charges:						
Retail Customer Charge	PhP/Meter./Mo.	5.00	21.74	30.00	21.74	21.74
Metering System Charge	PhP/kWh	0.2121		0.0128		
Inter-Class Cross Subsidy Charge	PhP/kWh	(0.3590)	0.4620	0.6315	0.3732	(0.7790)
Universal Charge:						
Missionary Electrification Charge	PhP/kWh	0.0168	0.0168	0.0168	0.0168	0.0168
Lifeline Rate (Discount)/Charge	PhP/kWh	0.0299	0.0299	0.0299	0.0299	0.0299
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 Section II.B.4 of this Decision.					

2. To direct ZANECO to comply with the following:
 - a. Discontinue charging the PPA upon effectivity of the approved unbundled rates; ZANECO shall automatically bill its end-users the new Generation Rate charged by NPC as approved and authorized by the Commission;
 - b. Bill PhP 0.0168/kWh representing the missionary electrification portion of the Universal Charge in accordance with the Order of the Commission in ERC Case No. 2002-165 (In the Matter of the Petition

for the Availments from the Universal Charge the Share for Missionary Electrification, NPC-SPUG, Applicant);

- c. Bill its respective end-users using a billing format which contains at least the rate elements provided in Annex A of this Decision upon effectivity of the approved unbundled rates;
- d. Inform the end-users within its franchise area of the approved unbundled rates not later than thirty (30) days after receipt of this Decision;
- e. Submit for verification and confirmation purposes on or before the twentieth (20th) day of the month following the effectivity of the approved unbundled rates and every month thereafter: 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 the format to be prescribed by the Commission;
- j. Institute policies and procedures for cost-cutting and transparent and competitive procurement of goods and services and submit a report thereon to the Commission within six (6) months from receipt of this Decision.

SO ORDERED.

Pasig City, March 28, 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 ZANECO
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 City Mayor**
Dipolog City
7100 Zamboanga Del Norte
7. **The City Mayor**
Dapitan City
7101 Zamboanga Del Norte
8. **The Municipal Mayor**
Katipunan
7109 Zamboanga Del Norte
9. **The Municipal Mayor**
La Libertad
7119 Zamboanga Del Norte
10. **The Municipal Mayor**
Liloy
7115 Zamboanga Del Norte
11. **The Municipal Mayor**
Manukan
7110 Zamboanga Del Norte
12. **The Municipal Mayor**
Mutia
7107 Zamboanga Del Norte

13. **The Municipal Mayor**
Pinan
7105 Zamboanga Del Norte
14. **The Municipal Mayor**
Polanco
7106 Zamboanga Del Norte
15. **The Municipal Mayor**
Pres. Roxas
7102 Zamboanga Del Norte
16. **The Municipal Mayor**
Rizal
7104 Zamboanga Del Norte
17. **The Municipal Mayor**
Salug
7114 Zamboanga Del Norte
18. **The Municipal Mayor**
Sibutad
7103 Zamboanga Del Norte
19. **The Municipal Mayor**
Sindangan
7112 Zamboanga Del Norte
20. **The Municipal Mayor**
Jose Dalman (Ponot)
7111 Zamboanga Del Norte
21. **The Municipal Mayor**
Sergio Osmena
7108 Zamboanga Del Norte
22. **The Municipal Mayor**
Gutalac
7118 Zamboanga Del Norte
23. **The Municipal Mayor**
Siayan
7113 Zamboanga Del Norte
24. **The Municipal Mayor**
Godod
7100 Zamboanga Del Norte
25. **The Municipal Mayor**
Tampilisan
7111 Zamboanga Del Norte

26. **The Municipal Mayor**
Baliguian
7123 Zamboanga Del Norte

27. **The Municipal Mayor**
Labason
7117 Zamboanga Del Norte

28. **Albino R. Palma**
General Manager
Zamboanga Del Norte Electric Cooperative, Inc.
Dipolog City, Zamboanga Del Norte

29. **Hon. Ernesto C. Pablo**
Representative-Party-List
APEC
Room 604, North Wing Building
House of Representatives
Constitution Hills, Quezon City

30. **National Electrification Administration**
Diliman, Quezon City

*JNB /ADDR
C: addrt ZANECO Decision(OATA P(0.0453); Forex at 0.25065)
/addr/8-Apr-03/3:50:44 PM*