

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. 2002-19

PENINSULA ELECTRIC COOPERATIVE, INC.
(PENELCO),

Applicant.

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D E C I S I O N

Before this Commission for resolution is the application filed on January 15, 2002 by applicant Peninsula Electric Cooperative, Inc. (PENELCO) for the approval of its unbundled rates pursuant to the provisions of Republic Act No. 9136.

Having found said application sufficient in form and substance with the required fees having been paid, an Order and a Notice of Public Hearing were issued both dated April 10, 2002 setting the same for hearing on May 14, 2002.

PENELCO 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, PENELCO had the Notice of

Public Hearing published in *Malaya and Balita* on April 21 and 28, 2002 and April 23 and 29, 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 Mayor of Balanga and the Municipal Mayors of Abucay, Bagac, Dinalupihan, Hermosa, Limay, Mariveles, Morong, Orani, Orion, Pilar and Samal, all in the Province of Bataan, were furnished with copies of the Order and the Notice of Public Hearing for the appropriate posting thereof on their respective bulletin boards.

In its facsimile transmittal for the Commission sent on May 07, 2002, PENELCO moved for the cancellation of the May 14, 2002 hearing and for the consideration of the notation indicated in the rate schedule. Said motion was granted in the Commission's Order dated May 8, 2002.

PENELCO initially proposed for an Overall Average Tariff Adjustment (OATA) of PhP 0.201/kWh. However, in the Order dated May 21, 2002, the Commission took note of PENELCO's manifestation stating that its proposed Overall Average Tariff Adjustment was PhP 0.501/kWh based on 2002 Budget. Thus, PENELCO was directed to republish the modified Notice of

Public Hearing indicating therein the new OATA of PhP 0.501/kWh and the new date of hearing set for July 4, 2002.

At the initial hearing on July 4, 2002, only the counsel for PENELCO appeared and entered his appearance. No oppositor appeared nor was there any registered opposition.

During said hearing, PENELCO submitted proofs of compliance with the publication and posting of notice requirements, which were duly marked as Exhibits "A" to "C-11", inclusive. Thereafter, it presented two (2) witnesses, Ms. Lorena Caperal, PENELCO's Chief Accountant and Engr. Edwin Zaldivar, PENELCO's Engineering Manager, for direct examinations. Witness Caperal testified on the preparation of the various documents in support of the application, including the schedules. On the other hand, witness Zaldivar testified on the technical aspects of the application. In the course of their direct examinations, documents were presented and marked as Exhibits "D" to "Y", inclusive. The Commission then propounded clarificatory questions. In the course thereof, PENELCO was directed to submit its detailed Revised Five (5) Year Development Plan.

On July 25, 2002, PENELCO submitted its "Post Hearing Compliance".

On November 19, 2002, PENELCO submitted its "Formal Offer of Evidence" which was admitted by the Commission for the purposes for which they were offered.

I. SUMMARY OF PENELCO'S APPLICATION

I.A. REVENUE REQUIREMENT

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

ACCOUNT NAME	HISTORICAL YEAR	
KWh Sales		153,528,548
Purchased Power	PhP	563,031,000
Payroll		47,440,000
Operation & Maintenance (less Purchased Power & Payroll)		55,491,000
Debt Service Plus Cash Working Capital		12,413,000
Revenue Requirement	PhP	678,375,000
Less: Other Revenue Items		0
Reinvestment Fund (13%) *		90,833,000
TOTAL REVENUE REQUIREMENT	PhP	769,208,000
EXISTING REVENUE		720,960,950
Required Increase	PhP	48,247,050

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

PENELCO's proposed revenue requirement was PhP 769,208,000 based on historical test year 2000. The OATA was PhP 0.201/kWh which was erroneously computed using simple average. According to witness Caperal, PENELCO published two OATAs, first was at PhP 0.201/kWh and then at PhP 0.501/kWh based on 2000 historical year and 2002 projected budget, respectively (Transcript of Stenographic Notes (TSN), July 4, 2002, p. 62).

PENELCO also submitted Audited Financial Statements for the year 2000.

