

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

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

ERC CASE NO. 2001-989

ILOILO I ELECTRIC COOPERATIVE,
INC. (ILECO I),

Applicant.

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DECISION

Before this Commission for resolution is the application filed on December 26, 2001 by ILOILO I Electric Cooperative, Inc. (ILECO I) for the approval of its unbundled rates pursuant to the provisions of Republic Act No. 9136.

Having found said application sufficient in form and substance with the required fees having been paid, an Order and a Notice of Public Hearing both dated May 20, 2002 were issued setting the same for hearing on July 01, 2002.

ILECO I was directed to cause the publication of the Notice of Public Hearing, at its own expense twice (2x) for two (2) successive weeks in two (2) newspapers of general circulation in the country, the last date of publication to be made not later than two (2) weeks before the scheduled date of initial hearing. In compliance with the said directive, ILECO I had the Notice of Public Hearing published in *Balita* and *Malaya* on May 29 and June 5, 2002 and on June 2 and 10, 2002, respectively.

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

Likewise, the Municipal Mayors of Alimodian, Cabatuan, Guimbal, Igbaras, Leganes, Leon, Maasin, Miag-ao, Oton, Pavia, San Joaquin, San Miguel, Sta. Barbara, Tigbauan and Tubugan, all in the Province of Iloilo, were 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 July 01, 2002, only the counsel for ILECO I appeared and entered his appearance. No oppositor appeared nor was there any opposition registered.

During the said hearing, ILECO I submitted proofs of compliance with the publication and posting of notice requirements, which were duly marked as Exhibits "A" to "C-14", inclusive. Thereafter, ILECO I presented its two (2) witnesses. The first witness, Mr. Nelson G. Gasataya, ILECO I's Finance Manager, testified on the documents in support of the application as well as on certain relevant schedules. The second witness, Engr. Torretores, ILECO I's Technical Services Manager, testified on the various technical aspects of the application. In the course of their direct examinations, documents were presented and marked as Exhibits "D" to "S", inclusive. The Commission then propounded clarificatory questions on the two (2) witnesses. In the course thereof, ILECO I was directed to submit the following: a) Details of Administrative and General Expenses; b) Details of Employment Benefits; c) Explanation on Generation Charges Functionalization; and d) Revised System Loss Reduction Program.

On July 22, 2002, the Office of the Municipal Mayor Ramon C. Yee of Cabatuan, Iloilo submitted a letter together with Resolution No. 2002-200 passed by the Sangguniang Bayan of Cabatuan requesting that the venue of the hearing be transferred to Iloilo City. The Commission, in its letter dated July 23, 2002, denied said request. However, in the same letter, interested parties were advised to just submit formal written position papers, if they so desire, for the Commission's consideration.

On July 29, 2002, Atty. Romeo Gerochi of Environmentalist Consumers Network, Inc. (ECN) submitted a letter dated July 4, 2002 signifying his intention to participate as intervenor in the instant case. In the Commission's letter dated August 7, 2002, Atty. Gerochi was informed that the instant application has already been submitted for resolution but he may still submit a position paper, if he so desires.

On January 20, 2003, ILECO I filed its "Post-Hearing Compliance" while on February 4, 2003, ILECO I filed its "Formal Offer of Evidence" which was admitted by the Commission for the purpose for which they were offered.

I. SUMMARY OF ILECO I's APPLICATION

I.A. REVENUE REQUIREMENT

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

Account Name	HISTORICAL YEAR	
kWh Sales		77,901,476
Purchased Power	PhP	285,630,770
Payroll		39,326,776
Operation and Maintenance (less Purchased Power & Payroll)		40,013,476
Depreciation and Amortization		10,240
Debt Service		11,670,170
Revenue Requirement	PhP	376,651,432
Less: Other Revenue Items		66,313
Reinvestment Fund ¹ (4%)		13,631,028
TOTAL REVENUE REQUIREMENT	PhP	390,216,147

¹ In the UFR, this item is reflected as "Plus Percentage for Cooperative Investment".

