

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. 2001-938**

**LEYTE IV ELECTRIC COOPERATIVE  
INC., (LEYECO IV), Applicant.**

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**D E C I S I O N**

Before this Commission for resolution is the application filed on December 20, 2001 by Leyte IV Electric Cooperative, Inc. (LEYECO IV) for the approval of its unbundled rates pursuant to the provision of Republic Act No. 9136 (RA 9136). Subsequently, on January 18, 2002, LEYECO IV filed a "Supplemental Compliance" dated January 16, 2002.

Having found said application sufficient in form and substance, with the required fees having been paid, an Order and a Notice of Public Hearing both dated April 15, 2002 were issued setting the case for hearing on June 3, 2002.

LEYECO IV 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 therewith, LEYECO IV had the Notice of Public Hearing published in *People's Independent Media* and *Liwayway Publishing, Inc.* on May 4 and 11, 2002, and on May 5 and 12, 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 Baybay, Bato, Inopacan, Hilongos, Matalom and Hindang, all in the Province of Leyte were furnished with copies of the Order and the Notice of Public Hearing for the appropriate posting thereof on their respective bulletin boards.

On May 14, 2002, the Committee on Energy of the House of Representatives, through its Secretary, submitted a letter dated May 9, 2002 endorsing the letter of Representative Carmen L. Cari of the 5<sup>th</sup> District of Leyte wherein she signified her intention to actively participate in the proceedings herein and requested copies of the instant application and other pertinent documents.

Relative thereto, the Commission transmitted to Representative Cari the requested documents through its letter dated May 16, 2002.

On May 21, 2002, Representative Cari, through a letter of even date sent via facsimile transfer, requested that the hearing of the instant application be reset to the first week of August, 2002. The Commission, in its letter dated May 23, 2002, denied said request due to the following reasons:

1. Section 36 of R.A. 9136 and its Implementing Rules and Regulations require the Commission to notify the applicant within six (6) months from the date of submission of the application of the action thereon;
2. The applicant has already published the Notice of Public Hearing dated April 15, 2002 on May 4 and 11, 2002 in Malaya and May 5 and 12 in the Manila Bulletin and postponing it would require another republication to indicate the new dates of hearing; and
3. The proximity of the hearing date.

However, in the same letter, Representative Cari was advised to file her opposition and send a representative for the duration of the proceedings.

At the initial hearing on June 3, 2002, the counsel for LEYECO IV appeared and entered his appearance. The counsel for Representative Cari likewise appeared and entered his appearance.

During the said hearing, LEYECO IV submitted proofs of compliance with the Commission's publication and posting of notice requirements, which were duly marked as Exhibits "A" to "C-5", inclusive. Thereafter, LEYECO IV presented its two (2) witnesses. The first witness, Ms. Helen Ybañez, LEYECO IV's Finance Manager, testified on the documents submitted in support of the application, as well as on certain relevant schedules. In the course of her testimony, additional documents were presented, identified by reference and marked as Exhibits "D" to "Z", inclusive. The second witness, Engineer Serafin Cavero, LEYECO IV's Technical Service Department Manager, testified on the various technical aspects of the application. The Commission propounded clarificatory questions on the said witnesses.

At the same hearing, LEYECO IV was directed to submit the following:

- a) Schedule of the Removal of Cross Subsidies;
- b) List of Miscellaneous Expenses for the Test Year; and
- c) Records of the Unscheduled Power Service Interruptions and its Causes.

The counsel for Representative Cari moved that he be given fifteen (15) days from June 3, 2002 within which to file any comment/opposition to the application while LEYECO IV moved that it be given five (5) days from receipt of the said comment/opposition within which to file its formal offer of

exhibits. Both motions were granted by the Commission. There being no other questions from the counsel for Representative Cari, the hearing was adjourned.

On June 18, 2002, the counsel for Representative Cari filed an “Urgent Motion for Extension of Time to File Opposition” praying that he be given an extension of ten (10) days from June 18, 2002 within which to submit a formal opposition. Said motion was granted by the Commission in its Order dated June 19, 2002.

