

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. 2001-1005

BANTAYAN ISLAND ELECTRIC COOPERATIVE, INC.
(BANELCO),

Applicant.

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D E C I S I O N

Before this Commission for resolution is the application filed by applicant Bantayan Island Electric Cooperative, Inc. (BANELCO) on December 20, 2001 for approval of its unbundled rates pursuant to the provision 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 June 10, 2002 were issued setting the case for initial hearing on July 30, 2002.

In the same Order, applicant was directed to cause the publication of the Notice of Public Hearing at its own expense twice (2x) for two (2) successive weeks in two (2) newspapers of nationwide circulation in the country, the last date of publication to be made not later than two (2) weeks before the scheduled date of initial hearing.

The Office of the Solicitor General (OSG), the Commission on Audit (COA) and the Committees on Energy of both Houses of Congress were furnished with copies of the Order and the Notice of Public Hearing and were requested to have their respective duly authorized representatives present at the said hearing. The Offices of the Municipal Mayors within the applicant's franchise area were likewise furnished with copies of the Order and the Notice of Public Hearing for the appropriate posting thereof on their respective bulletin boards.

During the initial hearing of this case on July 30, 2002, only applicant appeared. No oppositor appeared nor was there any opposition registered herein. Applicant presented proofs of compliance with the Commission's posting and publication of notice requirements which were duly marked as Exhibits "A" to "C-2", inclusive. Thereafter, applicant presented its first witness, Ms. Enedina Villacampa, applicant's Finance Services Chief, who testified on the different schedules submitted in support of the application. In the course thereof, several documents were presented and duly marked as Exhibits "D" to "GG", inclusive. The direct examination of said witness having been terminated, the Commission propounded clarificatory questions. In the course thereof, applicant was directed to submit the following data: 1.) breakdown of its Distribution Miscellaneous Expense; 2.) reconciliation of its Debt Service;

3.) breakdown of its Miscellaneous Consumer Expense; 4.) breakdown of its Outside Services Expense; and 5.) breakdown of "Other Revenues" account.

Applicant then presented its second witness, Mr. Rodrigo Santillan, applicant's Technical Services Division Chief, who testified on the technical aspect of the application. The direct examination of said witness having been terminated, the Commission again propounded clarificatory questions.

Applicant then moved that it be given twenty (20) days from said date of hearing within which to submit the required documents and five (5) days from receipt of the Transcript of Stenographic Notes (TSN) within which to submit its formal offer of evidence. Said motion was granted by the Commission.

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

On November 08, 2002, applicant submitted its Formal Offer of Evidence which was admitted by the Commission for the purposes for which they were being offered. Applicant having rested its case with the filing of said formal offer and having submitted all the additional documents required by the Commission, this case is now ripe for resolution.

I. SUMMARY OF BANELCO's APPLICATION

I.A. REVENUE REQUIREMENT

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

Account Name	HISTORICAL YEAR
kWh Sales	9,445,232
Purchased Power	PhP 28,594,504
Payroll	5,787,894
Operation and Maintenance	3,279,480
Debt Service	3,048,972
Revenue Requirement	PhP 40,710,850
Less: Other Revenue Items	0
Reinvestment Fund (5%) ¹	1,921,849
TOTAL REVENUE REQUIREMENT	PhP 42,632,699
Existing Revenue	38,467,766
Required Increase	PhP 4,164,933

BANELCO's proposed revenue requirement was PhP 42,632,699 based on historical costs for the year 2000. The Overall Average Tariff Adjustment (OATA) published was PhP 0.4410/kWh. The same OATA was stated by witness Villacampa, in her testimony on July 30, 2002 (TSN, July 30, 2002, p. 17).

BANELCO also submitted its Audited Financial Statements for the year 2000.

I.B. RATE STRUCTURE/DESIGN

The unbundled rates proposed by BANELCO were as follows:

Residential

Energy Charge	PhP	3.9730 / kWh
Retail Customer Charge		16.94 / cust. / mo.
Metering Charge		23.06 / cust. / mo.

