

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

IN THE MATTER OF THE APPLICATION
FOR INCLUSION OF THE LARGE LOAD
AND ITS CORRESPONDING RATES TO
THE EXISTING RATES

ERC CASE NO. 2001-516
(ERB CASE NO. 99-10)

IN THE MATTER OF THE APPLICATION
FOR RATE INCREASE IN THE AMOUNT
OF PhP 1.4517 IN THE BASIC RATE,
REVISION OF BILLING DEMAND AND
MINIMUM BILLING WITH PRAYER FOR
PROVISIONAL AUTHORITY

ERC CASE NO. 2001-836
(ERB CASE NO. 2001-52)

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

ERC CASE NO. 2001-914

CAMARINES NORTE ELECTRIC
COOPERATIVE, INC. (CANORECO),

Applicant.

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DECISION

Before this Commission for resolution are the consolidated applications filed by applicant Camarines Norte Electric Cooperative, Inc. (CANORECO) for: a) inclusion of the Large Load and its corresponding rates to the existing rates,

docketed as ERC Case No. 2001-516; b) rate increase in the amount of PhP 1.4517 in the basic rate, revision of billing demand and minimum billing with prayer for provisional authority, docketed as ERC Case No. 2001-836; and c) approval of the unbundled rates pursuant to the provision of Republic Act No. 9136, docketed as ERC Case No. 2001-914.

A. ERC Case No. 2001-516:

On March 2, 1999, CANORECO filed an application for inclusion of the large load and its corresponding rates to the existing rates. Having found said application to be sufficient in form and substance and the required fees having been paid, the same was set by the then Board for hearing on April 29, 1999.

Subsequently, sometime in March of 1999, CANORECO manifested to the then Energy Regulatory Board (ERB) that it would file a notice of withdrawal. However, on April 23, 1999, CANORECO filed a "Manifestation/Explanation" praying that the application be approved. To clarify said inconsistency in representations, a conference was set on May 11, 1999.

At the May 11, 1999 conference, CANORECO manifested that it would submit a clarification on the application for a possible offsetting of the amount to be refunded as against the amount to be charged to consumers. In the light of such development, the hearing of the case was held in abeyance pending the submission of said clarification for approval.

B. ERC CASE NO. 2001-836:

On June 1, 2001, CANORECO filed an application for authority to increase its rates in the amount of PhP 1.4517/kWh in the basic rate, revision of billing demand and minimum billing with prayer for provisional authority.

C. ERC CASE NO. 2001-914:

On December 27, 2001, CANORECO filed an application for approval of its unbundled rates wherein it proposed an Overall Average Tariff Adjustment (OATA) of PhP 1.4465/kWh as a result of the restructuring and/or reformatting of its existing rate structure in accordance with the prescribed Uniform Rate Filing Requirements.

On February 11, 2002 and February 19, 2002, the Commission issued two (2) Orders consolidating the aforesaid cases (ERC Cases Nos. 2001-516, 2001-836 and 2001-914).

Thereafter, an Order and a Notice of Public Hearing both dated March 15, 2002 were issued by the Commission setting the consolidated cases for initial hearing on May 2, 2002.

In the same Order, CANORECO 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. In compliance with the said directive, CANORECO published the Notice of Public Hearing in "*Pilipino Star Ngayon*" and "*Malaya*" on April 10 and 17, 2002, and April 12 and 17, 2002, respectively. In addition to the said compliance, CANORECO likewise published the Notice of Public Hearing in "*Bulls Eye (Aksyon Agad)*", a weekly bilingual newspaper of general circulation in the province of Camarines Norte and in the Bicol Region.

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 aforementioned initial hearing.

Likewise, the Municipal Mayors of Basud, Capalonga, Daet, Jose Panganiban, Labo, Mercedes, Paracale, San Lorenzo Ruiz, San Vicente, Sta. Elena, Talisay and Vinzons, all in the Province of Camarines Norte, were furnished with copies of the Order and the Notice of Public Hearing for the appropriate posting thereof on their respective bulletin boards.

On April 23, 2002, the Provincial Governor of Daet, Camarines Norte filed an "Opposition" praying that the application be denied on the following grounds: a) Bicol remains to be the second most depressed region in the country; b) as such, about 70% of its constituents live below the poverty level, thus, the increase of electric rates as proposed by CANORECO will be an added financial burden to the people of Camarines Norte and would even add more to their deplorable condition;

c) CANORECO did not even had the courtesy of furnishing the office of the Governor a copy of the petition nor did any responsible official of CANORECO explain even to the Sangguniang Panlalawigan, the necessity of increasing electricity rates in the province; and d) as per records of CANORECO as of the year 2000, it has posted an accumulated loss of PhP 84,599,075 which may be a result of mismanagement.

