

Republic of the Philippines
ENERGY REGULATORY COMMISSION
San Miguel Avenue, Pasig City

IN THE MATTER OF THE APPLICATION
FOR APPROVAL OF THE UNBUNDLED
RATES PURSUANT TO THE PROVISION
OF REPUBLIC ACT NO. 9136

ERC CASE NO. 2001-1015

CAMARINES SUR I ELECTRIC
COOPERATIVE, INC. (CASURECO I),

Applicant.

x ----- x

DECISION

Before this Commission for resolution is the application filed by applicant Camarines Sur I Electric Cooperative, Inc. (CASURECO I) on December 21, 2001 for 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 both dated April 18, 2002 were issued setting the case for initial hearing on June 7, 2002.

In the same Order, applicant was directed to cause the publication of the Notice of Public Hearing at its own expense twice (2x) for two (2) successive weeks

in two (2) newspapers of nationwide circulation in the country, the last date of publication to be made not later than two (2) weeks before the scheduled date of initial hearing.

The Office of 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 said hearing. The Offices of the Municipal Mayors within the applicant's franchise area were likewise furnished with copies of the Order and the Notice of Public Hearing for the appropriate posting thereof on their respective bulletin boards.

At the initial hearing on June 7, 2002, only applicant appeared. No oppositor appeared nor was there an opposition registered herein.

During the said hearing, applicant presented its proofs of compliance with the Commission's publication and posting of notice requirements, which were duly marked as Exhibits "A" to "C-11", inclusive. Applicant then presented its first witness, Ms. Teresita C. Alcantara, applicant's Finance Manager, who testified on the schedules submitted by applicant in support of the application. In the course thereof, several documents were presented and marked as Exhibits "D" to "FF", inclusive. The direct examination of said witness having been terminated, the Commission propounded clarificatory questions on the same witness. In the course thereof, applicant was directed to submit its revised schedules reflecting the audited figures and its program for reduction of expenses.

Thereafter, applicant presented its second witness, Mr. Josephus Paolo Motos, applicant's Technical Services Department (TSD) Manager, who testified on the technical aspect of the application. The direct examination of said witness having been terminated, the Commission propounded clarificatory questions on the same witness. In the course thereof, applicant was directed to submit its proposal for the removal of cross-subsidy.

Applicant then moved that it be given a period of at least one (1) month from said date of hearing within which to submit the required documents and its formal offer of evidence. Said motion was granted by the Commission.

Meanwhile, the Commission directed applicant to submit additional documents for the proper evaluation of the instant application. In compliance therewith, applicant submitted said documents on various dates.

On October 4, 2002, applicant submitted its Formal Offer of Evidence which was admitted by the Commission for the purposes for which they were being offered. With the applicant having rested its case with the filing of said formal offer and having submitted all the additional documents required by the Commission, this case is now ripe for resolution.

I. SUMMARY OF CASURECO I's APPLICATION

1.A. REVENUE REQUIREMENT

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

ACCOUNT NAME	HISTORICAL YEAR
kWh Sales	27,465,630
Purchased Power	PhP 111,599,000
Payroll	21,880,000
Operation & Maintenance (less Purchased Power & Payroll)	28,199,000
Debt Service Plus Cash Working Capital	56,141,309
Revenue Requirement	PhP 217,819,309
Less: Other Revenue Items	0
Reinvestment Fund (5%)	10,355,000
TOTAL REVENUE REQUIREMENT	PhP 228,174,309
EXISTING REVENUE	163,568,842
Required Increase	PhP 64,605,467

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

CASURECO I's proposed revenue requirement was PhP 228,174,309 based on historical year 2000. The submitted and published Overall Average Tariff Adjustment (OATA) was PhP 2.3704/kWh.