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

Commercial

Energy Charge	PhP	3.8634 / kWh
Retail Customer Charge		23.98 / cust. / mo.
Metering Charge		41.02 / cust. / mo.

Industrial

Demand Charge		138.15 / NCP kW
Energy Charge		3.2247 / kWh
Retail Customer Charge		16.81 / cust. / mo.
Metering Charge		63.19 / cust. / mo.

Public Buildings

Energy Charge		4.1078 / kWh
Retail Customer Charge		15.91 / cust. / mo.
Metering Charge		24.09 / cust. / mo.

Street Lights

Energy Charge		4.1954 / kWh
Dist. Facilities Charge		24.00 / cust. / mo.

I.B.1. FUNCTIONALIZATION, CLASSIFICATION and ALLOCATION

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

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

I.B.2. SYSTEM LOSS

The actual [system loss](#) for the year 2000 was 9.60%. BANELCO adopted the actual purchased power cost net of Primary Voltage and Power Factor Discounts.

I.B.3. INTER-CLASS CROSS SUBSIDY

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

CUSTOMER TYPES	ADJUSTED EXISTING (PhP)	PROPOSED (PhP)	INTER-CLASS CROSS SUBSIDIES (PhP)
Residential	29,202,188	30,668,270	1,466,082
Commercial	7,889,428	7,212,714	(676,714)
Industrial	3,287,428	2,563,134	(724,294)
Public Buildings	1,272,987	1,243,827	(29,160)
Street Lights	980,668	944,754	(35,914)
TOTAL	42,632,699	42,632,699	0

I.B.4. LIFELINE RATE and LEVEL

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

	Option 1 (At Existing Rates)	Option 2 (At Proposed Customer Charges)
Level	10 kWh	10 kWh
Rate	PhP 4.0105/kWh	PhP 40.00/customer/mo.

During the hearing of the subject case, witness Villacampa stated that BANELCO's preferred lifeline level is 0 to 10 kilowatthours with a PhP 40.00 per customer per month charge (TSN, [July 30, 2002](#), pp. 19 & 21).

I.C. OTHER CHARGES

BANELCO, in its subsequent submission, provided this Commission with information on its existing other charges as shown below. BANELCO did not propose any adjustments to these charges.

PARTICULARS	PhP/UNIT	
Membership Fees	5.00 / member	
Guaranty Payment/Meter Deposit		
1-30 Amperes	1,000.00	
Above 30 Amperes	1,500.00	
Inspection Fees	20.00	
Others:		
Reconnection Fees	30.00	
Penalty Charges	10.00	
Interest Charges	1.5% / mo. / bill	
Meter Calibration Fees	20.00	
Meter Relocation Charges	20.00	
Service Drop Wire Relocation Charges	20.00	
Transformer Rentals		
per 10 KVA	107.50	
15 KVA	118.35	
25 KVA	150.00	
50 KVA	277.50	
Transformer Installation Fees	Single Phase	Three Phase
per 10 KVA	200.00	500.00
15 KVA	250.00	700.00
25 KVA	350.00	1,000.00
50 KVA	500.00	1,500.00
Transformer Retirement Fees		
per 10 KVA	200.00	500.00
15 KVA	250.00	700.00
25 KVA	350.00	1,000.00
50 KVA	500.00	1,500.00
Luminaire Lamp Rentals		
For Special Service Connection/Special Lighting	10.00	
Service Connection Fees	30.00	
Inspection Fees	20.00	
Meter Rentals	30.00	

II. COMMISSION DISCUSSIONS AND CONCLUSIONS

II.A. DETERMINATION OF TOTAL REVENUE REQUIREMENT

II.A.1. TEST YEAR

The Commission finds BANELCO'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 COST

At present, BANELCO is buying power only from the National Power Corporation-Small Power Utilities Group (NPC-SPUG).