I.B. RATE STRUCTURE/DESIGN

The unbundled rates proposed by PENELCO were as follows:

Customer Class	Rates	
Residential		
Supply	PhP	0.3414 /kWh
Metering		0.3318 /kWh
Distribution		0.8547 /kWh
Energy		3.6673 /kWh
Commercial		
Supply		0.1350 /kWh
Metering		0.2167 /kWh
Distribution		0.7995 /kWh
Energy		3.6673 /kWh
Irrigation		
Supply		0.2970 /kWh
Metering		0.3070 /kWh
Distribution		0.8117 /kWh
Energy		3.6673 /kWh
Industrial		
Supply		0.0137 /kWh
Metering		0.1490 /kWh
Distribution		
Customer		0.3154 /kWh
Demand		118.32 /kW
Energy		3.6673 /kWh
Public Building		
Supply		0.0846 /kWh
Metering		0.1886 /kWh
Distribution		0.7721 /kWh
Energy		3.6673 /kWh
Street Lights		
Supply		0.1204 /kWh
Metering		0.2086 /kWh
Distribution		0.9029 /kWh
Energy		3.6673 /kWh
BAPA		
Supply		0.5100 /kWh
Metering		0.2844 /kWh
Distribution		0.4624 /kWh
Energy		3.6673 /kWh

I.B.1. FUNCTIONALIZATION, CLASSIFICATION and ALLOCATION

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

I.B.2. SYSTEM LOSS

The actual system loss for the year 2000 was 11.23%. PENELCO adopted the actual purchased power cost net of Primary Voltage and Power Factor Discounts (TSN, July 4, 2002, p. 94).

I.B.3. INTER-CLASS CROSS SUBSIDY

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

CUSTOMER TYPE	ADJUSTED EXISTING (PhP)	PROPOSED (PhP)	INTER-CLASS CROSS SUBSIDIES (PhP)
Residential	469,407,130	483,822,079	14,414,950
Commercial	86,592,019	82,174,944	(4,417,075)
Irrigation	73,909	75,390	1,482
Industrial	127,470,450	112,469,480	(15,000,970)
Public Buildings	31,702,542	29,331,558	(2,370,983)
Street Lights	6,398,063	6,249,034	(149,029)
BAPA	47,563,812	55,085,438	7,521,626
TOTAL	769,207,924	769,207,924	0

I.B.4. LIFELINE RATE and LEVEL

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

	OPTION (At Proposed Residential Rates less Supply Charge)
Level	12 kWh
Rate	PhP 4.8538/kWh

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

I.C. OTHER CHARGES

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

PARTICULARS	RATES
1. Inspection/ Installation Fee	
For Residential Consumers	
New Consumer	PhP 40.00 /Customer
Reconnection	30.00 /Customer
For Commercial Consumers	
New Consumer	80.00 /Customer
Reconnection	50.00 /Customer
Special Connection	100.00 /Customer
For Exclusive User of Transformer	
25 KVA and Above	75.00 /Customer
10 KVA – 15 KVA	50.00 /Customer
2. Relocation Fee	30.00 /Customer
3. Tapping Fee – Owner Consumer	100.00 /Customer
4. Calibration Fee	
Single Phase	25.00 /Customer
Three Phase	75.00 /Customer
5. Notarial Fee	100.00 /Customer
6. Membership Fee	5.00 /Customer

II. COMMISSION DISCUSSIONS AND CONCLUSIONS

II.A. DETERMINATION OF TOTAL REVENUE REQUIREMENT

II.A.1. TEST YEAR

The Commission finds PENELCO'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, PENELCO is buying power only from the National Power Corporation (NPC).

The Generation and Transmission charges shall reflect the power supplier's generation charges and transmission charges of the National Transmission Corporation (TRANSCO) as approved in ERC Orders dated September 6 and 20, 2002, 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 is as of May 2003 (PhP 0.2506/kWh). A separate charge to account for the allowable system losses shall likewise be provided (please refer to Section II.B.2.d. 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 adjustment made by the Commission to Purchased Power Cost of PhP 5,720,246 pertains to the difference between the proposed purchased power of PENELCO amounting to PhP 563,031,000 and the purchased power cost based on the new rates of NPC and TRANSCO amounting to PhP 568,751,246. The Commission adjusted PENELCO's recoverable system loss even though it was below the 14% cap (see Section II.B.2.d. for discussion).