I.B. RATE STRUCTURE/DESIGN

The unbundled rates proposed by CASURECO I were as follows:

Residential

Energy Charge	PhP	7.5004/kWh
Retail Customer Charge		37.84/customer/month
Metering Charge		32.16/ customer/month

Commercial

Energy Charge		5.6766/kWh
Retail Customer Charge		108.11/customer/month
Metering Charge		91.89/customer/month

Industrial

Energy Charge		4.9396/kWh
Retail Customer Charge		270.28/customer/month
Metering Charge		229.72/customer/month
Demand Charge		162.38/kW NCP

Irrigation/Water Systems

Energy Charge	PhP	5.1208/kWh
Retail Customer Charge		270.28/customer/month
Metering Charge		229.72/customer/month
Demand Charge		162.65/kW NCP

Public Buildings

Energy Charge		5.2290/kWh
Retail Customer Charge		189.20/customer/month
Metering Charge		160.80/customer/month

Street Lights

Dist. Facilities Charge		250.00/customer/month
Energy Charge		6.5722/kWh

I.B.1. FUNCTIONALIZATION, CLASSIFICATION and ALLOCATION

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

I.B.2. SYSTEM LOSS

The actual system loss for the year 2000 was 20%. CASURECO I adopted the actual purchased power cost net of Primary Voltage and Power Factor Discounts.

Witness Motos cited that for the year 1999 the system loss was 23% and this was due to overloading of CASURECO I's 5 MVA substation, overextended lines, pilferages and undersized conductors (June 7, 2002 TSN pp. 69-70).

I.B.3. INTER-CLASS CROSS SUBSIDY

CASURECO I provided the amounts of cross subsidies for each customer type, which included a program for the removal thereof.

CUSTOMER TYPES	ADJUSTED EXISTING (PhP)	PROPOSED (PhP)	INTER-CLASS CROSS SUBSIDIES (PhP)
Residential	141,196,347	150,849,302	9,652,955
Commercial	32,111,454	27,080,620	(5,030,834)
Industrial	33,343,659	24,309,940	(9,033,719)
Irrigation/Water System	6,422,164	5,010,216	(1,411,948)
Public Buildings	10,148,939	8,672,400	(1,476,540)
Street Lights	5,451,315	12,751,402	7,300,087
TOTAL	228,673,880	228,673,880	0

Based on Schedule H-1 of CASURECO I's UFR Application.

I.B.4. LIFELINE RATE AND LEVEL

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

	Option 1 (At Existing Rates)	Option 2 (At Proposed Customer Charges)
Level	10 kWh	10 kWh
Rate	PhP 5.95/kWh	PhP 70.00/customer/mo.

The option that CASURECO I intends to adopt is Option 2 which covers 0 to 10 kWh consumption levels and the rate pegged at a customer charge of PhP 70.00 per month. According to witness Alcantara, the choice of 10 kWh was based on the random survey conducted where the said consumption level belongs to the marginalized consumers while the 11 and above level belongs to consumers that can afford the cost of electricity (June 7, 2002, TSN pp. 21- 22).

I.C. OTHER CHARGES

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

PARTICULAR			FEES (PhP)
SERVICE CHARGES/FEES			
1. TAPPING FEE	RESIDENTIAL		100.00
	COMMERCIAL		200.00
	INDUSTRIAL		500.00
INSPECTION FEE	RESIDENTIAL	WOODEN	50.00
		CONCRETE	100.00
	COMMERCIAL		150.00
	INDUSTRIAL	SMALL	250.00
		MEDIUM	350.00
		LARGE	750.00
RECONNECTION FEE	RESIDENTIAL	0-15 KWH	40.00
		16 ABOVE	100.00
	COMMERCIAL	0-100 KWH	100.00
		101-250 KWH	150.00
		251 ABOVE	300.00
	INDUSTRIAL	0-75 KWH	250.00
		76-250 KWH	500.00
		251 ABOVE	1,000.00
SPECIAL LIGHTING	RESIDENTIAL		100.00
	COMMERCIAL		200.00
	INDUSTRIAL		500.00
HOUSEWIRING LABOR COST			
1. SURFACE TYPE			
CIRCUIT HOME-RUN			2.00/M
SAFETY SWITCH – 30 AMPS		WOODEN	75.00
		CONCRETE	200.00
RECEPTACLE			50.00/PC
TUMBLER SWITCH			50.00/PC
CONVENIENCE OUTLET			50.00/PC
FLUORESCENT SET			30.00/SE
JUNCTION BOX			30.00/PC