The Generation charge shall reflect the NPC-SPUG's generation charge as approved in ERC Order dated December 20, 2002, Case No. 2002-01 (In the Matter of the Application for the Approval of Unbundled Power Rates and Basic Rate Increase in the Small Island Grids, National Power Corporation (NPC) – Applicant). A separate charge to account for the allowable system losses shall likewise be provided (please refer to Section II.B.2.b. 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. *Annualization*² of the billing determinants was applied.

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.

The adjustment made by the Commission to Purchased Power Cost of PhP 30,867,469 pertains to the difference between the proposed Purchased Power of BANELCO amounting to PhP 28,594,504 and the allowed purchased power cost based on the new rates of NPC-SPUG amounting to PhP 59,461,973. The Commission adjusted BANELCO's recoverable system loss even though it was below the 14% cap (see Section II.B.2.b. for discussion).

Based on the new NPC-SPUG generation charge, as well as the allowable system loss, the Commission sets BANELCO's unbundled Generation Charge and Recoverable System Losses as follows:

Generation Charge	PhP	53,075,000
Recoverable System Losses		6,386,973
Total	PhP	59,461,973

BANELCO's approved generation charge shall remain fixed until changes in NPC-SPUG'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, BANELCO shall bill its end-users the new generation rate charged by NPC-SPUG. In the meantime, BANELCO shall discontinue charging the Purchased Power Adjustment (PPA) upon effectivity of the unbundled rates.

II.A.3. PAYROLL

The Commission made a net downward adjustment of PhP 944,136 on the payroll account resulting to an adjusted amount of PhP 4,843,758. The adjustments were due to the disallowance of other benefits, overtime and amelioration pay and other bonuses charged under payroll amounting to PhP 1,369,934 less payroll increases amounting to PhP 425,798 to update the same to the current salary level.

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

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

The Commission noted that BANELCO did not avail of the WAC Formula.

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

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

The Commission enjoins BANELCO to incur only “prudent and reasonable costs” for inclusion in the determination of retail rates. While a distribution utility is allowed to pass through its costs of purchased power and other reasonable costs to end-users, it is obligated as a public utility to ensure that its costs of operations, including payroll, are kept at a minimum. The distribution utility must bear in mind that its very nature is that of a service company for its end-users, with a mandate to advocate and transact judiciously for and in their behalf.

“Reasonable costs” may be defined as the cost of those goods and services which, while may not be the lowest in price, need to be incurred with consideration of quality, efficiency, reliability and security, which are characteristics of the service that should be delivered by the distribution utility. “Prudent costs” demand that the utility ensures that its purchases of goods and services are at their minimum, without sacrificing the foregoing characteristics. When making a purchase or executing a contract, it cannot simply rely on its right to pass on its costs to its end-users.

As such, the Commission, in fulfillment of the policy of the R.A. 9136 to establish a regime of free and fair competition and full public accountability to achieve greater operational and economic efficiency, enjoins BANELCO to institute and report to the Commission its policies and procedures for cost-cutting and for the transparent and competitive procurement of goods and services.

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

The Commission made a net downward adjustment of PhP 677,034 on BANELCO's Operation and Maintenance (O & M) Expenses, as follows:

PARTICULARS	AMOUNT
Disallowed Expenses	PhP (733,608)
Adjustment to Pensions and Benefits	56,574
Net Adjustment	PhP (677,034)

The disallowed expenses of PhP 733,608 which were charged under Miscellaneous Distribution-Operation Expenses, Miscellaneous Consumer Services Expenses, Outside Professional Services Expenses, Pensions & Benefits, Officers Allowances & Benefits and Miscellaneous General Expenses were found to have gone beyond the need for which these accounts were meant for.

The Commission rules that these expenses do not fall under the qualification heretofore cited, hence, are not allowed for revenue requirement determination. These expenses translate to PhP 0.0779/kWh, which the Commission considers material.