On April 30, 2002, Sangguniang Panlalawigan of Camarines Norte Members Pio L. Villaluz and Amado S. Herico filed, thru fax, their "Appearance with Urgent Motion to Reset" praying that the hearing of this case scheduled on May 2, 2002 be cancelled and reset to a later date in view of their failure to file a responsive pleading before the scheduled date of hearing. Consequently, on even date, the Commission issued an Order denying said motion considering the proximity of the date of said hearing and the fact that said schedule had already been published and posted by CANORECO. In the same Order, the abovementioned Sangguniang Panlalawigan Members were given a period of five (5) days from receipt thereof, within which to file their respective pleading.

At the initial hearing of this case on May 2, 2002, the respective counsel for CANORECO and oppositor Province of Camarines Norte appeared. The counsel for the oppositor manifested that CANORECO failed to furnish the Office of the Provincial Governor a copy of the application. In this connection, CANORECO manifested that it furnished the Sangguniang Panlalawigan of the Province of Camarines Norte a copy of the application since they were the ones who requested.

Nevertheless, it further manifested that it would furnish the Office of the Provincial Governor a copy of the application.

At the same hearing, CANORECO presented proofs of compliance with the Commission's posting and publication of notice requirements which were duly marked as Exhibits "A" to "B-12", inclusive. Thereafter, CANORECO presented its first witness, Ms. Leonida Manalo, CANORECO's Finance Manager, who testified on the different schedules submitted in support of the application. In the course thereof, several documents were presented and duly marked as Exhibits "C" to "NN-1", inclusive. The direct examination of said witness having been terminated, the oppositor reserved its right to cross-examine said witness later in the same hearing. The Commission then propounded clarificatory questions. Thereafter, the oppositor conducted its cross-examination of the same witness. Said cross-examination having been terminated, the hearing was adjourned.

At the continuation of the said hearing in the afternoon of the same day, the same parties entered their appearances. CANORECO then presented its second witness, Engr. Socrates Balane, CANORECO's Technical Services Department Manager, who testified on the technical aspect of the application. The direct examination of said witness having been terminated, the oppositor conducted its cross-examination of the same witness. The Commission again propounded clarificatory questions.

CANORECO then presented its third witness, Engr. Augustus Portem, CANORECO's General Manager, who testified on CANORECO's current operations.

In the course of said direct examination, CANORECO was directed to submit its work plan for improvement for year 2002. Thereafter, the oppositor conducted its cross-examination of the said witness.

CANORECO then moved that it be given five (5) days from receipt of the Transcript of Stenographic Notes (TSN) within which to file its formal offer of evidence. The oppositor interposed no objection to the said motion and manifested that upon receipt of said formal offer, it would confer with other government officials whether they would be presenting evidence/witnesses in this case. The Commission noted said manifestation by the oppositor and granted CANORECO's motion. Said hearing was then adjourned.

On May 6, 2002, an "Urgent Motion for Extension of Five (5) Days to Submit Answer" was filed, thru fax, by Sangguniang Panlalawigan of Camarines Norte Members Pio L. Villaluz, Amado S. Herico, Arthur Canlas and Edgar E. Dasco, praying that they be given an additional period of five (5) days within which to submit their answer in view of the voluminous documents they have to examine to prepare said pleading. The Commission granted said motion in its Order dated May 9, 2002 and directed said oppositors to file their answer within five (5) days from receipt of the Order.

In compliance with the said directive, the same oppositors filed on May 20, 2002 their "Answer with Motion and Prayer to Dismiss", alleging, among other things, that: a) there is no showing that Engr. Augustus I. Portem was duly empowered by a Board Resolution to file the application, henceforth, he lacks the legal personality

to prosecute and this case therefore must be dismissed outright; b) applicant should be held in contempt for giving the wrong information regarding the supply of electricity in the municipality of Sta. Elena; c) applicant has no factual basis to avail the benefits of Republic Act No. 9136; and d) before applicant could avail of the power rate increase in accordance with R.A. No. 9136, there are still some very vital and important internal matters that must be settled; e) had the management of applicant implemented the National Electrification Administration (NEA) Memorandum Circular of December 1, 1997, particularly on the system loss reduction, applicant can have a PhP 3M reduction of losses; and f) considering the mismanagement of applicant, it has no reason to push through with the instant application.

Relative thereto, the Commission issued an Order dated May 27, 2002 directing CANORECO to submit its comment on the said answer within ten (10) days from receipt thereof.