2. EMBEDDED TYPE			
CIRCUIT HOME-RUN-			
1-50 M.			100.00
IN EXCESS OF 50 M.			2.00/M
SERVICE ENTRANCE			150.00
PANEL BOARD WITH			
CIRCUIT BREAKER		60 AMPS	750.00
		61 AMPS-100 AMPS	1,500.00
		101 AMPS. ABOVE	3,000.00
RECEPTACLE			150.00/PC
TUMBLER SWITCH			150.00/PC
CONVENIENCE OUTLET			150.00/PC
JUNCTION BOX			50.00/PC

II. COMMISSION DISCUSSIONS AND CONCLUSIONS

II.A. DETERMINATION OF TOTAL REVENUE REQUIREMENT

II.A.1. TEST YEAR

The Commission finds CASURECO I's proposal to use the 2000 budget 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, drawn from audited financial statement figures for the historical test year 2000.

II.A.2. GENERATION and TRANSMISSION COSTS

In 2000, CASURECO I sourced 99.92% of its power from the National Power Corporation (NPC) and the remaining balance of 0.08% from Camarines Sur II Electric Cooperative, Inc. (CASURECO II). The Commission notes that the power rate charged by CASURECO II are higher than that of NPC. For this case, the Commission limited the purchased power rates to that not exceeding the NPC rate.

At present, CASURECO I is buying power solely from NPC.

The Generation and Transmission charges shall reflect the power supplier's generation charges and transmission charges of the National Transmission Company (TRANSCO) as approved in ERC Orders dated September 6 and 20, 2002, Case No. 2001-901 (In the Matter of the Application for the Approval of the Revised Unbundled Power Rates, National Power Corporation (NPC) – Applicant). The FOREX component of NPC's Generation Rate used pertains to the supply month of May 2003 amounting to PhP 0.2506/kWh. A separate charge to account for the allowable system loss shall likewise be provided in the bill to end-users (please refer to Section II.B.2.c. for details). Hence, a distribution utility with a system loss that is within the allowable cap can recover from its end-users the total cost of generation and transmission. *Annualization*¹ of the billing determinants was applied.

The downward adjustment of PhP 2,112,216 made by the Commission to Purchased Power consisted of the following:

Adjustment to Purchased Power Cost	PhP	5,792,792
Less: Adjustment to System Loss		7,905,008
Total Adjustments	PhP	(2,112,216)

The adjustment to Purchased Power Cost of PhP 5,792,792 pertains to the difference between the proposed Purchased Power of CASURECO I amounting 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.

PhP 111,599,000 and the purchased power cost based on the new rates of NPC and TRANSCO amounting to PhP 117,391,792.

Records show that CASURECO I's actual system loss for the year 2000 was 19.93%. The Commission allowed a system loss of 14% in the calculation of CASURECO I'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 7,905,008 to exclude the excess of actual system loss over the allowable recoverable cap of PhP 15,992,729.

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

Generation Charge	PhP	72,394,533
Transmission Charge		21,099,522
Recoverable System Loss		15,992,729
Total	PhP	109,486,784

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

II.A.3. PAYROLL

The Commission made an upward adjustment on the payroll account by PhP 4,748,189, bringing this to the level of PhP 26,628,189. The adjustment is due to updating salary levels as a result of step increments and an understated payroll as per CASURECO I's application, net of an adjustment of PhP 632,000, representing portions reclassified to O&M Expenses.

The Commission reviewed the Wage Adjustment Clause (WAC) Formula authorized by the then Energy Regulatory Board through ERB Case No. 94-25 and 94-96. The then Board allowed the implementation of the WAC Formula based on three established criteria for it to be classified under automatic adjustment clauses. These are: 1) when such costs are extremely volatile, changing rapidly over a short period of time; 2) when such volatile cost changes represent significant portions of total utility operating expenses; and 3) when such volatile cost changes are beyond the ability of the utility to control.

