

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. 2001-937

PROVINCE OF SIQUIJOR ELECTRIC
COOPERATIVE, INC. (PROSIELCO),
Applicant.

x ----- x

DECISION

Before this Commission for resolution is the application filed on December 20, 2001 by applicant Province of Siquijor Electric Cooperative, Inc. (PROSIELCO) for approval of its unbundled rates pursuant to the provisions of Republic Act No. 9136.

Having found said application sufficient in form and substance with the required fees having been paid, an Order and a Notice of Public Hearing, both dated April 4, 2002, were issued setting the case for initial hearing on June 3, 2002.

PROSIELCO was directed to cause the publication of the Notice of Public Hearing, at its own expense, twice (2x) for two (2) successive weeks in two (2) newspapers of general circulation in the country, the last date of publication to be made not later than two (2) weeks before the scheduled date of initial hearing. In compliance with the said directive, PROSIELCO published the Notice of Public Hearing in the "*MALAYA*" and "*Balita*" on May 4 and 11, 2002 and 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 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 Mayors of the Municipalities of Larena, E. Villanueva, Lazi, Maria, San Juan and Siquijor, all in the Province of Siquijor, were furnished copies of the Order and the Notice of Public Hearing for the appropriate posting thereof on their respective bulletin boards.

At the initial hearing on June 3, 2002, Atty. Zenon Suarez appeared as counsel for PROSIELCO. No oppositor appeared nor was there any opposition registered.

During said hearing, PROSIELCO submitted proofs of its compliance with the Commission's publication and posting of notice requirements which were duly marked as Exhibits "A to "C-5", inclusive.

Thereafter, PROSIELCO presented its two (2) witnesses. The first witness, Ms. Nenita Panzo, PROSIELCO's Chief of its Finance Services, testified on certain relevant schedules and on the documents submitted in support of the application. In the course of her testimony, additional documents were presented, identified by reference and marked as Exhibits "D" to "JJ", inclusive. Thereafter, the Commission propounded clarificatory questions on the same witness. The second witness, Engr. Bienvenido Gapot, Jr., PROSIELCO's Chief of its Technical Services, testified on the various technical aspects of the application including its proposed program for the development and improvement of its services. After the termination of the said direct examination, the Commission propounded clarificatory questions on the same witness.

In the same hearing, PROSIELCO was directed in open court to submit a report on facts pertaining to prior period adjustments stated in note no. 9 of its external auditor as contained in its audited financial report for the years 1999 and 2000 as well as a program for its cross subsidies.

On June 14, 2002, PROSIELCO submitted the required data/documents in compliance with the aforesaid directive.

On October 7, 2002, PROSIELCO submitted its "Formal Offer of Evidence".

In its Order dated November 4, 2002, the Commission took note of PROSIELCO's Formal Offer of Evidence and at the same time directed it to submit additional data for the early resolution of the case. The Commission received PROSIELCO's compliance on the said Order on December 2, 2002.

I. SUMMARY OF PROSIELCO's APPLICATION

I.A. REVENUE REQUIREMENT

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

ACCOUNT NAME	TEST YEAR
kWh Sales	6,179,042
Purchased Power	PhP 17,331,669
Payroll	4,735,150
Operation and Maintenance (less Purchased Power & Payroll)	5,280,374
Debt Service (plus cash working capital)	4,893,852
Revenue Requirement	32,241,045
Less: Other Revenue Items	0
Reinvestment Fund (8%) ¹	2,723,625
TOTAL REVENUE REQUIREMENT	PhP 34,964,670
Existing Revenue	34,603,747
Required Increase	360,923

PROSIELCO's proposed revenue requirement was PhP 34,964,670 based on historical costs for the year 2000. The Overall Average Tariff Adjustment (OATA) published was PhP 0.0584/kWh. The same OATA was stated by witness Panzo, in her testimony on June 03, 2002 (Transcript of Stenographic Notes [TSN], June 03, 2002, page 27).