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

Generation Charge	PhP	383,226,327
Transmission Charge		111,146,476
Recoverable System Losses		74,378,443
Total	PhP	568,751,246

PENELCO'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)].

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.

In which case, PENELCO shall bill its end-users the new generation rate charged by NPC. In the meantime, PENELCO 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 16,232,620 to update it to the current salary level of PhP 63,672,620. This took into account the implemented salary increases as per PENELCO Board of Director's Resolution No. 390A Series of 2002. The adjustment also considered the amount of PhP 70,000, charged to Pensions and Benefits and Officers' Allowances and Benefits Accounts, reclassified to O&M Expenses.

The Commission reviewed the Wage Adjustment Clause (WAC) Formula authorized by the then 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 PENELCO 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 should be required or necessary in the operation of an electric distribution utility, are recurring and should redound to the service or benefit of end-users.

The Commission enjoins PENELCO to incur only “prudent and reasonable costs” for inclusion in the determination of retail rates. While a distribution utility is allowed to pass through 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 or and in their behalf.

“Reasonable costs” may be defined as 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 that should be 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 R.A. 9136 to establish a regime of free and fair competition and full public accountability to achieve greater operational and economic efficiency, enjoins PENELCO to institute and report to the Commission its policies and procedures for cost-cutting and for the transparent and competitive procurement of goods and services.

PENELCO'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 PENELCO's viability. To this end, PENELCO should view a petition for an increase in rates to be the last recourse. In future filings, PENELCO 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 9,235,181 on PENELCO's Operation and Maintenance (O & M) Expenses, as follows:

PARTICULARS	AMOUNT	
Disallowed Expenses	PhP	(9,691,804)
Adjustment in Outside Services		386,623
Reclassified Expense from Payroll Account		70,000
NET ADJUSTMENTS	PhP	(9,235,181)

The disallowed expenses charged to Meter, Miscellaneous and General Expenses were found to have gone beyond the need for which these accounts

were meant for. The Commission rules that these expenses do not fall under the qualification heretofore cited, hence, are not allowed for revenue requirement determination. These expenses translate to PhP 0.0624/kWh, which the Commission considers material.

The downward adjustment to the Officers' Allowances and Benefits was brought about by limiting expenses to Per Diem and Representation Allowance. In the case of Pensions and Benefits, adjustments were likewise brought about by limiting expenses to Rice, Medical and Clothing Allowances, SSS, PAG-IBIG, PHILHEALTH employer's share premiums. The amount also includes the contribution required to provide for retirement fund equivalent to one month's basic salary of its employees.

For future rate cases, PENELCO will continually be required to make full disclosure of all its O & M Expenses for the Commission to determine the prudence of its expenditures. PENELCO 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 REVENUE ITEMS

The Commission defines Other Revenue Items (ORI) as revenues earned (net of other expenses) by the electric utilities from activities other than sale of electricity.

The Commission encourages PENELCO to improve its financial condition through the development of other related sources of revenue. However, in order to balance the interests of PENELCO and its end-users and in recognition of the fact that the costs incurred in providing certain services classified under ORI had already been included in the revenue requirement, the Commission is reducing the total revenue requirement by 50% of the total ORI. This reduction of 50% amounts to PhP 11,725,007 computed as shown below:

OTHER REVENUES & EXPENSES	AMOUNT (PhP)
Other Revenues	
Rent from Electricity	2,630,417
Prompt Payment Discount	16,890,928
Rental of Ambulance	10,800
Other Electric Revenue	3,149,766
Housewiring – Meter Box	1,192,157
Apprehension	752,000
Misc. Non-Operating Income	53,274
Total Other Revenues	24,679,342
Other Expenses	
Apprehension	(489,018)
Misc. Income Deductions	(740,310)
Total Other Revenues, Net	23,450,014
50% of Total Other Revenues, Net	11,725,007

- *The Consumer Prompt Payment Discount pertains only to those extended to the BAPA, hence not used to offset to herein account.*

The Commission also rules that any interest/dividend income earned will be retained 100% by PENELCO. However, such income should form part of the reinvestment fund and will be used solely for rehabilitation/expansion programs of PENELCO.