ILECO I's proposed revenue requirement was PhP 390,216,147, based on historical costs for the year 2000. The Overall Average Tariff Adjustment (OATA) published was PhP 0.27569/kWh based on Schedule B year 2002. However, ILECO I submitted an amended OATA based on Schedule A in the amount of PhP 0.02354/kWh, also based on year 2000. The same OATA was stated by witness Gasataya, in his testimony on July 01, 2002 (Transcript of Stenographic Notes (TSN) July 1, 2002, pages 19 and 20).

ILECO I also submitted Audited Financial Statements for the year 2000.

I.B. RATE STRUCTURE/DESIGN

The unbundled rates proposed by ILECO I were as follows:

Residential/BAPA Energy Charge	Php 4.6611	Per kWh
Customer Charges		
Supply Charge	31.42	/Customer/mo.
Metering Charge	18.58	/Customer/mo.
Commercial Energy Charge	4.3303	Per kWh
Customer Charges		
Supply Charge	29.59	/Customer/mo.
Metering Charge	20.41	/Customer/mo.
Industrial Energy Charge	3.8498	Per kWh
Demand Charge	121.45	Per kW
Customer Charges		
Supply Charge	89.29	/Customer/mo.
Metering Charge	210.71	/Customer/mo.
Public Buildings Energy Charge	3.9537	Per kWh
Customer Charges		
Supply Charge	28.58	/Customer/mo.
Metering Charge	21.42	/Customer/mo.
Street Lights Energy Charge	5.1364	Per kWh
Distribution Facilities Charge	35.00	/ Customer/mo.

I.B.1. FUNCTIONALIZATION, CLASSIFICATION and ALLOCATION

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

However, for certain distribution costs, ILECO I developed its own classification factors for its demand-and customer-related costs using the Minimum-Plant Method.

I.B.2. SYSTEM LOSS

Witness Torreflores, in his testimony, stated that the system loss rate used was 10% (July 01, 2002, TSN, page 63). His assumption was that out of the 10% system loss, 7% to 8% is technical loss, brought about by losses in lines, while the remaining 2% to 3% is non-technical loss pertaining to pilferage, inadequate clearing, and malfunctioning of meters on the part of the consumers (July 01, 2002, TSN, page 64).

Witness Gasataya stated that ILECO I prepared a reinvestment program on monitoring and reducing further the system loss. He further mentioned that particularly in the year 2000, ILECO I allocated about PhP 9.9M for rehabilitation and upgrading of its distribution lines. However in the incoming

years 2004 and 2005, they budgeted about PhP 13.4M and PhP 22.7M, respectively (July 01, 2002, TSN, page 36).

I.B.3. INTER-CLASS CROSS SUBSIDY

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

CUSTOMER TYPE	ADJUSTED EXISTING (PhP)	PROPOSED EXISTING (PhP)	INTER-CLASS CROSS SUBSIDIES (PhP)
Residential/BAPA	246,735,827	265,814,844	19,079,017
Commercial	25,845,925	23,104,148	(2,741,777)
Industrial	96,194,211	82,870,148	(13,324,063)
Public Buildings	17,594,011	14,184,903	(3,409,108)
Street Lights	3,912,595	4,308,526	395,931
Total	390,282,569	390,282,569	0.00

I.B.4. LIFELINE RATE and LEVEL

ILECO I proposed the following level and rate (equal to the existing rate) for marginalized end-users:

Level	10 kWh
Rate	PhP 5.00/kWh

During the hearing of the subject case, witness Gasataya stated that ILECO I's proposed lifeline level is 0 to 10 kilowatt-hours at PhP 5.00/kWh, or equivalent to P50.00 per customer per month (July 01, 2002, TSN, p. 33 and 34).