On June 28, 2002, Representative Cari filed her “Opposition” alleging, among other things that:

1. The petition is vague and violates proper notice as it misleads affected parties to believe that it is a mere compliance with Republic Act No. 9136 when the application does not on its face show it will affect the present rates; and
2. The application should result in lower rates or at least be revenue neutral. LEYECO IV failed to justify its proposal to increase the rates but is trying to benefit from its management inefficiencies.

Attached to the said “Opposition” were several Resolutions passed by the Sangguniang Bayan of Baybay, Bato, Hilongos, Hindang, Inopacan and Matalom all in the Province of Leyte.

On July 24, 2002, LEYECO IV submitted its “Formal Offer of Evidence”, which was admitted by the Commission for the purpose for which they were offered.

## I. SUMMARY OF LEYECO IV’s APPLICATION

### I. A. REVENUE REQUIREMENT

LEYECO IV’s proposed revenue requirement per unbundled application based on historical year 2000 was as follows:

Account Name	Historical Year
kWh Sales	21,068,000
Purchased Power PhP	71,060,000
Payroll	15,293,000
Operation and Maintenance (less Purchased Power & Payroll)	14,368,000
Debt Service	4,763,000
Revenue Requirement PhP	105,484,000
Less: Other Revenue Items	0
Reinvestment Fund <sup>1</sup>	5,274,000
<b>TOTAL REVENUE REQUIREMENT PhP</b>	<b>110,758,000</b>
Existing Revenue	106,550,000
Required Increase PhP	4,208,000

LEYECO IV’s proposed revenue requirement was PhP 110,758,000 based on historical test year 2000. Witness Ybañez in her testimony on June 3, 2002 (Transcript of Stenographic Notes [TSN], June 3, 2002, page 21), stated that LEYECO IV’s unbundling application was based on historical test year 2000, which resulted to an overall average tariff adjustment of PhP 0.1997/kWh.

<sup>1</sup> In the UFR, this item is reflected as “Plus Percentage for Cooperative Investment (5%)”.

LEYECO IV also submitted Audited Financial Statements for the year 2000.

## I.B. RATE STRUCTURE/DESIGN

The unbundled rates proposed by LEYECO IV are as follows:

### Residential Customers

#### Supply Charges:

Retail Customer Charge	PhP	25.15	/customer/month
Metering Charge		24.85	/customer/month
Generation Charge:		3.3741	/kWh
Distribution Charge:			
Distribution System Charge		1.3498	/kWh

### Commercial Customers

#### Supply Charges:

Retail Customer Charge		22.45	/customer/month
Metering Charge		27.55	/customer/month
Generation Charge		3.3741	/kWh
Distribution Charge:			
Distribution System Charge		0.7244	/kWh
Demand Charge (more than 5 kW)		72.5409	/kW NCP

### Industrial Customers

#### Supply Charges:

Retail Customer Charge		18.23	/customer/month
Metering Charge		31.77	/customer/month
Generation Charges:			
Energy Charge		3.3741	/kWh
Distribution Charge:			
Distribution System Charge		0.3982	/kWh
Demand Charge		88.5300	/kW NCP

### Public Buildings

#### Supply Charges:

Retail Customer Charge		22.01	/customer/month
Metering Charge		27.99	/customer/month
Generation Charge		3.3741	/kWh
Distribution Charge:			
Distribution System Charge (less than or equal to 5kW)		0.6590	/kWh
Distribution System Charge (greater than 5kW)		0.6001	/kWh
Demand Charge		75.0100	/kW

**Street Lights**

## Supply Charges:

Retail Customer Charge	PhP	23.74	/customer/month
Metering Charge		26.26	/customer/month
Generation Charge:		3.3741	/kWh
Distribution Charge:			
Distribution System Charge		1.1502	/kWh

**BAPA Customers**

## Supply Charges:

Dist'n. Facilities Charge		50.00	/customer/month
Generation Charge:		3.3741	/kWh
Distribution Charge:			
Distribution Charge		0.4722	/kWh

**VISCA<sup>2</sup> Customer**

## Generation Charge:

Energy Charge:		3.3741	/kWh
Distribution Charge:			
Demand Charge		30.2500	/kW NCP
Distribution System Charge		0.5093	/kWh

**I. B.1. FUNCTIONALIZATION, CLASSIFICATION and ALLOCATION**

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

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<sup>2</sup> *Visayas State College*

However, for certain distribution costs, LEYECO IV developed its own classification factors for its demand- and customer-related costs using the Minimum- Plant Method<sup>3</sup>.