II.A.6. DEBT SERVICE

The Commission made an upward adjustment of PhP 832,324 to assure that the debt service included in PENELCO's revenue requirement is consistent with NEA's records. The details of the adjustment are shown below.

LOANS	LOAN PROFILE		
	PER NEA (PhP)	PER PENELCO (PhP) ²	DIFFERENCE (PhP)
Rural Electrification:			
A	891,908	970,000	(78,092)
B	8,272,912	2,906,000	5,366,912
C1	374,464	398,000	(23,536)
C2		1,621,000	(1,621,000)
D		820,000	(820,000)
E		2,662,000	(2,662,000)
F		412,000	(412,000)
FR		1,078,000	(1,078,000)
EL – Relending		1,020,000	(1,020,000)
Revolving		526,000	(526,000)
OECF – RE	2,606,408		2,606,408
OECF – LOG	1,099,632		1,099,632
TOTAL	13,245,324	12,413,000	832,324

Thus, the total allowable amount for debt service in the determination of the revenue requirement should be PhP 13,245,324.

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 the ECs' end-users. PENELCO 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.

² Rounded to the nearest thousands as provided in PENELCO's UFR application.

II.A.7. REINVESTMENT FUND

PENELCO made a proposal for the provision for reinvestment fund in its unbundling of rates application in the amount of PhP 90,833,000.

The Commission permits a reinvestment fund equivalent to 5% of cooperative's Gross Revenue to finance expansion and rehabilitation/upgrading of its existing electric power system in accordance with the submitted System Rehabilitation/Upgrading and/or System Loss Reduction Plan. This resulted in a downward adjustment of PhP 55,033,000 on the reinvestment fund account, resulting in an adjusted amount of PhP 35,800,000.

One of the main purposes of providing the 5% Reinvestment is for the end-users of PENELCO to shoulder part of their increasing capitalization requirements, as outside sources of funding are getting scarce.

The Reinvestment Fund is authorized subject to the following conditions:

- a. This reinvestment fund shall not be used, even temporarily, for any purpose other than for those projects specified in the submitted plan;
- b. The amounts collected for the reinvestment fund, including interest income, shall be placed in a separate account and shall be disbursed in accordance with the plan submitted by PENELCO;

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

- d. PENELCO 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 PENELCO:

ACCOUNT NAME		PENELCO PROPOSAL	ADJUSTMENTS	ERC APPROVAL
Purchased Power	PhP	563,031,000	5,720,246	568,751,246
Payroll		47,440,000	16,232,620	63,672,620
O & M (less PP & Payroll)		55,491,000	(9,235,181)	46,255,819
Less: Other Revenue Items		0	(11,725,007)	(11,725,007)
Debt Service plus Cash Working		12,413,000	832,324	13,245,324
Reinvestment Fund ³		90,833,000	(55,033,000)	35,800,000
TOTAL REVENUE REQUIREMENT	PhP	769,208,000	(53,207,998)	716,000,002

³ This item is reflected as "Plus Percentage for Cooperative Investment."

PENELCO proposed an OATA of PhP 0.2010/kWh using rates of year 2000. However, this was erroneously computed using simple average. 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 53,207,998, approves a total revenue requirement of PhP 716,000,002 equivalent to an OATA⁴ of (PhP 0.1325)/kWh for PENELCO. 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 PENELCO were the default factors provided for in the UFR issued by the Commission on October 30, 2001. In the case of PENELCO, 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 PENELCO 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

⁴ *The OATA was computed using existing approved distribution rates (inclusive of current WAC, if any) and unbundled power cost as of May 2003.*

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 PENELCO 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	0.1051	0.7898	0.1051

PENELCO submitted allocation of distribution costs into demand and customer-related cost using the *Minimum-Plant Method*. This method resulted in a 28%-72% allocation on the average.