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

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

I.B. RATE STRUCTURE/DESIGN

The unbundled rates proposed by PROSIELCO were as follows:

Residential Customers			
Retail Customer Charge	PhP	21.41	/customer/month
Metering Charge		38.59	/customer/month
Energy Charge		4.8796	/kWh
Small Commercial Customers			
Retail Customer Charge		24.11	/customer/month
Metering Charge		45.89	/customer/month
Energy Charge		4.4031	/kWh
Large Commercial Customers			
Retail Customer Charge		29.74	/customer/month
Metering Charge		80.26	/customer/month
Distribution System Charge		3.4102	/kWh
Demand Charge		157.59	/kW NCP
Industrial			
Retail Customer Charge		33.99	/customer/month
Metering Charge		76.01	/customer/month
Distribution System Charge		3.3777	/kWh
Demand Charge		160.94	/kW NCP
Public Buildings			
Retail Customer Charge		19.87	/customer/month
Metering Charge		40.13	/customer/month
Energy Charge		4.4013	/kWh
Street Lights			
Energy Charge		4.1816	/kWh
Distribution Facilities Charge		13.58	/customer/month

I.B.1. FUNCTIONALIZATION, CLASSIFICATION and ALLOCATION

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

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

I.B.2. SYSTEM LOSS

Witness Gapot, in his testimony stated that the system loss of PROSIELCO was 8.49% in the year 2000. The annual technical system loss is 6% and the annual non-technical system loss is 2.49% (June 03, 2002, TSN, page 58).

I.B.3. INTER-CLASS CROSS SUBSIDY

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

CUSTOMER TYPE	ADJUSTED EXISTING (PhP)	PROPOSED EXISTING (PhP)	INTER-CLASS CROSS SUBSIDIES (PhP)
Residential	20,234,912	22,463,479	2,017,514
Small Commercial	6,981,256	6,405,021	(649,051)
Large Commercial	1,307,254	1,025,705	(295,184)
Industrial	1,870,280	1,497,807	(391,981)
Public Buildings	3,717,295	3,180,670	(575,397)
Street Lights	492,750	391,988	(105,901)
Total	34,603,747	34,964,670	0.00

(Based on Schedule H-1 of PROSIELCO's UFR)

I.B.4. LIFELINE RATE and LEVEL

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

	Option 1 (At Existing Rates)	Option 2 (At Proposed Customer Charges)
Level	7 kWh	7 kWh
Rate	PhP 6.4866/kWh	PhP 60.00/customer/mo.

During the hearing of the subject case, witness Panzo stated that PROSIELCO's preferred lifeline level is 0 to 7 kilowatthours with a PhP 60.00 per customer per month charge (June 03, 2002, TSN, page 29).

I.C. OTHER CHARGES

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

PARTICULARS	AMOUNT
Account Initiation Charge: Charge will be applied when meter installation is not required at an existing location. Charge will apply when meter installation is required at a new location.	50.00 50.00
Service Call Charge: During Business Hours Outside Business Hours Installation of test equipment	None 50.00 Calculated
Disconnect/Reconnect – Business Hours At Meter At Pole Disconnect/Reconnect – Outside Business Hours At Meter At Pole	50.00 50.00 50.00 50.00
The Requested Service Interruption Charge	Actual Cost
Facilities Relocation/Removal Charge During Business Hours Outside Business Hours	Actual Cost Actual Cost Actual Cost
Temporary Facilities Charge A. Connect or disconnect service and read a meter already installed B. Install or remove single phase service and read a meter already installed C. Install and remove single phase service wires, meter and transformers (up to 50 KVA) D. All other temporary facilities – installation and removal	50.00 50.00 Calculated Calculated
Requested Meter Test Charges Single Phase Self Contained Three Phase Self Contained Single Phase Instrument Rated Three Phase Instrument Rated	100.00 156.00 100.00 200.00
Broken Meter Seal Charge	Actual Cost
Tampering Charge	Calculated
Street Light Repair Charge	50.00
Street Light Installation Charge	100.00

II. COMMISSION DISCUSSIONS AND CONCLUSIONS

II.A. DETERMINATION OF TOTAL REVENUE REQUIREMENT

II.A.1. TEST YEAR

The Commission finds PROSIELCO'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, PROSIELCO 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 22,144,871 pertains to the difference between the proposed purchased power of PROSIELCO amounting to PhP 17,331,669 and the purchased power cost based on the new rates of NPC-SPUG amounting to PhP 39,476,540. The Commission adjusted PROSIELCO'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 PROSIELCO's unbundled Generation Charge and Recoverable System Losses as follows:

Generation Charge	PhP	35,886,256
Recoverable System Losses		3,590,284
Total	PhP	39,476,540

PROSIELCO'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, PROSIELCO shall bill its end-users the new generation rate charged by NPC. In the meantime, PROSIELCO 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 14,517 to update it to the current salary level of PhP 4,749,667.