## **I.B.2. SYSTEM LOSS**

Witness Ybañez, in her testimony, stated that the system loss used in preparing LEYECO IV's unbundled rate application was 14%, which is the system loss for the year 2000 (June 3, 2002, TSN, page 26).

Witness Cavero stated that the system loss of 14% is composed of 12% technical loss and 2% non-technical loss (June 3, 2002, TSN, page 62). Witness Cavero further stated that the 12% technical loss was brought about by overloading of systems due to lack of substation from Baybay to the area of its substation (June 3, 2002, TSN, page 66).

Furthermore, witness Cavero stated that one of the proposed programs of LEYECO IV is the acquisition of a substation which it hopes to commission early next year. He added that the fund for the acquisition of this 10 MVA substation will come from the reinvestment fund in which LEYECO IV appropriated an amount of PhP 16 Million for the five-year program (June 3, 2002, TSN, pp.66 - 67).

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<sup>3</sup> The Minimum-Plant Method is a tool in the allocation of the distribution costs into demand- and customer related costs.

According to witness Cavero, LEYECO IV's acquisition of the substation will reduce its technical loss by 3% annually and improve its services (June 3, 2002, TSN, page 68).

### I.B.3. INTER-CLASS CROSS SUBSIDY

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

<b>CUSTOMER TYPE</b>	<b>ADJUSTED EXISTING (PhP)</b>	<b>PROPOSED (PhP)</b>	<b>INTER-CLASS CROSS SUBSIDIES (PhP)</b>
Residential	65,567,923	74,030,570	8,462,647
Commercial	21,132,618	18,018,657	(3,113,961)
Industrial	4,856,863	3,298,268	(1,558,595)
Public Buildings	6,173,556	5,636,460	( 537,096)
Street Lights	416,514	420,783	4,269
BAPA	1,737,562	1,342,897	(394,665)
VISCA	10,873,115	8,010,516	(2,862,599)
<b>TOTAL</b>	<b>110,758,151</b>	<b>110,758,151</b>	<b>0</b>

### I.B.4. LIFELINE RATE and LEVEL

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

	<b>Option 1 (At Existing Rates)</b>	<b>Option 2 (At Proposed Customer Charges)</b>
Level	10 kWh	10 kWh
Rate	PhP 4.9411/kWh	PhP 50.00/customer/month

**I.C. OTHER CHARGES**

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

<u>PARTICULARS</u>		<u>RATES</u>
1. Reconnection Fee After Acts of Illegal Connection		
Residential	-	PhP 200.00
Commercial	(Small) -	500.00
	(Large) -	1,000.00
Public Building	(Small) -	200.00
	(Large) -	500.00
Industrial	-	1,000.00
2. Reconnection Fee Due to Delinquency		
Residential	-	75.00
Commercial	(Small) -	100.00
	(Large) -	200.00
Public Building	(Small) -	75.00
	(Large) -	100.00
Industrial	-	300.00
3. Service Fee for New Connection		
Residential	-	100.00
Commercial	(Small) -	150.00
	(Large) -	200.00
Public Building	(Small) -	100.00
	(Large) -	150.00
Industrial	-	300.00
4. Service Fee for Voluntary Requests		
Disconnection	-	50.00
Reconnection	-	50.00
Relocation of kWh Meter	-	100.00
Replacement/Relocation		
Service Drop Wire	-	100.00
Replacement of Broken Glass		
Cover (including service fee)		
- 3-phase kWh Meter	-	500.00
- 1-phase kWh Meter	-	200.00