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

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 CASURECO I 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 for 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 CASURECO I 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.

CASURECO I's end-users have a right to receive safe, reliable and adequate service at a reasonable rate. On the other hand, these end-users should pay their power bills on time to ensure CASURECO I's viability. To this end, CASURECO I should view a petition for an increase in rates to be the last recourse. In future filings, CASURECO I 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 7,566,616 on CASURECO I's Operation and Maintenance (O&M) Expenses, as follows:

PARTICULARS	AMOUNT
Disallowed Expenses	PhP (7,987,373)
Reclassification:	
Items Originally Charged to Payroll Account Reclassified to O & M	632,000
Consumer Prompt Payment Discount Originally Charged to O & M but Offset Against Other Revenues	(211,243)
NET ADJUSTMENT	PhP (7,566,616)

A part of the disallowed expenses amounting to PhP 5,723,486 charged under Distribution, Customer & Information and Administrative & General Expenses representing largely of meals & allowances, donations, traveling expenses, and legal expenses were found to have gone beyond the need by 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. The remaining amount (PhP 2,263,887) represents employees' allowances and benefits that were distributed among various O&M expense accounts. These were found to be in excess of the allowed Pensions and Benefits

for CASURECO I employees, which were limited to Rice, Medical and Clothing Allowances, SSS, PAG-IBIG, PHILHEALTH employer's share premiums and contributions required to provide for a retirement fund equivalent to one month's basic salary of its employees. These expenses translate to PhP 0.2721/kWh, which the Commission considers material.

For future rate cases, CASURECO I will continually be required to make full disclosure of all its O&M expenses for the Commission to determine the prudence of all its expenditures. CASURECO I 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 CASURECO I to improve its financial condition through the development of other related sources of revenue. However, in order to balance the interests of CASURECO I 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 5,250,820 computed as shown below:

Other Revenues and Expenses	Amount
Other Revenues:	
Forfeited Discount	646,230
Prompt Payment Discount	3,344,074
Rent from Electric Property	1,468,000
Other Electric Revenue	4,126,687
Other Electric Revenue-Penalty Bill	1,123,404
Revenue from Merch., Job. & Contract Work	313,777
Misc. Non-Operating Income	11,560
Total Other Revenues	11,033,732
Other Expenses:	
Merchandising, Jobbing & Contract Work	(320,850)
Customer Prompt Payment Discount	(211,243)
Total Other Revenues, Net	10,501,639
50% of Total Other Revenues, Net	5,250,820

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

II.A.6. DEBT SERVICE

The Commission made a downward adjustment of PhP 33,203,177 (inclusive of the interest on cash working capital) to assure that the debt service included in

CASURECO I's revenue requirement is consistent with NEA's records. The details of the adjustment are shown below.

LOANS	LOAN PROFILE		ADJUSTMENT (PhP)
	PER CASURECO I (PhP)	PER NEA (PhP)	
Rural Electrification:			
A	811,000	811,087	87
B	340,000	339,925	(75)
C	1,220,000	1,219,800	(200)
D(OD)	208,000	207,848	(152)
E (FR)	211,000	211,336	336
F	2,468,000	2,467,936	(64)
G	725,000	725,440	440
H	632,000	568,944	(63,056)
Additional Release	3,000		(3,000)
E/M Allocation (L – H)	41,000		(41,000)
Restructured A	2,168,000	2,168,100	100
Restructured B	3,389,000	3,389,128	128
Emergency Loan – T-Sisang	135,000	134,752	(248)
Concessional – A	289,000	288,656	(344)
Concessional – B	227,000	230,436	3,436
Logistical Loan [LOG(Loan G)]	87,000		(87,000)
Logistical Loan [LOG(Loan H)]	268,000		(268,000)
EVAT	1,204,000		(1,204,000)
WB-RERP (RE)	2,152,000	2,210,812	58,812
BAL	232,000		(232,000)
WB-RERP (LOG)	118,000		(118,000)
BAL	463,000		(463,000)
WBANK – A (ESL)	7,601,000	7,600,772	(228)
WBANK – B (ESL)	363,000	363,160	160
Loans Subsequent to December 2000	25,355,000		(25,355,000)
Loans from Other Recs	4,648,000		(4,648,000)
Interest on Cash Working Capital	755,309		(755,309)
To correct CASURECO I's submission	28,000		(28,000)
TOTAL	56,141,309	22,938,132	33,203,177