The Commission also considered incremental adjustments to SSS, EC, HDMF and PhilHealth employer's premiums contributions amounting to PhP 56,574 as a result of the updating of salaries to the year 2002 level.

For future rate cases, BANELCO will continually be required to make full disclosure of all its O & M Expenses for the Commission to determine the prudence of its expenditures. BANELCO should ensure that procedures are put in place so that all expenditures that are included in the determination of revenue requirements are adequately documented and that such documentation is reasonably accessible to ERC.

II.A.5. OTHER REVENUE ITEMS

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

The Commission encourages BANELCO to improve its financial condition through the development of other related sources of revenue. However, in order to balance the interests of BANELCO and its end-users and in recognition of the fact that the costs incurred in providing certain services classified under ORI had already been included in the revenue requirement, the

Commission is reducing the total revenue requirement by 50% of the total ORI. This reduction of 50% amounts to PhP 1,074,151 and is computed as shown below.

Other Revenue Items	Amount
Other Revenues:	
312-415-00 Revenue from Merchandising, Jobbing & Construction Work	PhP 68,740
312-421-00 Miscellaneous Non-Operating Income	16,676
312-451-00 Rent from Electric Property	161,916
312-452-00 Prompt Payment Discount	780,810
312-456-00 Other Electric Revenue	1,170,941
Total Other Revenues	2,199,083
Other Expenses:	
361-416-00 Cost & Expenses of Merchandising, Jobbing & Construction Work	(50,782)
Other Revenue Items	PhP 2,148,301
50% of Other Revenue Items	PhP 1,074,151

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

II.A.6. DEBT SERVICE

The Commission made an upward adjustment of PhP 357,139 to assure that the debt service included in BANELCO'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 BANELCO (PhP)	
Loan A	531,303	497,192	34,111
Loan B	1,107,412	909,950	197,462
Loan C – Funding Requirement	59,428	49,003	10,425
Loan D	1,707,968	1,336,522	371,446
STL – Insurance	0	118,412	(118,412)
Logistics	0	137,891	(137,891)
Difference Per Loan Profile vs. UFR	0	2	(2)
TOTAL	3,406,111	3,048,972	357,139

Thus, the total allowable amount for debt service in the determination of the revenue requirement should be PhP 3,406,111.

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. BANELCO applied for a rate reduction under the Guidelines for the Implementation of the Reduction in Rates of the Electric Cooperatives Due to Condonation of Debts issued by the Commission on October 21, 2002, as amended on November 15, 2002. The Commission, in its Order on this matter dated March 17, 2003, granted BANELCO a provisional authority to reduce its rates by PhP 0.0946/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

BANELCO made a proposal for the provision for reinvestment fund in its unbundling of rates application in the amount of PhP 1,921,849.

The Commission permits a reinvestment fund equivalent to 5% of cooperative's Gross Revenue to finance expansion and rehabilitation/upgrading of its existing electric power system in accordance with the submitted System Rehabilitation/Upgrading and/or System Loss Reduction Plan. This resulted in an upward adjustment of PhP 2,058,525 on the reinvestment fund account, resulting in an adjusted amount of PhP 3,980,374.

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

- d. BANELCO 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 BANELCO:

ACCOUNT NAME		BANELCO PROPOSAL	ADJUSTMENT	ERC APPROVAL
Purchased Power	PhP	28,594,504	30,867,469	59,461,973
Payroll		5,787,894	(944,136)	4,843,758
Operating & Maintenance (less of PP & Payroll)		3,279,480	(677,034)	2,602,446
Debt Service		3,048,972	357,139	3,406,111
Reinvestment Fund ³		1,921,849	2,058,525	3,980,374
Other Revenues (Net Of Other Expenses)		0	(1,074,151)	(1,074,151)
Total Revenue Requirement	PhP	42,632,699	30,587,812	73,220,511

BANELCO proposed an OATA of PhP 0.4410/kWh using rates of year 2000. The OATA is a measurement tool based on the formula: (Total

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

Revenue Requirement less Existing Revenue) divided by kWh sales. This measurement is not meant to refer to any specific customer class.