On June 17, 2002, CANORECO filed its "Answer to Opposition with Motion to Grant Relief", alleging, among other things: a) that the filing of the instant application is required under Section 36 of R.A. 9136 and thus, there is no necessity to secure first a Board Resolution to support said application for unbundling; b) that the electricity service to Sta. Elena through the lines of QUEZELCO I is with prior consent and approval of NEA; c) that the said unbundling as envisioned by R.A. 9136 is simply to determine the true cost of service of the electric utilities in the country to enable it to prepare for the competitive market; d) that it was not given all the needed financial and logistical support to implement the suggestions given by

NEA for it to reduce its system losses; e) that natural calamities play a vital role in the accomplishment of the proposed programs for system loss reduction; f) that despite the lack of funds coupled with the devastation brought about by the natural calamities and the continuous expansion program to energize all the barangays of its coverage area, it was able to implement at the most possible manner the System Loss Reduction Program; g) that its financial losses could be attributed to many factors, the principal one being the loss of its big load consumers; h) that eighty five (85%) percent of its monthly gross revenue goes to the payment of its power purchased from NAPOCOR; i) that the computations presented by oppositors may be correct but did not consider the various factors before said calculations could be validated; and j) that the determination of the true cost of service in order to meet the reinvestment programs of the cooperative to make it ready for the competitive environment is the main purpose of the unbundling of the rates.

On July 30, 2002, the Municipality of Daet Camarines Norte, represented by its duly elected municipal officials headed by Mayor Tito Sarte Sarion, filed an "Opposition" praying that the instant applicant be dismissed for lack of merit. In support of said opposition, said oppositors alleged: a) that the rates being imposed by applicant is among the highest, if not the highest, in the whole country; and b) that the application for unbundling of rates which will eventually increase the rates being paid by the constituents should be dismissed.

In connection therewith, the Commission issued an Order on August 12, 2002 directing CANORECO to submit its comment on the said opposition within ten (10) days from receipt thereof.

On August 26, 2002, CANORECO filed its “Comment to Opposition of the Municipality of Daet, Camarines Norte with Motion to Grant Relief” stating, among others: a) that the allegation of oppositor Sangguniang Bayan of Daet, Camarines Norte that its rates is among the highest, if not the highest in the whole country is baseless since its rates is the lowest rate in the whole Bicol region and the ninth lowest in Luzon; b) that its rates have not been increased since 1992; c) that said unbundling or reformatting of rates as envisioned by R.A. 9136 is simply to determine the true cost of service of the electric utilities in the country to enable it to prepare for the competitive market; and d) that it had been operating at a loss since the large load consumers either closed shop or had direct connection with NPC.

Meanwhile, in the Order dated September 9, 2002, the Commission directed CANORECO to submit additional documents for the proper evaluation of the instant application. In compliance therewith, CANORECO submitted said documents on various dates.

On October 7, 2002, CANORECO submitted its “Formal Offer of Evidence” which was admitted by the Commission for the purposes for which they were offered. CANORECO 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 CANORECO'S APPLICATION

I.A. REVENUE REQUIREMENT

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

ACCOUNT NAME	HISTORICAL YEAR	
KWh Sales		46,554,582
Purchased Power	PhP	198,377,668
Payroll		46,252,513
Operation & Maintenance (less Purchased Power & Payroll)		32,076,789
Debt Service Plus Cash Working Capital		13,725,641
Revenue Requirement	PhP	290,432,611
Less: Other Revenue Items		0
Reinvestment Fund (4%) *		15,801,000
TOTAL REVENUE REQUIREMENT	PhP	306,233,611
EXISTING REVENUE		244,989,449
Required Increase	PhP	61,244,162
Required Increase per kWh	PhP per kWh	1.4465

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

CANORECO's proposed revenue requirement was PhP 306,233,611 based on historical test year 2000. The OATA published was PhP 1.4465/kWh but data shown on Schedule A of the submitted UFR reflects an OATA of PhP 1.3155.

CANORECO also submitted Audited Financial Statements for the year 2000.

I.B. RATE STRUCTURE/DESIGN

The unbundled rates proposed by CANORECO were as follows:

Residential & BAPA

Retail Customer Charge	PhP	21.78/customer/month
Metering Charge		18.22/customer/month
Energy Charge		6.3210/kWh

Commercial

Retail Customer Charge		29.22/customer/month
Metering Charge		30.78/customer/month
Energy Charge		5.3325/kWh

Industrial

Retail Customer Charge		49.75/customer/month
Metering Charge		100.25/customer/month
Energy Charge		4.9539/kWh
Demand Charge		78.99/ kW NCP

Public Building & Facilities

Retail Customer Charge		23.15/customer/month
Metering Charge		26.85/customer/month
Energy Charge		6.6649/kWh

Street Lights (MSL/PSL)

Distribution Facilities Charge		200.00/customer/month
Energy Charge		10.2767/kWh

Special Lighting (SPC)

Retail Customer Charge		48.87/customer/month
Metering Charge		51.13/customer/month
Energy Charge		5.1652/kWh

Large Load

Retail Customer Charge		262.45/customer/month
Metering Charge		737.55/customer/month
Energy Charge		4.4000/kWh
Demand Charge		160.54/ kW NCP

I.B.1. FUNCTIONALIZATION, CLASSIFICATION and ALLOCATION

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

I.B.2. SYSTEM LOSS

The actual System Loss for the year 2000 was 22%. CANORECO adopted the actual purchased power cost net of Primary Voltage and Power Factor Discounts (TSN, May 2, 2002, p.40).