The Commission disallowed the interest cost associated with cash working capital, as calculated by CASURECO I, due to lack of justification. Further, the other

amortization included by CASURECO I that are not part of the amortization schedule in the 2000 NEA Loan Profile were likewise disallowed, such as the amount of PhP 25,355,000 representing loans subsequent to 2000. Moreover, "Loans from other RECs" were taken out from the allowed debt service of CASURECO I because these represent supplies and materials obtained from other electric cooperatives, the cost of which remain to be paid by the latter in their respective loan amortizations. CASURECO I in this case is not expected to pay in cash but in the same kind of supplies and materials.

Thus, the total allowable amount for debt service in the determination of the revenue requirement should be PhP 22,938,132.

Pursuant to Section 60 of R.A. 9136 and E.O. 119, savings realized by electric cooperatives (ECs) due to the assumption of certain loans by the Power Sector Assets and Liabilities Management Corporation (PSALM Corp.) shall be passed on to the ECs' end-users. The CASURECO I 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, in its Order on this matter dated April 1, 2003, granted CASURECO I a Provisional Authority to reduce its rates by PhP 0.7642/kWh effective on the next billing cycle after receipt of the said Order. The said reduction in rates is likewise shown on the rate schedule provided in the Disposition of this Decision.

II.A.7. REINVESTMENT FUND

CASURECO I made a proposal for the provision for reinvestment fund in its unbundling of rates application in the amount of PhP 10,355,000.

The Commission permits a reinvestment fund equivalent to 5% of a cooperatives' 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 1,174,228 on the reinvestment fund account, resulting in an adjusted amount of PhP 9,180,772.

One of the main purposes of providing the 5% Reinvestment is for the end-users of CASURECO I to shoulder part of the 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 CASURECO I;
- (c) CASURECO I is further required to submit a progress report not later than one (1) year after the date of this Decision and every year thereafter using the format prescribed by the Commission. The progress report shall include detailed accounting itemizing total

collections, the actual use of all disbursements, and actual current system losses;

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

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

II.A.8. PROVISIONAL AUTHORITY GRANTED BY ERB

The Commission takes note of CASURECO I's provisional rate increase of PhP 0.5252/kWh which the previous Board granted on April 05, 1999 in ERB Case No. 97-26. The finality of the said provisional authority will be addressed in a separate decision that the Commission will issue.

II.A.9. REVENUE REQUIREMENT SUMMARY

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

ACCOUNT NAME	CASURECO I PROPOSAL	ADJUSTMENTS	ERC APPROVAL
Purchased Power PhP	111,599,000	(2,112,216)	109,486,784
Payroll	21,880,000	4,748,189	26,628,189
O & M (less PP & Payroll)	28,199,000	(7,566,616)	20,632,384
Other Revenues, net	0	(5,250,820)	(5,250,820)
Debt Service plus Interest on Cash Working Capital	56,141,309	(33,203,177)	22,938,132
Reinvestment Fund ²	10,355,000	(1,174,228)	9,180,772
TOTAL REVENUE REQUIREMENT PhP	228,174,309	(44,558,868)	183,615,441

² In the UFR, this item is reflected as "Plus Percentage for Cooperative Investment."

CASURECO I proposed an OATA of PhP 2.3704/kWh using rates of year 2000. The OATA is a measurement tool based on the formula: (Total Revenue Requirement less Existing Revenue) divided by kWh sales. This measurement is not meant to refer to any specific customer class.