II.B.2. DESIGN AND CALCULATION OF CHARGES

II.B.2.a. BAPA

The Commission, in the design and calculation of charges takes note of the existence of the Barangay Power Associations (BAPA) that were conceptualized by the National Electrification Administration (NEA) for the purpose of strengthening member awareness and involvement in efforts towards the reduction of system loss, improvement of collection efficiency and fortification of the institutional consciousness in the grassroots level. The creation of BAPAs was also necessitated by the growing number of cooperatives' membership which made it impossible for the cooperatives to physically reach out to all end-users.

The cooperatives are responsible for the energization of the BAPAs while the latter is responsible for the maintenance of the electric lines and other installed equipment, the reading of meters and billing of power bills of respective member end-users. The cooperatives in this regard are mandated to grant various incentives to BAPAs such as three percent (3%) prompt payment discount, rebates on kWh sold, system loss allowance, honorarium for working BAPA officers, annual cash rewards for outstanding BAPAs and livelihood projects.

The Commission further acknowledges that cooperatives which have instituted BAPAs in their respective franchise areas incur costs with respect to the generation and distribution of power. With reference to the supply and

metering functions, the cooperatives generally sustain minimal costs because they only read and bill the BAPAs' mother meters.

In the design and calculation of charges, the Commission did not consider the BAPA as a customer class.

II.B.2.b. 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-Applciant 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 May 2003 amounting to PhP 0.2506 per kWh. 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 allows PENELCO's Generation Charge to remain fixed until such time that NPC's approved rates is adjusted, thus, eliminates the need for future Purchased Power Adjustment (PPA).

II.B.2.c. TRANSMISSION CHARGE

The Commission's Decision in ERC Case No. 2001-901 dated June 26, 2002 and Order dated September 20, 2002 set the transmission charges for the TRANSCO without automatic adjustments. Since the transmission rates to

be paid by PENELCO 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 PENELCO 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	Irrigation	Public Bldgs.	Street Lights
Year 1							
Demand Charge	PhP/kW			27.50			
Transmission System Charge	PhP/kWh	0.6893	0.7730	0.7324	0.6430	0.7617	0.7867
Year 2							
Demand Charge	PhP/kW			27.50			
Transmission System Charge	PhP/kWh	0.8060	0.9038	0.8627	0.7519	0.8906	0.9198
Year 3							
Demand Charge	PhP/kW			27.50			
Transmission System Charge	PhP/kWh	0.9227	1.0347	0.9931	0.8608	1.0195	1.0531
Year 4							
Demand Charge	PhP/kW			27.50			
Transmission System Charge	PhP/kWh	1.0393	1.1655	1.1235	0.9696	1.1485	1.1862

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

II.B.2.d. SYSTEM LOSS CHARGE

The Commission defines system loss for utilities to include technical loss, non-technical loss and administrative loss or the utility's use of power for its own operations.

The Commission approves the recovery of allowed system loss through the establishment of a separate System Loss Charge in the bill to end-users. The System Loss Charge shall vary from one customer class to another depending on their respective contributions to the system loss. However, due to

limited information, the Commission is constrained to adopt a uniform System Loss Charge for all end-users of PENELCO.

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.

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 its IRR provide that the recoverable 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 continue to be used. 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 PENELCO'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.

The Commission found that PENELCO's actual technical and non-technical system loss in 2000 was 13.81% which was lower than the aforementioned cap of 14%. The Commission however recognizes that PENELCO's current system loss level may have already changed and therefore, may not reflect the fair System Loss Charge that will be provided to PENELCO. Hence, the Commission considered the 2000 to 2002 average system loss or 12.93% as a reasonable compromise to balance the interests of both PENELCO and its end-users. This would, however, be subject to change upon the approval of a new policy relative thereto by the Commission.

II.B.2.e. 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).

PENELCO did not propose for distribution wheeling rates. 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. Other distribution utilities requesting to wheel power across PENELCO'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 shall 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. Therefore, distribution utilities are prohibited from bundling or tying the sale of generated or purchased power with the sale of unbundled distribution wheeling service.