I.C. OTHER CHARGES

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

PARTICULARS	RATES
1. Connection Fees	PhP 50.00
2. Meter Installation	100.00
3. Membership Fees	5.00
4. Guaranty Payment	1,000.00
5. Application Fees	20.00
6. Penalty , Disconnection & Reconnection Fees <ul style="list-style-type: none"> a. Residential, Public Bldgs. & St. Lights; <ul style="list-style-type: none"> • fine per bill w/o disconnection notice 15.00 • fine per bill w/ disconnection notice 30.00 • reconnection fee 50.00 • voluntary disconnection fee 30.00 b. Industrial Consumers: <ul style="list-style-type: none"> • Surcharge of 3%, or whichever is greater 100.00 • Reconnection fee 200.00 • Voluntary disconnection fee 100.00 c. Commercial Consumers: <ul style="list-style-type: none"> • fine per bill w/o disconnection notice 50.00 • fine per bill w/ disconnection notice 100.00 • reconnection fee 100.00 • voluntary disconnection fee 50.00 	
7. Penalty will be imposed to any member-consumer who was disconnected but illegally reconnects his service to the cooperative	3,000.00
8. Penalty will be imposed to consumer who allowed the disconnected consumers or non-members to connect to his/her service connection	1,000.00

II. COMMISSION DISCUSSIONS and CONCLUSIONS

II.A. DETERMINATION OF TOTAL REVENUE REQUIREMENT

II.A.1. TEST YEAR

The Commission finds ILECO I's proposal to use the test year 2000 in its unbundled rate application acceptable, since it is consistent with Rule 15 Section 6 (c) of the Implementing Rules and Regulations (IRR) of R.A. 9136. Therefore, the discussions and conclusions that follow are based on Schedule A, adjusted to audited financial statement figures for historical test year 2000.

II.A.2. GENERATION and TRANSMISSION COSTS

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

The Generation and Transmission charges shall reflect the power supplier's generation charges and transmission charges of the National Transmission Corporation (TRANSCO) as approved in ERC Orders dated September 6 and 20, 2002, Case No. 2001-901 (In the Matter of the Application for the Approval of the Revised Unbundled Power Rates, National Power Corporation (NPC) – Applicant). The FOREX component of the NPC's Generation Rate used pertains to the supply month of May 2003 amounting to PhP 0.2506 per 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 cap can recover from its end-users the total cost of generation and transmission. *Annualization*² of the billing determinants was applied.

The Commission made an upward adjustment to Purchased Power of PhP 3,859,574 that pertains to the difference between the proposed Purchased Power of ILECO I amounting to PhP 285,630,770 and the Generation and Transmission Charges based on the new rates of NPC and TRANSCO amounting to PhP 289,490,344.

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

Generation Charge	PhP	186,645,940
Transmission Charge		66,542,315
Recoverable System Loss		36,302,089
Total	PhP	289,490,344

ILECO I's approved generation charge shall remain fixed until changes in NPC's generation rate are approved and authorized by the Commission

² 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.

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, ILECO I shall bill its end-users the new generation rate charged by NPC. In the meantime, ILECO 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 to the payroll account by PhP 1,803,763 to update it to the current salary level of PhP 41,130,539. The adjustment is due to the implementation of a two-step salary increase for the employees per Resolution No. 101, series of 2002 as approved by NEA on August 8, 2002.

The Commission reviewed the Wage Adjustment Clause (WAC) Formula authorized by the then Energy Regulatory Board through ERB Case Nos. 94-25 and 94-96. The then Board allowed the implementation of the WAC Formula based on three (3) 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 the wage orders.

The Commission notes that ILECO I correctly chose not to apply the WAC formula.

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

In general, operating expenses allowed are those which are reasonably incurred in connection with business operations to yield revenue or income. These should be required or necessary in the operation of a utility, are recurring, and should redound to the service or benefit of end-users.

The Commission enjoins ILECO 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 the end-user, 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 ILECO I to institute and report to the Commission its respective policies and procedures for cost-cutting and for the transparent and competitive procurement of goods and services.