Meter Change service fee			
- 3-phase	-	Php	200.00
- 1-phase	-		100.00
Calibration of Owner's kWh Meter			
- 3-phase	-		200.00
- 1-phase	-		100.00
Recalibration of kWh Meter (Normal Accuracy)	-		100.00
Testing of Owner's X-former	-		15.00/kVA
Installation/Retirement of X-former			
1-phase 5 kVA to 50 kVA	-		500.00
3-phase 2 or 3 units – 10 kVA	-		750.00
– 15 kVA	-		750.00
– 25 kVA	-		750.00
– 37.5 kVA	-		1,000.00
– 50 kVA Up	-		1,500.00
Transformer Rental			
- 10 kVA	-		1,500.00/year
- 15 kVA	-		2,250.00/year
- 25 kVA	-		3,750.00/year
- 37.5 kVA	-		5,625.00/year
- 50 kVA	-		7,500.00/year
- 75 kVA	-		11,250.00/year
- 100 kVA	-		15,000.00/year
- 167 kVA	-		25,000.00/year

Note: Reconnection of service drop wires, meter change and recalibration due to natural calamity like typhoons are free of charge.

## II. COMMISSION DISCUSSIONS AND CONCLUSIONS

### II.A. DETERMINATION OF TOTAL REVENUE REQUIREMENT

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

### **II.A.1. TEST YEAR**

The Commission finds LEYECO IV'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, LEYECO IV 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<sup>4</sup> of the billing determinants was applied.

The upward adjustment of PhP 9,707,000 made by the Commission to the Purchased Power consisted of the following:

Adjustment to Purchased Power Cost	PhP	10,329,000
Less: Adjustment to System Loss		622,000
<b>Total Adjustments</b>	<b>PhP</b>	<b>9,707,000</b>

The adjustment to Purchased Power Cost of PhP 10,329,000 pertains to the difference between the proposed Purchased Power of LEYECO IV amounting to PhP 71,060,000 and the Generation and Transmission Charges based on the new rates of NPC and TRANSCO amounting to PhP 81,389,000.

Records show that LEYECO IV's actual system loss for the year 2000 was 14.66%. The Commission allowed a system loss of 14% in the calculation of LEYECO IV's revenue requirement as discussed in Section II.B.2.d of this Decision. Thus, the Commission made an adjustment to system loss of PhP 622,000 to exclude the excess of actual system loss over the allowable recoverable cap of PhP 11,652,000.

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<sup>4</sup> *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.*

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

Generation Charge	PhP	50,499,000
Transmission Charge		18,616,000
Recoverable System Loss		11,652,000
<b>Total</b>	<b>PhP</b>	<b>80,767,000</b>

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

### **II.A.3. Payroll**

The Commission made an upward adjustment on the payroll account by PhP 1,822,000 to update it to the current salary level. This takes into account salary increases implemented in 2001.

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

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

The Commission notes that LEYECO IV correctly chose not to apply the WAC Formula nor implement it as an automatic adjustment mechanism.

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

In general, operating expenses allowed are those which are reasonably incurred in connection with business operations to yield revenue or income. These should be required or necessary in the operation of an electric

distribution utility, are recurring, and should redound to the service or benefit of end-users.

The Commission enjoins LEYECO IV to incur only “prudent and reasonable costs” for inclusion in the determination of retails 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, 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 maybe not 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 R.A. 9136 to establish a regime of free and fair competition and full public accountability to achieve greater operational and economic efficiency, enjoins LEYECO IV 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. LEYECO IV'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 LEYECO IV's viability. To this end, LEYECO IV should view a petition for an increase in rates to be the last recourse. In future filings, LEYECO IV will have the burden of proving that all reasonable and appropriate cost-cutting measures have been taken, before resorting to a petition to increase rates.

Upon review of the components of the expenses included in the revenue requirement, the Commission disallowed expenses of PhP 3,014,000, which consist of the 14<sup>th</sup> month pay, meal allowances, incentive pay for station collection, excess uniform, medical and rice allowances, as well as expenses pertaining to meals and snacks that were found to have gone beyond the necessity by which these expenses were meant for. The disallowed expenses were excluded for revenue requirement determination. These expenses translate to PhP 0.1404/kWh, which the Commission considers material.