II.B.2.f. 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 PENELCO to use a PhP 5.00 per meter per month and PhP 0.1267 per kWh rate for the metering function and orders PENELCO to

use a PhP per kWh rate for the supply function. Street lights with meters and other end-users shall be billed monthly customer charges for both supply and metering functions, while street light end-users without meter shall be billed with a fixed monthly customer charge for the supply function and no charge for the metering function.

All BAPA residential end-users will be charged with rates used for the Residential Class. The revenue that will be generated from the Supply and Metering Charges for BAPA end-users will comprise the fund from which PENELCO will draw various incentives it provides the same.

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	Irrigation	Public Buildings	Street Lights
New Cost-Based Rev. Reqs.	PhP	716,000,002	505,143,432	75,930,278	102,257,321	73,915	27,017,317	5,577,740
Existing Rates Rev.	PhP	736,583,939	497,023,105	83,128,170	119,858,489	75,640	30,515,777	5,982,759
Total Change in Rev.	PhP	(20,583,937)	8,120,327	(7,197,892)	(17,601,168)	(1,725)	(3,498,461)	(405,019)
%Change in Revenue		(2.79%)						
Normalized Existing Rev.	PhP	716,000,002	483,133,728	80,805,142	116,509,027	73,527	29,663,010	5,815,570
Inter-Class Cross Subsidy	PhP		(22,009,704)	4,874,864	14,251,706	(389)	2,645,693	237,830
Class Billing Determinants	kWh	155,378,822	105,498,497	17,229,133	24,990,459	16,180	6,379,321	1,265,232
Inter-Class Cross Subsidy Charge	PhP/kWh		(0.2086)	0.2829	0.5703	(0.0240)	0.4147	0.1880

II.B.3.b. CROSS SUBSIDY REMOVAL

Section 74 of R.A. 9136 and Rule 16, Section 5 of its Implementing Rules and Regulations 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 PENELCO's end-users. This impact is reflected in the three-year schedule for unbundled transmission charges provided in Section II.B.2.c. 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, PENELCO 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 minimum 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. In setting the maximum level of lifeline consumption, the Commission may adjust the minimum level of consumption and/or level of the lifeline discount so as to maximize the benefit to low-income end-users while keeping the costs associated with such subsidy between PhP 0.05 and PhP 0.10 per kWh. Thus, the Commission sets the lifeline consumption maximum level of 40 kWh for PENELCO. 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 PENELCO. 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 to 20 kWh	-	40%
21 to 25 kWh	-	30%
26 to 30 kWh	-	20%
31 to 35 kWh	-	10%
36 to 40 kWh	-	5%

PENELCO 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 40 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 PENELCO, the lifeline discounts result in a Lifeline Rate Subsidy by other end-users equal to PhP 0.0565/kWh.

The Commission believes that BAPAs' marginalized residential end-users should likewise enjoy the benefit of lifeline rates. For this purpose, PENELCO's BAPAs that comprise of residential and commercial end-users were appropriately integrated into the different customer classes in which they belong.

PENELCO shall coordinate with its Barangay Power Associations to gather information on the number of kWh falling under the different lifeline levels and corresponding discount rates for proper billing and implementation of lifeline benefits on the same. Each association will accordingly implement/provide lifeline benefits to its deserving BAPA end-users.

II.B.5. OTHER CHARGES

PENELCO's additional submissions to this Commission of its existing Other Charges as previously presented were considered in the determination of

its revenue requirement. Fifty percent (50%) of the revenues derived from these charges were appropriately deducted from the determination of the revenue requirement allowed to PENELCO. In future cases filed after Other Charges have been established based on cost, the appropriate level of deduction of the revenue derived from these charges may be revisited.

The Other Charges of PENELCO are hereby pegged at their existing levels until such time that the Commission sets new rates on the same. Further, PENELCO is ordered to make a compliance filing on its Other Charges one (1) 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 justifications 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 to the revenue requirement on the monthly bill of an average residential end-user consuming 109 kWh a month using rates based on PENELCO's actual existing rates as of May 2003 against the unbundled rates approved by the Commission is shown below.