The Commission, after considering adjustments of PhP 30,587,812, approves a total revenue requirement of PhP 73,220,511 equivalent to an OATA⁴ of PhP 0.1599/kWh for BANELCO. 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 BANELCO were the default factors provided for in the UFR issued by the Commission on October 30, 2001. In the case of BANELCO, 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 BANELCO 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 June 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 the transmission function.

Third, since the Commission is now including Other Revenue Items (ORI) not included by BANELCO in the calculation of its revenue requirement, it was necessary to functionalize and allocate these amounts. The functionalization factors for the ORI, which were determined based on direct assignment were, as follows:

Factor Name	Functionalization Factor Description	Total Check	Generation	Transmission	Distribution	Supply	Metering
ORI	Other Revenue Items	1.0000	0.0000	0.0000	0.2997	0.5316	0.1687

BANELCO submitted allocation of distribution costs into demand and customer-related cost using the *Minimum-Plant Method*. This method resulted in a 74%-26% allocation on the average.

II.B.2. DESIGN AND CALCULATION OF CHARGES

II.B.2.a. GENERATION CHARGE

Consistent with the Decision in ERC Case No. 2002-01, In the Matter of the Application for the Approval of Unbundled Power Rates and Basic Rate Increase in the Small Island Grids, National Power Corporation-Applicant dated December 20, 2002, the generation charge to be billed to end-users shall be

the approved rate per kilowatt-hour including Basic Rate, Fuel Cost Adjustment (FCA) and Foreign Exchange Rate Adjustment (FOREX). The NPC-SPUG'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 BANELCO's generation charge to remain fixed until such time that NPC-SPUG's approved rates are adjusted and thus eliminates the need for future Purchased Power Adjustment (PPA).

II.B.2.b. SYSTEM LOSS CHARGE

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

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

The allowed system loss is equal to the average system loss for the years 2000 to 2002 or the system loss cap, whichever is lower. In arriving at this decision, the Commission recognizes that the distribution utility faces some risks of over- or under-recovery in the event its load characteristics change through time. The system loss results in additional unbundled generation 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 costs. Thus, system loss in excess of the allowable caps shall not be recovered from the end-users.

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

The Commission believes that the present cap on Technical and Non-Technical System Loss of 14% should continue to be used 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 System Loss or cap of 14% plus 1% cooperative own use (which should not include personal consumption of BANELCO's Board of Directors, officers and staff) whichever is lower shall be deducted from total power cost and to be billed separately as System Loss Charge.

The Commission found that BANELCO's actual technical and non-technical system loss in 2000 was 9.99% which was lower than the aforementioned cap of 14%. The Commission, however, recognizes that BANELCO's current system loss level has already changed and therefore, may not reflect the fair System Loss Charge that will be provided to BANELCO. Hence, the Commission considered the 2000 to 2002 average system loss of

10.35% as a reasonable compromise to balance the interests of both BANELCO and its end-users.

II.B.2.c. DISTRIBUTION CHARGE

The distribution charge shall be billed on a fixed rate per kilowatt-hour for all end-users except for Industrial customers that has demand charge.

BANELCO 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 BANELCO's facilities shall pay wheeling charges equivalent to Distribution Wheeling Charges for Industrial customers.

The Commission's decision to allow a distribution utility to avail of the Distribution Wheeling Charges of another distribution utility is based on the general intent of R.A. 9136 to promote a competitive generation market. Distribution utilities that currently or in the future shall rely in full or in part on the distribution facilities of another distribution utility should not be held captive by the other distribution utility in the purchase of unbundled generation. Therefore, distribution utilities are prohibited from bundling or tying the sale of generated or purchased power with the sale of unbundled distribution wheeling service.