For future rate cases, LEYECO IV 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 its expenditures. LEYECO IV 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 REVENUES AND EXPENSES

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 LEYECO IV to improve its financial condition through the development of other related sources of revenue. However, in order to balance the interest of LEYECO IV 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 2,172,000 computed as shown below:

<b>OTHER REVENUES</b>	<b>AMOUNT (PhP)</b>
Prompt Payment Discount from NPC	PhP 2,095,000
Less: Customer Prompt Payment Discount	21,000
Net Prompt Payment Discount	2,074,000
Forfeited Discount	1,521,000
Other Electric Revenue	474,000
Merchandising, Jobbing and Contract of work	286,000
<b>Total Other Revenues</b>	<b>4,355,000</b>
Less: Other Expenses	12,000
<b>Net Other Revenues</b>	<b>4,343,000</b>
<b>Fifty Percent (50%) of Total Other Revenues</b>	<b>2,171,500</b>
<b>Rounded off to</b>	<b>2,172,000</b>

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

#### II.A.6. DEBT SERVICE

The Commission made an upward adjustment of PhP 16,000 to ensure that the debt service included in LEYECO IV's revenue requirement is consistent with NEA's records. The details of the adjustment are shown below.

LOANS	LOAN PROFILE		DIFFERENCE (PhP)
	PER NEA (PhP)	PER LEYECO IV (PhP)	
Rural Electrification:			
A	667,395	667,395	0
B	773,472	773,472	0
C	60,564	60,564	0
D	1,445,284	1,445,284	0
E	103,460	103,460	0
OECF :			
Construction	1,729,176	1,653,034	76,142
GSIS	0	59,941	(59,941)
<b>TOTAL</b>	<b>4,779,351</b>	<b>4,763,150</b>	<b>16,201</b>
<b>Rounded off to</b>	<b>4,779,000</b>	<b>4,763,000</b>	<b>16,000</b>

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. LEYECO IV shall apply for a rate

reduction under the Guidelines for the Implementation of the Reduction in Rates of the Electric Cooperatives Due to the Condonation of Debts issued by the Commission on October 21, 2002, as amended on November 15, 2002. The Commission will resolve the issue in a separate Decision.

#### **II.A.7. REINVESTMENT FUND**

LEYECO IV made a proposal for the provision for reinvestment fund in its unbundling of rates application in the amount of PhP 5,274,000.

The Commission permits a reinvestment fund equivalent to 5% of the cooperatives' Gross Revenue to finance expansion and rehabilitation/upgrading of its existing electric power system in accordance with the submitted System Rehabilitation/Upgrading and/or System Loss Reduction Plan. This resulted in an upward adjustment of PhP 613,000 in the reinvestment fund account, resulting in an adjusted amount of PhP 5,887,000.

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

- (d) LEYECO IV 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. PROVISIONAL AUTHORITY GRANTED BY ERB

The Commission takes note of LEYECO IV's provisional rate increase of PhP 0.2449/kWh which the previous Board granted on September 17, 1997 in ERB Case No. 94-286. The finality of the said provisional authority will be addressed in a separate decision that the Commission will issue.

## II.A.9. REVENUE REQUIREMENT SUMMARY

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

	LEYECO IV PROPOSAL (PhP)	ADJUSTMENTS (PhP)	ERC APPROVAL (PhP)
Purchased Power	71,060,000	9,707,000	80,767,000
Payroll	15,293,000	1,822,000	17,115,000
O & M (less Purchased Power & Payroll)	14,368,000	(3,014,000)	11,354,000
Debt Service	4,763,000	16,000	4,779,000
Reinvestment Fund <sup>5</sup>	5,274,000	613,000	5,887,000
Other Revenue Items	0	(2,172,000)	(2,172,000)
<b>Total Revenue Requirement</b>	<b>110,758,000</b>	<b>6,972,000</b>	<b>117,730,000</b>

LEYECO IV proposed an OATA of PhP 0.1997/kWh using rates of 2000 (as discussed in Section I-A of this Decision). 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.

<sup>5</sup> In the UFR, this item is reflected as Plus Percentage for Cooperative Investment.