The Commission, after considering adjustments of PhP 44,558,868 approves a total revenue requirement of PhP 183,615,441 equivalent to an OATA³ of PhP 0.2922/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 CASURECO I were the default factors provided for in the UFR issued by the Commission on October 30, 2001. In the case of CASURECO I, the default factors were found not to represent the best alternative among possible factors. Thus, the following three (3) default factors used by CASURECO I for functionalization and allocation were modified, to wit:

First, the use of Net Plant in Service (PLTSVC-N) as a factor to functionalize and allocate Maintenance for Office and General Plant will cause skewed results by

³ *The OATA was computed using existing approved distribution rates (inclusive of current WAC, if any) and unbundled power cost as of May 2003.*

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 CASURECO I 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	0.3237	0.3527	0.3236

CASURECO I submitted its allocation of distribution cost into demand- and customer-related cost using the Minimum Plant Method. This method resulted in a 51%-49% allocation on the average.

II.B.2. DESIGN AND CALCULATION OF CHARGES

II.B.2.a. GENERATION CHARGE

Consistent with the Decision in ERC Case No. 2001-901, In the Matter of the Application for Approval of the Revised Unbundled Power Rates, National Power Corporation- Applicant, dated June 26, 2002, and the Commission's Orders dated September 6 and 20, 2002, the generation charge to be billed to end-users shall be the approved rate per kilowatt-hour including Benefits to Host Communities and Franchise Charge and Foreign Exchange Rate Adjustment (FOREX). The FOREX component of NPC's Generation Rate used pertains to the supply month of 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 CASURECO I's Generation Charge to remain fixed until such time that NPC SPUG's approved rates is adjusted, thus, 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 CASURECO I are fixed, it is the decision of the Commission to likewise fix the unbundled transmission rates billed to end-users. The

transmission charges approved for billing by CASURECO I 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 Bldg.	Street Lights
Year 1						
Demand Charge PhP/kW			22.00			
Transmission System Charge PhP/kWh	0.7902	0.4672	0.5372	0.7343	0.6266	1.2482
Year 2						
Demand Charge PhP/kW			22.00			
Transmission System Charge PhP/kWh	0.9809	0.5800	0.7003	0.9115	0.7779	1.5496
Year 3						
Demand Charge PhP/kW			22.00			
Transmission System Charge PhP/kWh	1.1718	0.6928	0.8635	1.0889	0.9292	1.8510
Year 4						
Demand Charge PhP/kW			22.00			
Transmission System Charge PhP/kWh	1.3625	0.8056	1.0266	1.2661	1.0805	2.1524

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

II.B.2.c. SYSTEM LOSS CHARGE

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

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

the Commission is constrained to adopt a uniform System Loss Charge for all end-users of CASURECO I.

The allowed system loss is equal to the actual system loss for the test year or the system loss cap, whichever is lower. In arriving at this decision, the Commission recognizes that the distribution utility faces some risks of over- or under-recovery in the event its load characteristics change through time. The system loss not only results in additional unbundled generation costs but also additional unbundled transmission costs to be paid by end-users. When system loss is within the allowable caps, the distribution utility shall recover from the end-users all generation and transmission costs. Thus, system loss in excess of the allowable caps shall not be recovered from the end-users, as discussed in Section II.A.2. of this Decision.

On December 8, 1994, Republic Act No. 7832, otherwise known as the Anti-Pilferage Law, was enacted. In July 1995, the ERB promulgated the Implementing Rules and Regulations (IRR) under ERB Case No. 95-05, to implement said law. Section 10 of R.A. 7832 and Rule IX, Section 1 of its 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 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

CASURECO I's Board of Directors, officers and staff), whichever is lower, shall be deducted from total power cost and to be billed separately as System Loss Charge.

II.B.2.d. DISTRIBUTION CHARGE

The distribution charge shall be billed on a fixed rate per kilowatt-hour for all end-users. For end-users with demand meters, the distribution charge shall be billed using a combination of a fixed rate per kilowatt (kW) and a fixed rate per kilowatt-hour (kWh).