II.B.2.f. METERING and SUPPLY CHARGES

The Commission acknowledges that cost-causation rate design principle suggests the recovery of customer-related costs associated with the metering and supply functions through fixed monthly charges. Along with this cost of service principle, however, the Commission also considers rate design impacts across the spectrum of end-users within each rate class. Although R.A. 9136 requires the removal of inter-class cross subsidies, the law does not require removal of revenue flows that may be characterized as intra-class cross subsidies. The Commission has the flexibility to consider other factors in determining rate design for a particular class of end-users. Therefore, to mitigate the impact on below-average consumption of residential end-users, the Commission orders BANELCO to use a combination of PhP 5.00 per meter per month charge and PhP 0.4402 per kWh rate for the metering function and PhP 0.2848 per kWh rate for the supply function. Except for street lights which shall be billed only a fixed monthly charge for the supply function, all the other end-users shall be billed a fixed monthly customer/meter charge for the supply and metering function, respectively.

II.B.3. INTER-CLASS CROSS SUBSIDY

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

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

	Total	Residential	Commercial	Industrial	Public Buildings	Street Lights
New Cost-Based Revenue Requirement (PhP)	73,220,511	51,745,068	13,088,258	4,541,652	2,184,216	1,661,317
Existing Rates Revenue (PhP)	71,716,075	49,693,753	13,371,981	4,871,196	2,172,039	1,607,106
Total Change in Revenue (PhP)	1,504,436	2,051,315	(283,723)	(329,544)	12,177	54,211
Percentage Change In Revenue	2.10%					
Normalized Existing Revenue (PhP)	73,220,511	50,736,211	13,652,495	4,973,383	2,217,603	1,640,819
Inter-Class Cross Subsidy Amounts (PhP)		(1,008,857)	564,237	431,731	33,387	(20,498)
Class Billing Determinants (in kWh)	9,409,794	6,523,067	1,755,278	635,379	285,113	210,957
Inter-Class Cross Subsidy Rates (PhP/kWh)		(0.1547)	0.3215	0.6795	0.1171	(0.0972)

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.

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, BANELCO will continue to charge the inter-class cross subsidy rates set forth in Section II.B.3.a. above.

II.B.4. LIFELINE RATE and LEVEL

Section 4 (hh) of R.A. 9136 defines Lifeline Rate as the subsidized rate given to low-income captive market end-users who cannot afford to pay at full cost. Pursuant to Section 73 of R.A. 9136, the Commission hereby sets the level of lifeline consumption and its corresponding discount rates.

In determining the minimum lifeline level of consumption to be provided to the marginalized end-users, the Commission calculated the probable load requirement of typical low-income end-users by considering two (2) lighting facilities at 20 watts each and a 50-watt Radio that are being used for a reasonable number of hours. In setting the maximum level of lifeline consumption, the Commission may adjust the minimum level of consumption and/or level of the lifeline discount so as to maximize the benefit to low-income end-users while keeping the costs associated with such subsidy between PhP 0.05 and PhP 0.10 per kWh. Thus, the Commission sets the lifeline consumption maximum level of 20 kWh for BANELCO. 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 BANELCO. 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	-	20%
16 kWh	-	15%
17 kWh	-	10%
18 kWh	-	10%
19 kWh	-	5%
20 kWh	-	5%

BANELCO shall apply these discounts to the following residential charges: Generation, 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 BANELCO, the lifeline discounts result in a Lifeline Rate Subsidy by other end-users equal to PhP 0.0744/kWh.

II.B.5. OTHER CHARGES

BANELCO'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 BANELCO. In future cases filed after Other Charges have been established based on cost, the appropriate level of deduction of the revenue derived from these charges may be revisited.

The Other Charges of BANELCO are hereby pegged at their existing levels until such time that the Commission sets new rates on the same. Further, BANELCO is ordered to make a compliance filing on its Other Charges one (1) year from the date of this Decision using a format to be prescribed by the Commission.

The compliance filing for approval of Other Charges shall include rates that are cost-based, as well as, all supporting cost justifications for the rates,

including but not limited to the amount of actual time and wages of employees performing each task encompassed by each type of Other Charges.