I.B.3. INTER-CLASS CROSS SUBSIDY

CANORECO 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	202,397,913	214,038,470	11,640,557
Commercial	70,682,696	58,087,255	(12,595,441)
Industrial	7,532,030	6,499,510	(1,032,519)
Public Buildings	12,138,090	12,512,410	374,319
Street Lights	4,966,979	8,125,780	3,158,801
Special Lighting	2,293,741	1,815,652	(478,089)
Large Load	6,222,158	5,154,531	(1,067,627)
TOTAL	306,233,610	306,233,610	0

Based on the submitted Supplemental Application, marked as Schedule H-1

I.B.4. LIFELINE RATE and LEVEL

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

	Option 1 (At Existing Rates)	Option 2 (At Proposed Customer Charges)
Level	12 kWh	12 kWh
Rate	PhP 5.1563/kWh	PhP 40.00 customer/month

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

I.C. OTHER CHARGES

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

PARTICULARS	RATES
1. Membership Fee	PhP 5.00 /Customer
2. Deposit/Guarantee Amount	
a. Meter Test (Stet)	
Residential	50.00
Commercial	75.00
Industrial	300.00
b. Meter Guarantee Amount	
Residential	1,500.00
Commercial }	Cost of meter plus
Industrial }	overhead
c. Bill Deposit	
Residential	For tenant only
Commercial }	Based on 2-mos.
Industrial }	Estimated consumption
3. Cost of Wire and Materials	
Duplex Wire # 6	20.75 /meter
Rewinding of Transformer	Actual Cost of Materials Plus Labor & Overhead

4. Rental

Pole			
a. Telephone	PhP	240.00	/pole/year
b. Cable TV		170.00	/pole/year
Transformer			
a. 10-KVA		4,000.00	/year
b. 15-KVA		6,000.00	/year
c. 25-KVA		8,000.00	/year
d. 37.5-KVA		11,000.00	/year
e. 50 KVA		15,000.00	/year

5. Service Fee/Charge (all types of consumers)

a. Surcharge		10% of Bill Amount	
b. Power Pilferage			
Residential		10,000.00	} plus differential billing
Commercial		20,000.00	
Industrial		30,000.00	
c. Illegal/ Unauthorized Connection			
Residential		1,500.00	
Commercial		3,000.00	
d. Inspection			
Residential		75.00	
Commercial		150.00	
Industrial		500.00	

6. Special Power Connection

(Temporary Connection)

a. basketball court		200.00
b. palanyag/carnival	}	250.00
c. cemetery/bldg.		
d. const. w/o transformer		
e. house construction w/o transformer		150.00

7. Transfer/Relocation/Reconnection of kWh Meter

Residential	75.00
Commercial	150.00
Industrial	500.00

8. Calibration Fee (meter)

Class – 100	100.00	/Meter
Class – 200	200.00	/Meter

9. Testing Fee (transformer)

10 KVA to 25KVA	500.00	/Transformer
37.5 KVA	1,000.00	/Transformer
50 KVA and above	1,500.00	/Transformer

10. Transformer Installation Fee 50.00 /KVA

II. COMMISSION DISCUSSIONS AND CONCLUSIONS

In reaching its conclusions herein, the Commission took into consideration the documents, data, comments and issues submitted by the applicant, intervenors and other interested parties, their respective positions on this present application and the two (2) other consolidated cases (ERC Case No. 2001-516, In the Matter of the Application for the Inclusion of the Large Load and its Corresponding Rates to the Existing Rates and ERC Case No. 2001-836, In the Matter of the Application for Rate Increase in the Amount of PhP 1.4517 in the Basic Rate, Revision of the Billing Demand and Minimum Billing with Prayer for Provisional Authority).

II.A. DETERMINATION OF TOTAL REVENUE REQUIREMENT

II.A.1. TEST YEAR

The Commission finds CANORECO'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

In 2000, CANORECO sourced 96.46% of its power from the National Power Corporation (NPC) and the remaining 3.54% from Quezon I Electric Cooperative, Inc. (QUEZELCO I). At present, CANORECO is buying power solely from NPC. The Commission noted that the contractual arrangement between CANORECO and

QUEZELCO I had no prior approval from the Energy Regulatory Board (ERB). The Commission further noted that the power rate charged by the latter supplier is higher than that of NPC. In view thereof, the Commission limits the purchased power rates to that not exceeding the NPC rate.

The Generation and Transmission charges shall reflect the power supplier's generation and transmission charges of the National Transmission Corporation (TRANSCO) as approved in ERC Orders dated September 6 and 20, 2002, Case No. 2001-901 (In the Matter of the Application for the Approval of the Revised Unbundled Power Rates, National Power Corporation (NPC) – Applicant). The FOREX component of NPC's Generation 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.d. for details). Hence, a distribution utility with a system loss that is within the allowable caps can recover from its end-users the total cost of generation and transmission. *Annualization*¹ of the billing determinants was applied.