CASURECO I 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 CASURECO I'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.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 the 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 CASURECO I to use a PhP 5.00 per meter per month and a PhP 0.4515/kWh rate for the metering function and orders CASURECO I to use a PhP per kWh rate for the supply function. All other end-users shall be billed a PhP per kWh rate for the supply function and a fixed monthly meter charge for the meter function.

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 Building	Street Lights
New Cost-Based Rev. Reqs. PhP	183,615,441	117,791,729	27,962,193	19,233,802	3,717,640	7,280,905	7,629,172
Existing Rates Rev. PhP	175,037,908	104,974,096	29,548,234	23,903,385	4,249,127	7,642,362	4,720,704
Total Change in Rev. PhP	8,577,533	12,817,633	(1,586,041)	(4,669,583)	(531,487)	(361,457)	2,908,468
%Change in Revenue	4.90%						
Normalized Existing Rev. PhP	183,615,441	110,118,232	30,996,212	25,074,743	4,457,350	8,016,867	4,952,037
Inter-Class Cross Subsidy PhP		(7,673,497)	3,034,019	5,840,941	739,710	735,962	(2,677,135)
Class Billing Determinants kWh	29,352,308	17,324,622	5,337,792	3,963,766	698,798	1,296,265	731,065
Inter-Class Cross Subsidy Charge PhP/kWh		(0.4429)	0.5684	1.4736	1.0585	0.5678	(3.6620)

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 TRANSCO in its Decision dated June 26, 2002, Case No. 2001-901, which impacts the unbundled transmission rate for CASURECO l'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, CASURECO I will continue to charge the inter-class cross subsidy rates set forth in Section II.B.3.a. above.

II.B.4. LIFELINE RATE and LEVEL

Section 4 (hh) of 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 a typical low-income end-user by considering two (2) lighting facilities at 20 watts each and a 50-watt radio that are being used for a reasonable number of hours. 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 20 kWh for CASURECO I. 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 CASURECO I. The graduated scale is also based on the recognition that individual end-user consumption may likely vary from month to month.

15 kWh and below	-	40%
16 kWh	-	30%
17 kWh	-	25%
18 kWh	-	20%
19 kWh	-	10%
20 kWh	-	5%

CASURECO I shall apply these discounts to the following residential charges: Generation, Transmission, Distribution, Supply, Metering, and System Loss. In a given billing period, an end-user at any of the above consumption levels shall be given the specified corresponding discount on each of these rate components. An end-user with a level of consumption exceeding 20 kWh in a particular billing period shall not be entitled to any discounted lifeline rate for said period.

The cost of subsidy to lifeline end-users shall be passed on to all non-lifeline end-users. For CASURECO I, the lifeline discounts result in a Lifeline Rate Subsidy to other end-user equal to PhP 0.0897/kWh.

II.B.5. OTHER CHARGES

CASURECO I's additional submissions to this Commission of its existing Other Charges as previously presented was 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 CASURECO I. 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 CASURECO I are hereby pegged at their existing levels until such time that the Commission sets new rates on the same. Further, CASURECO I 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 the 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 END-USER

A comparison of the estimated impact of all adjustments to the revenue requirement on the monthly bill of an average residential end-user consuming 52 kWh a month using rates based on CASURECO I's actual existing rates as of May 2003 against the unbundled rates approved by the Commission is shown below.

BASED ON MAY 2003 ACTUAL EXISTING RATE			ERC APPROVED UNBUNDLED RATES		
	PhP/kWh	Amount PhP		PhP/kWh	Amount PhP
Basic Rate	4.2212	219.50	Generation Charges:		
PPA	1.5873	82.54	Generation System Charge	2.1913	113.95
WAC	0.1670	8.68	Franchise & Benefits to HC	0.0245	1.27
Power Act Reduction	(0.3000)	(15.60)	FOREX	0.2506	13.03
Universal Charge:			Transmission System Charge	0.7902	41.09
Mission. Elect. Charge	0.0168	0.87	System Loss Charge	0.5449	28.33
Environmental Charge	0.0025	0.13	Distribution Charge	1.6375	85.15
			Supply Charge	0.8127	42.26
			Metering Charges		
			Retail Customer Charge/Month		5.00
			Metering System Charge	0.4515	23.48
			Inter-class Cross Subsidy Charge	(0.4429)	(23.03)
			Universal Charge:		
			Missionary Electrification Charge	0.0168	0.87
			Environmental Charge	0.0025	0.13
			Lifeline Rate [(Discount)/Subsidy]	0.0897	4.66
			Loan Condonation	(0.7642)	(39.74)
			Power Act Rate Reduction	(0.3000)	(15.60)
TOTAL BILL		<u>296.13</u>	TOTAL BILL		<u>280.85</u>
PhP/kWh		<u>5.6948</u>	PhP/kWh		<u>5.4010</u>