II.B.6. ESTIMATED IMPACT ON AVERAGE RESIDENTIAL CONSUMER

A comparison of the estimated impact of all adjustments to the revenue requirement on the monthly bill of an average residential end-user consuming 53 kWh a month using rates based on BANELCO's actual existing rates as of June 2003 against the unbundled rates approved by the Commission is shown below.

BASED ON ACTUAL EXISTING RATES			BASED ON ERC APPROVED UNBUNDLED RATE		
	<u>PhP/kWh</u>	<u>Amount (PhP)</u>		<u>PhP/kWh</u>	<u>Amount (PhP)</u>
Basic Rate	3.3830	179.30	Generation System Charge	5.6404	298.94
PPA	4.3253	229.24	System Loss Charge	0.6788	35.97
Universal Charges:			Distribution Charge	0.7943	42.10
Missionary Elect. Charge	0.0168	0.89	Supply Charge	0.2848	15.10
Environmental Charge	0.0025	0.13	Metering Charges:		
Loan Condonation	(0.0946)	(5.01)	Retail Meter Charge/Month		5.00
Power Act Reduction	(0.3000)	(15.90)	Metering System Charge	0.4402	23.33
			Universal Charges:		
			Missionary Electrification Charge *	0.0168	0.89
			Environmental Charge	0.0025	0.13
			Inter-class Cross Subsidy Charge	(0.1547)	(8.20)
			Lifeline Rate (Discount)/Charge	0.0744	3.94
			Loan Condonation	(0.0946)	(5.01)
			Power Act Rate Reduction	(0.3000)	(15.90)
TOTAL BILL		<u>388.65</u>	TOTAL BILL		<u>396.29</u>
PhP/kWh		<u>7.3330</u>	PhP/kWh		<u>7.4772</u>

* Missionary Electrification Charge will change from PhP 0.0168/kWh to PhP 0.0373/kWh pursuant to ERC Decision dated June 26, 2003 on ERC Case No. 2002-165.

DISPOSITION

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

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

		Residential	Commercial	Industrial	Public Buildings	Street Lights
Generation Charges:						
Generation System Charge	(PhP/kWh)	5.6404	5.6404	5.6404	5.6404	5.6404
System Loss Charge	(PhP/kWh)	0.6788	0.6788	0.6788	0.6788	0.6788
Distribution Charges:						
Demand Charge	(PhP/kWh)			16.50		
Distribution System Charge	(PhP/kWh)	0.7943	0.8581	0.6111	0.9533	1.3267
Supply Charge:						
Retail Customer Charge	(PhP/Customer/Month)		20.27	98.33	17.28	59.28
Supply System Charge	(PhP/kWh)	0.2848				
Metering Charges:						
Retail Meter Charge	(PhP/Meter/Month)	5.00	54.69	482.09	38.31	
Metering System Charge	(PhP/kWh)	0.4402				
Inter-Class Cross Subsidy Charge	(PhP/kWh)	(0.1547)	0.3215	0.6795	0.1171	(0.0972)
Universal Charges:						
Missionary Electrification Charge *	(PhP/kWh)	0.0373	0.0373	0.0373	0.0373	0.0373
Environmental Charge	(PhP/kWh)	0.0025	0.0025	0.0025	0.0025	0.0025
Lifeline Rate (Discount)/Subsidy	(PhP/kWh)	0.0744	0.0744	0.0744	0.0744	0.0744
Power Act Rate Reduction	(PhP/kWh)	(0.3000)				
Loan Condonation **		(0.0946)	(0.0946)	(0.0946)	(0.0946)	(0.0946)
Lifeline Rate (Discount) / Subsidy To be based on Residential Rate in a graduated scale as provided in Section II.B.4. of this Decision.						

* Missionary Electrification Charge was adjusted from PhP 0.0168/kWh to PhP 0.0373/kWh pursuant to ERC Decision dated June 26, 2003 on ERC Case No. 2002-165.