The adjustment made by the Commission to the Purchased Power of PhP 19,983,156 consisted of the following:

Decrease in Purchased Power Cost	PhP	223,141
Add: System Loss in excess of cap		19,760,015
Total Adjustment	PhP	19,983,156

¹The 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.

The reduction of Purchased Power Cost of PhP 223,141 pertains to the difference between the proposed Purchased Power of CANORECO amounting to PhP 198,377,668 and the purchased power cost based on the new rates of NPC and TRANSCO amounting to PhP 198,154,527.

Records show that CANORECO's actual system loss for the year 2000 was 22.97%. The Commission allowed a system loss of 14% in the calculation of CANORECO's revenue requirement as discussed in Section II.B.2.d. of this Decision. Thus, the Commission disallowed the amount of PhP 19,760,015 representing a portion of the system loss in excess of the allowable recoverable cap of PhP 26,398,592.

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

Generation Charge	PhP	118,209,443
Transmission Charge		33,786,477
Recoverable System Loss		26,398,592
Total	PhP	178,394,512

CANORECO'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, CANORECO shall bill its end-users the new generation rate charged by NPC. In the meantime, CANORECO

shall discontinue charging the Purchased Power Adjustment (PPA) upon effectivity of the unbundled rates.

II.A.3. PAYROLL

The Commission made downward adjustments on the payroll account by PhP 5,779,831 resulting in the current salary level of PhP 40,472,682. The adjustment is due to the exclusion of increases in salaries and incentives brought by CANORECO's Collective Bargaining Agreement (CBA) and Board of Directors Resolution No. 107, series of 2000. Further, expenses pertaining to SSS, PAG-IBIG and PHILHEALTH employer's share premiums amounting to PhP 3,146,510 were reclassified to Operation & Maintenance Expenses.

The Commission reviewed the Wage Adjustment Clause (WAC) Formula authorized by the previous Energy Regulatory Board through ERB Case Nos. 94-25 and 94-96. The then Board allowed the implementation of the WAC Formula based on three established criteria for it to be classified under automatic adjustment clauses. These are: 1) when such costs are extremely volatile, changing rapidly over a short period of time; 2) when such volatile cost changes represent significant portions of total utility operating expenses; and 3) when such volatile cost changes are beyond the ability of the utility to control.

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

II.A.4. OPERATION and MAINTENANCE (less Purchased Power and Payroll)

In general, operating expenses allowed are those which are reasonably incurred in connection with business operations to yield revenue or income. These expenses 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 CANORECO 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 the end-users, it is obligated as a public utility to ensure that its costs of operations 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 cost to its end-users.

As such, the Commission, in fulfillment of the policy of R. A. 9136 to establish a regime of free and fair competition and full public accountability to achieve greater operational and economic efficiency, enjoins CANORECO to institute and report its

policies and procedures for cost-cutting and for the transparent and competitive procurement of goods and services.

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

The Commission made a net downward adjustment of PhP 11,243,368 on CANORECO's Operation and Maintenance (O & M) Expenses, as follows:

PARTICULARS	AMOUNT
Disallowed Expenses	PhP (12,951,710)
Reclassifications:	
Consumer Prompt Payment Discount Originally Charged to O & M but Offset Against Other Revenues	(1,553,185)
Items Originally Charged to Payroll Account Reclassified to O & M	3,146,510
Adjustments made in Overhead Lines Expense	115,017
Total Net Adjustments	PhP (11,243,368)

The disallowed expenses of PhP 12,951,710 which were charged under Supervision & Engineering, Station, Meter, Maintenance of Overhead Lines, Line Transformers, Meter Reading, Customer Records & Collections, Information & Instructional Advertising, Outside Services Employed, Travel, Training and Miscellaneous General Expenses were found to have gone beyond the need by

which these were meant for. This includes CANORECO's Retirement Fund charged under Employees' Pensions and Benefits account which was limited to an amount equivalent to one month's basic salary of its employees, thus resulting in the disallowance of the excess over the limit.

The Commission ruled that these expenses do not fall under the qualification heretofore cited, hence, are not allowed for revenue requirement determination. These expenses translate to PhP 0.2702/kWh, which the Commission considers material.