ILECO 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 ILECO I’s viability. To this end, ILECO I should view a petition for an increase in rates to be the last recourse. In future filings, ILECO 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 upward adjustment of PhP 2,008,250 on ILECO I's Operation and Maintenance Expenses as follows:

Annualization Adjustment	PhP	10,654,723
Less : Disallowed Expenses		8,646,473
Net Adjustment	PhP	2,008,250

Upon review of the components of the expenses included in the revenue requirement, the amount reflected by ILECO I in its application pertains to expenses as of November 2000 only. The Commission adjusted ILECO I's O & M expense account by PhP 10,654,723 to reflect a full 12-month operating period and to reconcile the said account with the Audited Financial Statement for the year 2000. The disallowed expenses of PhP 8,646,473, which consist of the incentives above NEA guidelines, non-expense items and other miscellaneous expenses, were found to have gone beyond the need by which these expenses were meant for. The Commission rules that these expenses do not fall under the qualification hereto cited, hence, are not allowed for revenue requirement determination. These expenses translate to PhP 0.1090/kWh, which the Commission considers material.

For future rate cases, ILECO I will continually be required to make full disclosure of all its O & M expenses and be responsible in providing documentation to prove the reasonableness and prudence of all its expenditures. ILECO 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 the 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 ILECO I to improve its financial condition through the development of other related sources of revenue. However, in order to balance the interest of ILECO I 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 8,510,844 (net of PhP 66,313 already deducted by ILECO I) as shown below:

Particulars	Amount (PhP)
Other Revenues	
Prompt Payment Discount	8,388,111
Other Electric Revenue	6,896,093
Revenue fr. Mdsing, Jobbing & Contract	318,868
Income fr. Non-Utility Application	84,740
Non-Operating Rental Income	157,888
Misc. Non-Operating Income	907,734
Sale of Meter Board	400,880
Total Other Revenues	17,154,314
50% of Total Other Revenues	8,577,157
Less: Other Revenue Already Deducted Per UFR	66,313
Adjustment Other Revenues	8,510,844

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

II.A.6. DEBT SERVICE

The Commission made an upward adjustment of PhP 252,300 to ensure that the debt service account included in ILECO I's revenue requirements is consistent with NEA's records. The details of this adjustment are as follows:

LOANS	LOAN PROFILE		DIFFERENCE (PhP)
	PER NEA (PhP)	PER ILECO I (PhP)	
Rural Electrification:			
LOAN A	947,831	947,831	0
LOAN B	352,970	352,970	0
LOAN C	551,764	551,764	0
LOAN D	167,749	167,749	0
LOAN E	467,648	467,648	0
LOAN F	4,316,488	4,316,488	0
LOAN H	1,750,600	1,750,600	0
Sub Total	8,555,050	8,555,050	0
World Bank – RERP	2,203,464	2,203,464	0
Staging Area	911,656	911,656	0
DENDRO-Tree Planting	252,300	0	252,300
Sub Total	3,367,420	3,115,120	252,300
TOTAL	11,922,470	11,670,170	252,300

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. ILECO 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 dated March 10, 2003, granted ILECO I a Provisional Authority to reduce its rates by PhP 0.0922/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

ILECO I made a proposal for the provision for reinvestment fund in the amount of PhP 13,631,028.

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 in an upward adjustment of PhP 6,157,810 to the reinvestment fund account, resulting in an adjusted amount of PhP 19,788,838.

One of the main purposes of providing the 5% Reinvestment Fund is for the end-users of ILECO I 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 (as discussed in Section II.A.5), shall be placed in a separate account and shall be disbursed in accordance with the plan submitted by ILECO I;
- c) ILECO I 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 ILECO I to appear and show cause why it should continue collection of the reinvestment fund; and

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

II.A.8. REVENUE REQUIREMENT SUMMARY

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

Account Name	ILECO I Proposal	Adjustments	ERC Approval
Purchased Power	285,630,770	3,859,574	289,490,344
Payroll	39,326,776	1,803,763	41,130,539
O & M (less PP & Payroll)	40,013,476	2,008,250	42,021,726
Depreciation & Amortization	10,240	(10,240)	0
Debt Service	11,670,170	252,300	11,922,470
Reinvestment Fund ³	13,631,028	6,157,810	19,788,838
Other Revenue Items	(66,313)	(8,510,844)	(8,577,157)
Total Rev. Requirement	390,216,147	5,560,613	395,776,760

ILECO I proposed an OATA of PhP 0.02354/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.