BASED ON ACTUAL EXISTING RATES			BASED ON ERC APPROVED UNBUNDLED RATES		
		Amount			Amount
	PhP/kWh	(PhP)		PhP/kWh	PhP
Basic Rate	3.3413	364.20	Generation Charges:		
			Generation System Charge	2.1913	238.85
PPA	1.3283	144.78	Benefits to Host Comm. Charge	0.0245	2.67
			FOREX	0.2506	27.32
			Transmission System Charge	0.6893	75.13
			System Loss Charge	0.4787	52.18
			Distribution Charge	0.7038	76.71
			Supply Charge	0.3263	35.57
Power Act Rate Reduction (0.3000)		(32.70)	Metering Charges:		
			Retail Customer Charge/Month		5.00
			Metering System Charge	0.1267	13.81
Universal Charge:			Universal Charges:		
Missionary Elect. Charge	0.0168	1.83	Missionary Electrification Charge	0.0168	1.83
Environmental Charge	0.0025	0.27	Environmental Charge	0.0025	0.27
			Inter-class Cross Subsidy Charge	(0.2086)	(22.74)
			Lifeline Rate (Discount)/Charge	0.0565	6.16
			Power Act Rate Reduction	(0.3000)	(32.70)
TOTAL BILL		478.38	TOTAL BILL		480.06
PhP/kWh		4.3889	PhP/kWh		4.4042

DISPOSITION

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

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

		Res.	Comm.	Ind.	Irrig.	Public Bldgs	St.Lights
Generation Charges:							
Generation System Charge	PhP/kWh	2.1913	2.1913	2.1913	2.1913	2.1913	2.1913
Benefits to Host Comm. 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
Transmission Charges:							
Demand Charge	PhP/kWh			27.50			
Trans. System Charge	PhP/kWh	0.6893	0.7730	0.7324	0.6430	0.7617	0.7867
System Loss Charge	PhP/kWh	0.4787	0.4787	0.4787	0.4787	0.4787	0.4787
Distribution Charges:							
Demand Charge	PhP/kWh			27.50			
Dist. System Charge	PhP/kWh	0.7038	0.4974	0.2876	0.5799	0.4203	0.5106
Supply Charges:							
Retail Customer Charge	PhP/Cust./Mo.		35.03	35.03	35.03	35.03	35.03
Supply System Charge	PhP/kWh	0.3263					
Metering Charges:*							
Retail Customer Charge	PhP/Meter/Mo.	5.00	18.95	211.56	18.95	15.71	16.79
Metering System Charge	PhP/kWh	0.1267					
Inter-class Cross Subsidy Charge:	PhP/kWh	(0.2086)	0.2829	0.5703	(0.0240)	0.4147	0.1880
Universal Charge:							
Mission. Elect. Charge	PhP/kWh	0.0168	0.0168	0.0168	0.0168	0.0168	0.0168
Environmental Charge	PhP/kWh	0.0025	0.0025	0.0025	0.0025	0.0025	0.0025
Lifeline Rate (Discount)/Charge	PhP/kWh	0.0565	0.0565	0.0565	0.0565	0.0565	0.0565
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.					

* Metering Charges to Street Light consumer class shall apply only to those with installed meters.

2. To direct PENELCO to comply with the following:
 - a. Discontinue charging the PPA upon effectivity of the approved unbundled rates; PENELCO 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. 2001-165 (In the Matter of the Petition for the Availment from the Universal Charge the Share for Missionary Electrification, NPC-SPUG, Applicant);

- c. Bill PhP 0.0025/kWh representing the environmental portion of the Universal Charge in accordance with the Decision of the Commission in ERC Case No. 2002-194 (In the Matter of the Petition for the Availment from the Universal Charge the Environmental Share/Charge for the Rehabilitation and Management of Watershed Areas, NPC, 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. The rate elements provided in Annex "A" should appear on the end-user's bill even if the rate elements currently have a rate of zero or have not yet been determined by the Commission;
- 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 (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;
- 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 (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 (including interest/dividend income), 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, June 25, 2003.

(Sgd) MANUEL R. SANCHEZ
Chairman

(Sgd) OLIVER B. BUTALID
Commissioner

(Sgd) MARY ANNE B. COLAYCO
Commissioner

(Sgd) CARLOS R. ALINDADA
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gcjc/C:>Final Decision*