For future rate cases, CANORECO will continually be required to make full disclosure of all its O & M expenses for the Commission to determine the prudence of its expenditures. CANORECO 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 CANORECO to improve its financial condition through the development of other related sources of revenue. However, in order to

balance the interests of CANORECO and its end-users and in recognition of the fact that some of 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 5,130,766 computed as shown below:

OTHER REVENUES & EXPENSES	AMOUNT (PhP)
Other Revenues	
Rent from Electric Property	1,021,341
Late Payments	7,911,456
Service Drop	220,949
Transformer Rentals	609,272
Other Fees	837,518
Revenues from Merchandising, Jobbing & Contract Work	161,645
Miscellaneous Non-Operating Income	2,813,484
Total	13,575,665
Less: Other Expenses	
Consumer Prompt Payment Discount (reclassified from O & M)	1,553,185
Expenses of Merchandising, Jobbing & Contract Work	692,254
Civic Social & Other Related Accounts Expense	33,215
Miscellaneous Income Deduction	1,035,480
Total Other Revenues, Net	10,261,531
50% of Total Other Revenues, Net	5,130,766

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

CANORECO was not able to avail of any of the NPC's Prompt Payment Discount in year 2000, hence the Commission's policy on the same was not applied in this case. This, notwithstanding, the consumer prompt payment discount availed

by CANORECO's end-users was reclassified to Other Expenses and deducted from its Other Revenues.

II.A.6. DEBT SERVICE

The Commission made an upward adjustment of PhP 401,170 to assure that the debt service included in CANORECO's revenue requirement is consistent with NEA's records. The details of the adjustments are shown below:

LOANS	LOAN PROFILE		
	PER NEA (PhP)	PER CANORECO (PhP)	VARIANCE (PhP)
Rural Electrification:			
A	753,997	753,997	
B	815,550	815,550	
C	2,588,424	2,588,424	
D(FR)	169,356	169,356	
E	5,665,408	5,550,420	114,988
Emergency Loan			
T-Sisang	97,664	97,664	
Concessional A	594,036	594,036	
Concessional B	381,576	95,394	286,182
WBANK – RERP (RE)	2,255,460	2,255,460	
WBANK – RERP (LOG)	805,340	805,340	
TOTAL	14,126,811	13,725,641	401,170

Thus, the total allowable amount for debt service in the determination of the revenue requirement should be PhP 14,126,811.

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 EC's end-users. CANORECO applied for a rate reduction pursuant

to 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 CANORECO a provisional authority to reduce its rates by PhP 0.0527/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

CANORECO made a proposal for the provision for reinvestment fund in its unbundling of rates application in the amount of PhP 15,801,000.

The Commission permits a reinvestment fund equivalent to 5% of a 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 to a downward adjustment of PhP 2,711,702 on the reinvestment fund account, resulting in an adjusted amount of PhP 13,089,298.

One of the main purposes of providing the 5% Reinvestment is for the end-users of CANORECO 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 CANORECO;
- c. CANORECO 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 CANORECO to appear and show cause why it should continue collection of the reinvestment fund; and

- d. CANORECO 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.9. REVENUE REQUIREMENT SUMMARY

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

ACCOUNT NAME	CANORECO PROPOSAL	ADJUSTMENTS	ERC APPROVAL
Purchased Power PhP	198,377,668	(19,983,156)	178,394,512
Payroll	46,252,513	(5,779,831)	40,472,682
O & M (less PP & Payroll)	32,076,789	(11,243,368)	20,833,421
Other Revenue Items, net	0	(5,130,766)	(5,130,766)
Debt Service	13,725,641	401,170	14,126,811
Reinvestment Fund ²	15,801,000	(2,711,702)	13,089,298
TOTAL REVENUE REQUIREMENT PhP	306,233,611	(44,447,653)	261,785,958

CANORECO proposed an OATA of PhP 1.4465/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 44,447,653 approves a total revenue requirement of PhP 261,785,958 equivalent to an OATA ³ of PhP 0.3431/kWh for CANORECO. 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.

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

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

II.B. RATE STRUCTURE/DESIGN DETERMINATION

II.B.1. FUNCTIONALIZATION, CLASSIFICATION and ALLOCATION

The functionalization and allocation factors used by CANORECO were the default factors provided for in the UFR issued by the Commission on October 30, 2001. In the case of CANORECO, 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 CANORECO for functionalization and allocation were modified, to wit:

First, the use of Net Plant in Service (PLTSVC-N) as a factor to functionalize and allocate Maintenance for Office and General Plant will cause skewed results by allocating these maintenance costs toward assets not part of such activity. The Commission, therefore, adopts a factor based on Net General Plant (GP-N) as a more reasonable method to allocate maintenance expense associated with general plant.

Second, the factor "Total Operation and Maintenance, Net of Fuel and Purchased Power" (TOMXFP), which was used as a default factor to functionalize costs under outside services, was replaced with the factor "Total Payroll Excluding Administrative and General Payroll" (PAYXAG) in order to remove the possibility of allocating a portion of outside services costs to the transmission function.

Third, since the Commission considered Other Revenue Items (ORI) not included by CANORECO in the calculation of its revenue requirement, it is 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	0.7821	0.0407	0.1772

CANORECO 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 to 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, or annual cash rewards for outstanding BAPAs and livelihood projects.

The Commission further acknowledges that cooperatives that 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.

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-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 CANORECO's Generation Charge to remain fixed until such time that NPC's approved rate 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 CANORECO 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 CANORECO have been calculated based on the approved TRANSCO rates which include cross subsidy elements to be phased out over a three-year period.