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

The Commission, after considering adjustments of PhP 5,560,613, approves a total revenue requirement of PhP 395,776,760, equivalent to an OATA⁴ of (PhP 0.0544)/kWh for ILECO I. 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 ILECO I were the default factors provided for in the UFR issued by the Commission on October 30, 2001. In the case of ILECO I, a number of the default factors were found not to represent the best alternative among possible factors. Thus, the following four (4) default factors used by ILECO 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 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.

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

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 transmission function.

Third, since the Commission is now including Other Revenue Items (ORI), it was necessary to functionalize and allocate these amounts. The functionalization factors for ORI, which were determined based on direct assignment, are as follows:

Factor Name	Functionalization Factor Description	Total Check	Generation	Transmission	Distribution	Supply	Metering
ORI	Other Revenue Items	1.0000	0.0000	0.0000	0.2572	0.6525	0.0903

Fourth, the Intangible Plant was deducted from the Net Plant in Service as this was already fully depreciated in the year 1993. Thus, the use of Net Plant in Service (PLTSVC-N) as a factor to functionalize Materials & Supplies, Debt Service, Property Insurance Expense, Taxes on Property was adjusted in order not to allocate a portion to generation function.

ILECO I submitted allocation of distribution costs into demand and customer-related cost using the *Minimum Plant Method*. This method resulted in a 49% - 51% 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 (BAPAs) 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, and the reading and billing of respective member end-users. The cooperatives, in this regard, are mandated to grant various incentives to BAPAs such as three percent (3%) prompt payment discount, rebates on kWh sold, system loss allowance, honorarium for working BAPA officers, annual cash rewards for outstanding BAPAs, and livelihood projects.

The Commission further acknowledges that cooperatives 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.

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

II.B.2.b. GENERATION CHARGE

Consistent with the Decision in ERC Case No. 2001-901, In the Matter of the Application for Approval of the Revised Unbundled Power Rates, National Power Corporation – 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 the 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 ILECO I'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 ILECO 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 ILECO 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/ BAPA	Commercial	Industrial	Public Bldgs.	Street Lights
YEAR 1						
Demand Charge	PhP/kW			27.50		
Transmission System Charge	PhP/kWh	0.7933	0.7956	0.9942	0.1629	0.3626
YEAR 2						
Demand Charge	PhP/kW			27.50		
Transmission System Charge	PhP/kWh	0.8051	0.8074	1.0108	0.1653	0.3680
YEAR 3						
Demand Charge	PhP/kW			27.50		
Transmission System Charge	PhP/kWh	0.8169	0.8193	1.0274	0.1678	0.3734
YEAR 4						
Demand Charge	PhP/kW			27.50		
Transmission System Charge	PhP/kWh	0.8287	0.8311	1.0440	0.1702	0.3788

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 ILECO I.

The allowed system loss is equal to the average system loss for the years 2000, 2001 and 2002 or the system loss cap, whichever is lower. In arriving at this decision, the Commission recognizes that the distribution utility faces some risk 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 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 be used in the calculation of revenue requirements at this time. This would, however, be subject to change upon the approval of a new policy by the Commission. The actual Technical and Non-Technical Loss or cap of 14% plus 1% cooperative own use (which should not include personal consumption of ILECO 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. In this case, the Commission adopted a system loss of 12.18%.

II.B.2.e. DISTRIBUTION CHARGE

The distribution charge shall be billed on a fixed rate per kilowatt-hour for Residential, Commercial, Public Building and Street Lights end-users. In the case of ILECO I's Industrial end-users, the distribution charge shall be billed using a combination of a fixed rate per kilowatt (kW) and a fixed rate per kilowatt-hour (kWh).

ILECO 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 ILECO 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 the 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 customers 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 ILECO I to use a combination of a PhP 5.00 per customer per month and a PhP 0.3144 per kWh rate for the metering function. On the other hand, the Commission orders ILECO I to use a PhP 0.5700 per kWh rate for the supply function. All other end-users shall be charged fixed monthly customer charge for both metering and supply functions.