The Commission, after considering adjustments of PhP 6,972,000 approves a total revenue requirement of PhP 117,730,000 equivalent to an OATA<sup>6</sup> of PhP 0.1434 per kWh. The actual impact to end-users will depend on the level of rates currently being charged. This impact is illustrated in Section 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 LEYECO IV were the default factors provided for in the UFR issued by the Commission on October 30, 2001. In the case of LEYECO IV, 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 LEYECO IV for functionalization and allocation were modified, to wit:

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<sup>6</sup> *The OATA was computed using existing approved distribution rates (inclusive of current WAC, if any) and unbundled power cost as of May 2003..*

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

Second, the factor “Total Operation and Maintenance, Net of Fuel and Purchased Power” (TOMXFP), which was used as a default factor to functionalize costs under outside services, was replaced with the factor “Total Payroll Excluding Administrative & 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) not included by LEYECO IV in the calculation of its revenue requirement, 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	0.2958	0.5985	0.1057

LEYECO IV submitted classification of certain distribution costs into demand and customer – related cost using the Minimum-Plant Method. This method resulted in a 20% - 80% allocation on the average.

On the other hand, the Commission finds LEYECO IV's Allocation Factors, specifically the Coincident Peak (CP) and Non-Coincident Peak (NCP) used in the allocation of functionalized costs, incorrect, to wit:

Allocation Factors	Total	Res.	Comm.	Industrial	Public Bldgs.	Street Lights	VISCA
CP (kW)	5,837	3,571	1,104	228	350	23	561
NCP (kW)	2,546	1,426	497	46	140	22	415

The Commission notes that LEYECO IV's total CP is greater than its total NCP. The Commission finds this not acceptable due to the fact that not all customer classes peak at the same time. Therefore, the total class NCP should be greater than the total class CP. Thus, the allocation factors used by LEYECO IV were modified, to wit:

Allocation Factor	Total	Res.	Comm.	Industrial	Public Bldgs.	Street Lights	VISCA
CP (kW)	6,129	3,688	1,120	253	408	25	635
NCP (kW)	6,973	3,863	1,756	261	417	27	649

## **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 cooperative 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 charges, the Commission did not consider BAPA as a separate 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/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. LEYECO IV shall automatically bill its end-users the new Generation Rate charged by NPC as approved and authorized by the Commission. This 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 LEYECO IV 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 LEYECO IV have been calculated based on the approved TRANSCO rates, which include cross subsidy elements to be phased out over a three-year period.

<b>Transmission Charges</b>	<b>Residential</b>	<b>Commercial</b>	<b>Industrial</b>	<b>Public Buildings</b>	<b>Street Lights</b>	<b>VISCA</b>
<b>YEAR 1</b>						
Demand Charge PhP/kW						233.68
Transmission System Charge PhP/kWh	0.8480	0.8459	0.9236	0.9533	0.9246	
<b>YEAR 2</b>						
Demand Charge PhP/kW						242.99
Transmission System Charge PhP/kWh	0.8817	0.8796	0.9604	0.9912	0.9614	
<b>YEAR 3</b>						
Demand Charge PhP/kW						252.32
Transmission System Charge PhP/kWh	0.9156	0.9134	0.9972	1.0293	0.9983	
<b>YEAR 4</b>						
Demand Charge PhP/kW						261.63
Transmission System Charge PhP/kWh	0.9494	0.9471	1.0340	1.0673	1.0351	

#### **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 LEYECO IV.

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 is able to recover from the end-users all generation and transmission costs. Thus, system loss in excess of the allowable caps shall not be recovered from the end-users as calculated in Section II.A.2 of this Decision.

On December 8, 1994, Republic Act No. 7832, otherwise known as the Anti-Pilferage Law, was enacted. In July 1995, the ERB promulgated Implementing Rules and Regulations (IRR) under ERB Case No. 95-05 to implement said law. Section 10 of R.A. 7832 and Rule IX, Section 1 of its IRR provide that the recoverable Technical and Non-Technical System Loss should not exceed the fourteen percent (14%) ceiling allowed for year 2000.

The Commission believes that the present cap on Technical and Non-Technical System Loss of 14% should continue to be used. This would, however, be subject to change upon the approval of a new policy by the

Commission. The actual system loss or cap of 14% plus 1% cooperative own use (which should not include personal consumption of LEYECO IV'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 Residential, Commercial, Industrial, Public Buildings and Street Lights end-users. In the case of VISCA end-user, distribution charge shall be billed using a fixed rate per kilowatt (kW).