Transmission Charges	Residential	Commercial	Industrial	Public Buildings	Street Lights	Large Load	Special Lighting
Year 1							
Demand Charge PhP/kW			19.80			19.80	
Transmission System Charge PhP/kWh	0.5128	0.7944	1.9208	2.5191	1.3359	0.5884	0.6679
Year 2							
Demand Charge PhP/kW			19.80			19.80	
Transmission System Charge PhP/kWh	0.6209	0.9619	2.3856	3.0503	1.6175	0.7267	0.8087
Year 3							
Demand Charge PhP/kW			19.80			19.80	
Transmission System Charge PhP/kWh	0.7291	1.1295	2.8506	3.5816	1.8993	0.8650	0.9495
Year 4							
Demand Charge PhP/kW			19.80			19.80	
Transmission System Charge PhP/kWh	0.8372	1.2970	3.3154	4.1128	2.1809	1.0032	1.0903

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 allowable System Loss Charge for all end-users of CANORECO.

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

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 or Non-Technical System Loss of 14% should be used in the calculation of revenue requirements at this time. However, this would 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 CANORECO'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.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 the combination of a fixed rate per kilowatt (kW) and fixed rate per kilowatt-hour (kWh).

CANORECO did not propose for distribution wheeling rates. The Commission believes that wheeling rates are parallel to the cost of service functionalized under Distribution. Thus, the Commission orders that the Distribution Charge provided on Rate Schedules be likewise utilized as Distribution Wheeling Charges available to the future contestable market. However, other distribution utilities requesting to wheel power across CANORECO'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 CANORECO to use a PhP 5.00 per customer per month and PhP 0.3075 per kWh rate for the metering function. On the other hand, the Commission orders CANORECO to use a PhP per kWh rate for the supply function. All other end-users except streetlights, shall be billed a PhP per kWh for the supply function and a fixed monthly meter charge for the meter 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 CANORECO 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	Public Buildings	Street Lights	Large Load	Special Lightings
New Cost –Based Rev. Requirement (PhP)	261,785,958	178,599,153	50,740,044	6,097,085	14,662,449	5,664,605	4,349,950	1,672,672
Existing Rates Rev. (PhP)	245,340,611	156,767,904	56,220,974	6,080,541	13,179,726	4,173,168	6,956,563	1,961,735
Total Change in Rev. (PhP)	16,445,347	21,831,249	(5,480,930)	16,544	1,482,723	1,491,437	(2,606,613)	(289,063)
Percentage Change In Rev.	6.70%							
Normalized Existing Revenue (PhP)	261,785,957	167,276,162	59,989,504	6,488,124	14,063,172	4,452,897	7,422,866	2,093,232
Cross-Subsidy Amts. (PhP)		(11,322,991)	9,249,460	391,039	(599,277)	(1,211,707)	3,072,916	420,560
Class Billing Determinants (in kWh)	47,927,964	32,133,572	10,790,492	894,425	1,914,276	731,919	1,077,391	385,889
Inter-Class Cross Subsidy Rates (PhP/kWh)		(0.3524)	0.8572	0.4372	(0.3131)	(1.6555)	2.8522	1.0898

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 CANORECO'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, CANORECO 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 20 kWh for CANORECO. 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 CANORECO. The graduated scale is also based on the recognition that individual end-user consumption may likely vary from month to month.

15 kWh and below	-	50%
16 kWh	-	40%
17 kWh	-	30%
18 kWh	-	20%
19 kWh	-	10%
20 kWh	-	5%

CANORECO 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 CANORECO, the lifeline discounts result in a Lifeline Rate Subsidy by other end-users equal to PhP 0.0584kWh.

The Commission believes that BAPA's marginalized residential end-users should likewise enjoy the benefit of lifeline rates. For this purpose, CANORECO's BAPAs that comprises residential end-users were appropriately integrated into the residential customer class in which they belong.

CANORECO shall coordinate with its BAPAs 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 qualified BAPA end-users.

II.B.5. OTHER CHARGES

CANORECO'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 CANORECO. 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 CANORECO are hereby pegged at their existing level until such time that the Commission sets new rates on the same. Further, CANORECO 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 70 kWh a month using rates based on CANORECO's actual existing rates as of May 2003 against the unbundled rates approved by the Commission is shown below.