All BAPA residential end-users will be charged with rates used for the Residential Class. ILECO I will draw the various incentives it will provide the BAPA for the revenues that will be generated from the Supply and Metering Charges from BAPA end-users.

II.B.3. INTER-CLASS CROSS SUBSIDY

II.B.3.a. CROSS SUBSIDY RATE CALCULATION

The inter-class cross subsidies in existing rates are as follows:

	Total	Residential / BAPA	Commercial	Industrial	Public Bldgs.	Street Lights
New Cost-Based Rev. Req.	395,776,760	273,321,505	22,577,809	84,053,810	11,773,000	4,050,636
Existing Rates Revenue	400,097,109	255,463,395	26,370,492	96,299,669	17,990,501	3,973,052
Total Change in Revenue	(4,320,349)	17,858,110	(3,792,683)	(12,245,859)	(6,217,501)	77,584
Percentage Change in Revenue	(1.08%)					
Normalized Existing Revenue	395,776,760	252,704,837	26,085,737	95,259,801	17,796,235	3,930,150
Inter-Class Cross - Subsidy Amounts (PhP)	0	(20,616,668)	3,507,928	11,205,991	6,023,235	(120,486)
Class Billing Determinants (in kWh)	79,356,267	50,669,252	5,230,390	19,100,319	3,568,281	788,025
Inter-Class Cross Subsidy Rates (PhP / kWh)		(0.4069)	0.6707	0.5867	1.6880	(0.1529)

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 rates for ILECO I'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, ILECO 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 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 the 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 ILECO 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 ILECO 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	-	50%
16 kWh	-	40%
17 kWh	-	30%
18 kWh	-	20%
19 kWh	-	10%
20 kWh	-	5%

ILECO 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 ILECO I the lifeline discounts result in a Lifeline Rate Subsidy by other end-users equal to PhP 0.0658/kWh.

The Commission believes that BAPAs marginalized residential end-users should likewise enjoy the benefit of lifeline rates. For this purpose, the Commission accepts ILECO I's proposal to integrate the household connections of BAPAs into the Residential customer class.

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

II.B.5. OTHER CHARGES

ILECO I's additional submission 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 ILECO 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 maybe revisited.

The Other Charges of ILECO I are hereby pegged at their existing levels until such time that the Commission sets new rates on the same. Further, ILECO 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 AN AVERAGE RESIDENTIAL END-USER

A comparison of the estimated impact of all adjustments on the revenue requirement on the monthly bill of an average residential end-user consuming 86 kWh a month using rates based on ILECO I's actual existing rates as of May 2003 against the unbundled rates approved by the Commission is shown below.

Based on Actual Existing Rates			Based on ERC Approved Unbundled Rates		
	PhP/kWh	Amount (PhP)		PhP/kWh	Amount (PhP)
Basic Rate	3.7060	318.72	Generation Charges:	2.3520	202.27
PPA	1.3002	111.82	Generation System Charge	2.0837	
PAR	(0.3000)	(25.80)	Benefits to Host Communities Charge	0.0177	
Univ. Charge			FOREX	0.2506	
Missionary	0.0168	1.44	Transmission Charge	0.7933	68.22
Environmental	0.0025	0.22	System Loss Charge	0.4575	39.34
Loan Condonation	(0.0922)	(7.93)	Distribution Charge	0.9124	78.46
			Supply Charge	0.5700	49.02
			Metering Charges:		
			Retail Customer Charge per Month		5.00
			Metering System Charge	0.3144	27.04
			Inter-Class Cross Subsidy	(0.4069)	(34.99)
			Universal Charge:		
			Missionary Electrification Charge	0.0168	1.44
			Environmental Charge	0.0025	0.22
			Lifeline Rate [(Discount)/Subsidy]	0.0658	5.66
			Power Act Reduction	(0.3000)	(25.80)
			Loan Condonation	(0.0922)	(7.93)
TOTAL BILL		398.46	TOTAL BILL		407.96
PhP/kWh		4.6333	PhP/kWh		4.7437