LEYECO IV did not propose distribution wheeling rates as required. 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 LEYECO IV's facilities shall pay wheeling charges equivalent to Distribution Wheeling Charges for Industrial end-users.

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 LEYECO IV to use a PhP 5.00 per meter per month and a PhP 0.4332 per kWh rate for the metering function. On the other hand, the Commission orders LEYECO IV to use a PhP 0.4514 per kWh rate for the supply function. For Commercial, Industrial, Public Buildings, Street Lights and VISCA end users, metering charge shall be billed on a fixed rate per meter per month. The Supply charge shall be billed on a fixed rate per customer per month for all end-users (except the Residential).

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

### II.B.3. INTER-CLASS CROSS SUBSIDIES

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

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

	Total	RES'L	COMM'L	IND'L	PUBLIC BLDGS.	STREET LIGHTS	VISCA
New Cost-Based Rev. Requirement PhP	117,730	79,236	19,533	3,711	6,254	436	8,560
Existing Rates Revenue PhP	114,651	70,546	21,475	4,440	6,943	439	10,808
Total Change in Revenue PhP	3,079	8,690	(1,942)	(729)	(689)	(3)	(2,248)
Percentage Change in Revenue	2.69%						
Normalized Existing Rev. PhP	117,730	72,441	22,052	4,559	7,130	450	11,098
Cross-Subsidy Amounts PhP	0	(6,795)	2,519	848	876	14	2,538
Class Billing Determinants kWh	21,470	13,211	4,022	831	1,300	82	2,024
Inter-Class Cross-Subsidy Rates PhP / kWh	0	(0.5143)	0.6263	1.0194	0.6736	0.1726	1.2542

Note: The Peso and kWh amounts appearing in the above table are presented in thousand pesos.

#### II.B.3.b. CROSS SUBSIDY REMOVAL

Section 74 of R.A. 9136 and Rule 16 Section 5 of its Implementing Rules and Regulations (IRR) 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 in ERC Case No. 2001-901,

which impacts the unbundled transmission rates for LEYECO IV'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, LEYECO IV 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 the 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 LEYECO IV. The Commission considers the impact of 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 LEYECO IV. The graduated scale is also based on the recognition that individual end-users consumption may likely vary from month to month.

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

LEYECO IV 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 LEYECO IV the lifeline discounts result in a Lifeline Rate Subsidy by other end-users equal to PhP 0.1000/kWh.

The Commission believes that BAPA's marginalized residential end-users should likewise enjoy the benefit of lifeline rates. For this purpose, the Commission integrated the household connections of BAPAs into the Residential customer class.

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

#### **II.B.5. OTHER CHARGES**

LEYECO IV'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 LEYECO IV. 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 LEYECO IV are hereby pegged at their existing levels until such time that the Commission sets new rates on the same. Further, LEYECO IV 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 AN AVERAGE RESIDENTIAL END-USER**

A comparison of the estimated impact of all adjustments (without the effect yet of rate reduction due to loan condonation) to the revenue requirement on the monthly bill of an average residential end-user consuming 67 kWh a month using rates based on LEYECO IV's actual existing rates as of May 2003 against the unbundled rates approved by the Commission is shown below.

<b>Based on Actual Existing Rate</b>			<b>Based on ERC Approved Unbundled Rates</b>		
	PhP/kWh	PhP		PhP/kWh	PhP
Basic	3.9428	264.17	Generation Charges:		
PPA	1.4369	96.27	Generation	2.0837	139.61
Power Act			Benefits to HC	0.0177	1.19
Reduction	(0.3000)	(20.10)	FOREX	0.2506	16.79
Universal			Transmission Charge	0.8480	56.82
Charge:			System Loss Charge	0.5427	36.36
Missionary			Distribution Charge	1.2766	85.53
Electrification	0.0168	1.13	Supply Charge	0.4514	30.24
Environment			Metering Charge		
Charge	0.0025	0.17	PhP/Meter/month		5.00
			PhP/kWh	0.4332	29.02
			Inter-Class Cross		
			Subsidy Charge	(0.5143)	(34.46)
			Universal Charge:		
			Missionary Electrification		
			Charge	0.0168	1.13
			Environmental Charge	0.0025	0.17
			Lifeline Rate (Discount)/Charge	0.1000	6.70
			Power Act		
			Reduction	(0.3000)	(20.10)
<b>TOTAL BILL</b>		<b>341.63</b>	<b>TOTAL BILL</b>		<b>353.99</b>
PhP/kWh		5.0990	PhP/kWh		5.2834