Based on Actual Existing Rate			Based on ERC Approved Unbundled Rates		
	PhP/kWh	Amount PhP		PhP/kWh	Amount PhP
Basic Rate	3.3474	234.32	Generation Charges		
PPA	1.8604	130.23	Generation System Charge	2.1913	153.39
WAC	0.0967	6.77	Franchise & Benefits to HC	0.0245	1.72
Power Act Reduction	(0.3000)	(21.00)	FOREX	0.2506	17.54
Universal Charges:			Transmission System Charge	0.5128	35.90
Missionary Elect. Charge	0.0168	1.18	System Loss Charge	0.5508	38.56
Environmental Charge	0.0025	0.18	Distribution Charge	0.9933	69.53
Loan Condonation	(0.0527)	(3.69)	Supply Charge	0.6555	45.88
			Metering Charges:		
			Retail Customer Charge/Month		5.00
			Metering System Charge	0.3075	21.52
			Inter-class Cross Subsidy Charge	(0.3524)	(24.67)
			Universal Charges:		
			Missionary Electrification Charge	0.0168	1.18
			Environmental Charge	0.0025	0.18
			Lifeline Rate(Discount)/Subsidy	0.0584	4.09
			Power Act Rate Reduction	(0.3000)	(21.00)
			Loan Condonation	(0.0527)	(3.69)
TOTAL BILL		<u>347.99</u>	TOTAL BILL		<u>345.13</u>
PhP/kWh		<u>4.9713</u>	PhP/kWh		<u>4.9304</u>

DISPOSITION

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

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

		Residential	Comm'l.	Ind'l	Public Bldgs.	Street Lights	Large Load	Special Lighting
Generation Charges:								
Generation System Charge	PhP/kWh	2.1913	2.1913	2.1913	2.1913	2.1913	2.1913	2.1913
Benefits to Host Comm.	PhP/kWh	0.0245	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	0.2506
Transmission Charges:								
Demand Charge	PhP/Kw			19.80			19.80	
Transmission System Charge	PhP/kWh	0.5128	0.7944	1.9208	2.5191	1.3359	0.5884	0.6679
System Loss Charge	PhP/kWh	0.5508	0.5508	0.5508	0.5508	0.5508	0.5508	0.5508
Distribution Charges:								
Demand Charge	PhP/kW			19.80			19.80	
Distribution System Charge	PhP/kWh	0.9933	0.5770	1.2310	1.8948	3.2343	0.2307	0.4807
Supply Charges:								
Retail Customer Charge	PhP/Cust./Mo.							
Supply System Charge	PhP/kWh	0.6555	0.1708	0.0691	0.1285	0.1520	0.0550	0.1144
Metering Charges:								
Retail Customer Charge	PhP/Meter/Mo.	5.00	47.28	27.17	48.75		521.46	19.92
Metering System Charge	PhP/kWh	0.3075						
Inter-Class Cross Subsidy Charge	PhP/kWh	(0.3524)	0.8572	0.4372	(0.3131)	(1.6555)	2.8522	1.0898
Universal Charge:								
Missionary Electrification Charge	PhP/kWh	0.0168	0.0168	0.0168	0.0168	0.0168	0.0168	0.0168
Environmental Share/Charge	PhP/kWh	0.0025	0.0025	0.0025	0.0025	0.0025	0.0025	0.0025
Lifeline Rate (Discount)/Charge	PhP/kWh	0.0584	0.0584	0.0584	0.0584	0.0584	0.0584	0.0584
Loan Condonation*	PhP/kWh	(0.0527)	(0.0527)	(0.0527)	(0.0527)	(0.0527)	(0.0527)	(0.0527)
Power Act Rate Reduction	PhP/kWh	(0.3000)						
Lifeline Rate (Discount) /Subsidy	To be based on Residential Rate in a graduated scale as provided in Section II.B.4 of this Decision.							

* Effective on the next billing cycle after receipt of Order on ERC Case No. 2003-95 dated April 1, 2003.

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

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

- b.) Bill PhP 0.0168/kWh representing the missionary electrification portion of the Universal Charge in accordance with the Order of the Commission in ERC Case No. 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.) Discontinue the application of the WAC formula and its implementation upon effectivity of this Decision;
- 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 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 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 year after the date of this Decision and every year thereafter using the formats provided in Annexes "B" and "C" of this Decision. The report shall include detailed accounting of actual collections and deposits (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 the format to be prescribed by the Commission.

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) MARY ANNE B. COLAYCO
Commissioner

(Sgd) OLIVER B. BUTALID
Commissioner

(Sgd) LETICIA V. IBAY
Commissioner

(Sgd) CARLOS R. ALINDADA
Commissioner

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5. **House Committee on Energy**
Batasan Hills
1126 Quezon City
6. **Camarines Norte Electric Cooperative, Inc.**
Magallanes Ilaod, Daet
4600 Camarines Norte
7. **The Provincial Governor**
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9. **The Municipal Mayor**
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10. **The Municipal Mayor**
Capalonga
4607 Camarines Norte
11. **The Municipal Mayor**
Daet
4600 Camarines Norte
12. **The Municipal Mayor**
Jose Panganiban
4606 Camarines Norte
13. **The Municipal Mayor**
Labo
4604 Camarines Norte

14. **The Municipal Mayor**
Mercedes
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15. **The Municipal Mayor**
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18. **The Municipal Mayor**
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19. **The Municipal Mayor**
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20. **The Municipal Mayor**
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