DISPOSITION

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

1. To approve the unbundled schedule of rates of ILECO I to be effective on the first billing cycle thirty (30) days after receipt of this Decision, to wit;

		Residential/ BAPA	Commercial	Industrial	Public Building	Street Lights
Generation Charges:						
Generation System Charge	PhP/kWh	2.0837	2.0837	2.0837	2.0837	2.0837
Franchise & Benefits to Host Communities Charge	PhP/kWh	0.0177	0.0177	0.0177	0.0177	0.0177
FOREX Adjustment Charge	PhP/kWh	0.2506	0.2506	0.2506	0.2506	0.2506
Transmission Charges:						
Demand Charge	PhP/Kw			27.50		
Transmission System Charge	PhP/kWh	0.7933	0.7956	0.9942	0.1629	0.3626
System loss Charge	PhP/kWh	0.4575	0.4575	0.4575	0.4575	0.4575
Distribution Charges:						
Demand Charge	PhP/kW			27.50		
Distribution System Charge	PhP/kWh	0.9124	0.4655	0.3287	0.1646	1.2174
Supply Charges:						
Retail Customer Charge	PhP/Customer/Mo.		45.01	45.01	45.01	45.01
Supply System Charge	PhP/kWh	0.5700				
Metering Charges:						
Retail Customer Charge	PhP/Meter/ Mo.	5.00	27.71	288.35	25.90	27.71
Metering System Charge	PhP/kWh	0.3144				
Inter-Class Cross Subsidy Charge	PhP/kWh	(0.4069)	0.6707	0.5867	1.6880	(0.1529)
Universal Charge:						
Missionary Electrification Charge	PhP/kWh	0.0168	0.0168	0.0168	0.0168	0.0168
Environmental Charge	PhP/kWh	0.0025	0.0025	0.0025	0.0025	0.0025
Lifeline Rate (Discount)/Subsidy	PhP/kWh	0.0658	0.0658	0.0658	0.0658	0.0658
Loan Condonation*	PhP/kWh	(0.0922)	(0.0922)	(0.0922)	(0.0922)	(0.0922)
Power Act 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.						
*Loan Condonation . Pursuant to Order on ERC Case No. 2003-68 dated March 10, 2003.						

2. To direct ILECO I to comply with the following:
 - a) Discontinue charging the PPA upon effectivity of the approved unbundled rates; ILECO I shall automatically bill its end-users the new Generation Rate charged by NPC as approved and authorized by the Commission;
 - b) Bill PhP 0.0168/kWh representing the missionary electrification portion of the Universal Charge in accordance with the Order of the Commission in ERC Case No. 2002-165 (In the Matter of the Petition for the Availments from the Universal Charge the Share for Missionary Electrification, NPC-SPUG, Applicant);
 - c) Bill PhP 0.0025/kWh representing the environmental portion of the Universal Charge in accordance with the Decision of the Commission in ERC Case No. 2002-194 (In the Matter of the Petition for the Availment from the Universal Charge the Environmental Share/Charge for the Rehabilitation and Management of Watershed Areas, NPC, Applicant);

- d) Bill its respective end-users using a billing format which contains at least the rate elements, provided in Annex "A" of this Decision upon effectivity of the approved unbundled rates. The rate elements provided in Annex "A" should appear on the end-users bill even if the rate elements currently have a rate of zero or have not yet been determined by the Commission;
- e) Inform the end-users within its franchise area of the said approved unbundled rates not later than thirty (30) days after receipt of this Decision;
- f) Submit for verification and confirmation purposes on or before the twenty
- g) eth (20th) day of the month following the effectivity of the approved unbundled rates and every month thereafter: 1) five (5) sample bills for each end-user class; 2) copy of bills from the generation and transmission companies; and 3) Monthly Financial and 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 & 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, actual current system losses;
- k) Submit a new System Rehabilitation/Upgrading and/or System Loss Reduction Program 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.

MANUEL R. SANCHEZ
Chairman

OLIVER B. BUTALID
Commissioner

MARY ANNE B. COLAYCO
Commissioner

CARLOS R. ALINDADA
Commissioner

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