## DISPOSITION

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

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

		Res'l	Com'l	Ind'l	Public Bldgs.	Street Lights	VISCA
<b>Generation Charges:</b>							
Generation System Charge	PhP/kWh	2.0837	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	0.0177
FOREX Adjustment Charge	PhP/kWh	0.2506	0.2506	0.2506	0.2506	0.2506	0.2506
<b>Transmission Charges:</b>							
Demand Charge	PhP/kWh						233.68
Transmission System Charge	PhP/kWh	0.8480	0.8459	0.9236	0.9533	0.9246	
<b>Distribution Charges:</b>							
Demand Charge	PhP/kWh						93.50
Distribution System Charge	PhP/kWh	1.2766	0.7570	0.4935	0.6466	0.9927	
<b>System Loss Charge</b>	PhP/kWh	0.5427	0.5427	0.5427	0.5427	0.5427	0.5427
<b>Supply Charges:</b>							
Retail Customer Charge	PhP/Cust./Month		18.70	18.70	18.70	18.70	18.70
Supply System Charge	PhP/kWh	0.4514					
<b>Metering Charges:</b>							
Retail Customer Charge	PhP/Meter/Mo.	5.00	27.45	31.97	27.45	22.94	31.88
Metering System Charge	PhP/kWh	0.4332					
<b>Inter-Class Cross Subsidy Charge</b>	PhP/kWh	(0.5143)	0.6263	1.0194	0.6736	0.1726	1.2542
<b>Universal Charge</b>							
Missionary Electrification Charge	PhP/kWh	0.0168	0.0168	0.0168	0.0168	0.0168	0.0168
Environmental Charge	PhP/kWh	0.0025	0.0025	0.0025	0.0025	0.0025	0.0025
<b>Lifeline Rate (Discount)/Subsidy</b>	PhP/kWh	0.1000	0.1000	0.1000	0.1000	0.1000	0.1000
<b>Power Act Rate Reduction</b>	PhP/kWh	(0.3000)					
<b>Lifeline Rate (Discount)/Subsidy.</b> To be based on Residential rate in a graduated scale as provided in Section II.B.4 of this Decision.							

2. To direct LEYECO IV to comply with the following:

- a) Discontinue charging the PPA upon effectivity of the approved unbundled rates; LEYECO IV 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 Decision of the Commission in ERC Case No. 2001-165 (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 the 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 twentieth (20<sup>th</sup>) 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;
- 
- g) Make a formal application with the Commission for the approval of existing or future contracts with any entity for the wholesale purchases of power not yet approved by the Commission;
  - h) Make a formal application to continue the use of Other Charges within one (1) year from the date of this Decision using a format to be prescribed by the Commission;
  - i) File a progress report on the reinvestment fund one (1) year after the date of this Decision and every year thereafter using the prescribed formats provided in Annexes B and C of this Decision. The report shall include detailed accounting of actual collections and deposits (including interest/dividend income), specific transactions and withdrawals for all disbursements, and actual current system losses;

- j) Submit a new Systems Rehabilitation/Upgrading and/or System Loss Reduction Program covering the period 2004 to 2008, one (1) year after the date of this Decision using the format to be prescribed by the Commission; and
  
- k) Institute policies and procedures for cost-cutting and transparent and competitive procurement of goods and services and submit a report thereon to the Commission within six (6) months from receipt of this Decision.

**SO ORDERED.**

Pasig City, June 27, 2003.

**MANUEL R. SANCHEZ**  
Chairman

**OLIVER B. BUTALID**  
Commissioner

**MARY ANNE B. COLAYCO**  
Commissioner

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