DISPOSITION

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

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

		Residential	Comm'l	Indust'l	Irrigation	Public Buildings	Street Lights
Generation Charges:							
Generation System Charge	PhP/kWh	2.1913	2.1913	2.1913	2.1913	2.1913	2.1913
Franchise & Benefits to Host Communities Charge	PhP/kWh	0.0245	0.0245	0.0245	0.0245	0.0245	0.0245
FOREX Adjustment Charge	PhP/kWh	0.2506	0.2506	0.2506	0.2506	0.2506	0.2506
Transmission Charges:							
Demand Charge	PhP/kW			22.00			
Transmission System Charge	PhP/kWh	0.7902	0.4672	0.5372	0.7343	0.6266	1.2482
System Loss Charge	PhP/kWh	0.5449	0.5449	0.5449	0.5449	0.5449	0.5449
Distribution Charges:							
Demand Charge	PhP/kW			22.00			
Distribution System Charge	PhP/kWh	1.6375	0.9317	0.9646	1.4831	1.3324	3.7421
Supply Charges:							
Retail Customer Charge	PhP/Cust./Mo.						
Supply System Charge	PhP/kWh	0.8127	0.2300	0.0157	0.0208	0.2203	1.8982
Metering Charges:							
Retail Customer Charge	PhP/Meter/Mo.	5.00	113.41	195.83	195.83	83.57	11.92
Metering System Charge	PhP/kWh	0.4515					
Inter-Class Cross Subsidy Charge	PhP/kWh	(0.4429)	0.5684	1.4736	1.0585	0.5678	(3.6620)
Universal Charge:							
Missionary Electrification 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)/Subsidy	PhP/kWh	0.0897	0.0897	0.0897	0.0897	0.0897	0.0897
Loan Condonation *	PhP/kWh	(0.7642)	(0.7642)	(0.7642)	(0.7642)	(0.7642)	(0.7642)
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.						

** Effective on the next billing cycle after receipt of Order on ERC Case No. 2003-72 dated April 1, 2003.*

2. To direct CASURECO I to comply with the following:
 - a. Discontinue charging the PPA upon effectivity of the approved unbundled rates; CASURECO I shall automatically bill its end-users the new Generation Rate charged by NPC as approved and authorized by the Commission;

- b. Discontinue the application of the WAC formula and its implementation upon effectivity of this Decision;
- c. Bill PhP 0.0168/kWh representing the missionary electrification portion of the Universal Charge in accordance with the Order of the Commission in ERC Case No. 2001-165 (In the Matter of the Petition for the Availment from the Universal Charge the Share for Missionary Electrification, NPC-SPUG, Applicant);
- d. 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);
- e. Bill its respective end-users using a billing format which contains at least the rate elements provided in Annex "A" of this Decision upon the effectivity of the approved unbundled rates. 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;

- f. Inform the end-users within its franchise area of the said approved unbundled rates not later than thirty (30) days after receipt of this Decision;
- g. 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;
- h. 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;
- i. 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;
- j. 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;

- k. Submit a new System Rehabilitation/Upgrading and/or System Loss Reduction Plan covering the period 2004 to 2008, one (1) year after the date of this Decision using a format to be prescribed by the Commission; and
- l. 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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Fn: CASURECO I-Final as of June 30, 2003

GCJC:C:>/Final Decision