** Effective on the next billing cycle after receipt of Order on ERC Case No. 2003-60 dated March 17, 2003.

2. To direct BANELCO to comply with the following:
 - a. Discontinue charging the PPA upon effectivity of the approved unbundled rates; BANELCO automatically bill its end-users the new Generation Rate charged by NPC-SPUG as approved and authorized by the Commission;
 - b. Bill PhP 0.0373/kWh representing the missionary electrification portion of the Universal Charge in accordance with the Decision of the Commission in ERC Case No. 2002-165 (In the Matter of the Petition for the Availment from the Universal Charge the Share for Missionary Electrification, NPC-SPUG, Applicant);
 - c. Bill PhP 0.0025/kWh representing the environmental portion of the Universal Charge in accordance with the Decision of the Commission in ERC Case No. 2002-194 (In the Matter of the Petition for the Availment from the Universal Charge the Environmental Share/Charge for the Rehabilitation and Management of Watershed Areas, NPC, Applicant);
 - d. Bill its respective end-users using a billing format which contains at least the rate elements provided in Annex A of this Decision upon effectivity of the approved unbundled rates. The rate elements provided in Annex "A" should appear on the end-user's bill even if the rate elements

currently have a rate of zero or have not yet been determined by the Commission;

- e. Inform the end-users within its franchise area of the approved unbundled rates not later than thirty (30) days after receipt of this Decision;
- f. Submit for verification and confirmation purposes on or before the twentieth (20th) day of the month following the effectivity of the approved unbundled rates and every month thereafter: a) five (5) sample bills for each end-user class; b) copy of the bills from the generation and transmission companies; and c) Monthly Financial Statistical Reports (MFSRs), complete with all related schedules;
- g. Make a formal application with the Commission for the approval of existing or future contracts with any entity for the wholesale purchases of power not yet approved by the Commission;
- h. Make a formal application to continue the use of Other Charges within one (1) year from date of this Decision using a format to be prescribed by the Commission;
- i. File a progress report on the reinvestment fund one (1) year after the date of this Decision and every year thereafter using the prescribed formats provided in

Annexes B and C of this Decision. The report shall include detailed accounting of actual collections and deposits (including interest/dividend income), specific transactions and withdrawals for all disbursements, and actual current system losses;

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

SO ORDERED.

Pasig City, August 15, 2003.

MANUEL R. SANCHEZ
Chairman

OLIVER B. BUTALID
Commissioner

MARY ANNE B. COLAYCO
Commissioner

CARLOS R. ALINDADA
Commissioner

LETICIA V. IBAY
Commissioner

Copy furnished:

1. **Atty. Zenon S. Suarez**
Counsel for BANELCO
4/F Casman Bldg., 1198 Quezon Ave.,
Quezon City
2. **Mr. Oscar T. Seares**
General Manager
Bantayan Island Electric Cooperative, Inc. (BANELCO)
6052 Bantayan, Cebu
3. **Office of the Solicitor General**
134 Amorsolo Street, Legaspi Village
1229 Makati City
4. **Commission on Audit**
Commonwealth Avenue
1121 Quezon City
5. **Senate Committee on Energy**
GSIS Building, Roxas Blvd.
1300 Pasay City
6. **House Committee on Energy**
Batasan Hills
1126 Quezon City
7. **The Municipal Mayor**
6052 Bantayan, Cebu
8. **The Municipal Mayor**
6053 Madridejos, Cebu
9. **The Municipal Mayor**
6047 Sta. Fe, Cebu
10. **The National Electrification Administration (NEA)**
NEA Bldg., NIA Road, Government Center, Diliman
Quezon City
11. **Mr. Edgardo M. Del Fonso**
President and CEO
Power Sector Assets & Liabilities Management Corporation
(PSALM Corp.)
2/F SGV II Building, Ayala Ave.
1200 Makati City