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 PROSIELCO 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 PROSIELCO 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 PROSIELCO 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.

PROSIELCO'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 PROSIELCO's viability. To this end, PROSIELCO should view a petition for an increase in rates to be the last recourse. In future filings, PROSIELCO 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 876,310 on PROSIELCO's Operation and Maintenance (O & M) Expenses, as follows:

PARTICULARS	AMOUNT	
Disallowed Expenses	PhP	(2,375,061)
Adjustment on Pensions and Benefits		1,498,751
TOTAL ADJUSTMENTS	PhP	(876,310)

The disallowed expenses charged to Distribution, Customer & Information and Administrative & General Expenses, representing largely of allowances, donations, and benefits, 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 0.3733/kWh, which the Commission considers material.

The adjustment to Pensions and Benefits, were likewise brought about by updating benefits to current levels. Benefits consist of Rice, Medical and Clothing Allowances, SSS, PAG-IBIG, PHILHEALTH employer's share premiums. The amount also includes the contribution required to provide for retirement fund equivalent to one month's basic salary of its employees.

For future rate cases, PROSIELCO will continually be required to make full disclosure of all its O & M Expenses for the Commission to determine the prudence of its expenditures. PROSIELCO 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 PROSIELCO to improve its financial condition through the development of other related sources of revenue. However, in order to balance the interests of PROSIELCO 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% amounting to PhP 632,071 is shown below.

OTHER REVENUE ITEMS	AMOUNT (PhP)
Other Revenues:	
Other Electric Revenue	488,036
Electric Plant Leased to Others	254,407
Revenue from Merch., Job. & Contract Work	287,563
Misc. Non-Operating Income	600
Prompt Payment Discount	461,821
	1,492,427
Other Expenses :	
Cost of Merch., Job. & Contract Work	(228,231)
Misc. Income Deductions	(54)
Other Revenue Items	1,264,142
50% of Other Revenue Items	632,071

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

II.A.6. DEBT SERVICE

The Commission made a downward adjustment of PhP 785,555 to assure that the debt service included in PROSIELCO's revenue requirement is consistent with NEA's records. The details of the adjustment are shown below.

LOANS	AMOUNT (PhP)
PER NEA:	
Rural Electrification:	
A	474,393
B	182,852
C	1,427,820
E	2,023,232
TOTAL	4,108,297
PER PROSIELCO:	
Actual Amortization Payment	(4,594,342)
Interest On CWC	(299,510)
TOTAL	(4,893,852)
DIFFERENCE	(785,555)

The Commission disallowed the interest cost associated with cash working capital, as calculated by PROSIELCO, due to lack of justification. Thus, the total allowable amount for debt service in the determination of the revenue requirement should be PhP 4,108,297.

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. PROSIELCO 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 June 9, 2003, granted PROSIELCO a provisional authority to reduce its rates by PhP 0.3652/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

PROSIELCO made a proposal for the provision for reinvestment fund in its unbundling of rates application in the amount of PhP 2,723,625.

The Commission permits a reinvestment fund equivalent to 5% of a cooperative's Gross Revenue to finance expansion and rehabilitation/upgrading of its existing electric power system in accordance with the submitted System Rehabilitation/Upgrading and/or System Loss Reduction Plan. This resulted in an upward adjustment of PhP 18,822 on the reinvestment fund account.

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

- d. PROSIELCO shall submit a new System Rehabilitation/Upgrading and/or System Loss Reduction Plan covering the period 2004 to 2008, no later than 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 PROSIELCO:

ACCOUNT NAME		PROSIELCO PROPOSAL	ADJUSTMENTS	ERC APPROVAL
Purchased Power	PhP	17,331,669	22,144,871	39,476,540
Payroll		4,735,150	14,517	4,749,667
O & M (less PP & Payroll)		5,280,374	(876,310)	4,404,064
Less: Other Revenue Items		0	(632,071)	(632,071)
Debt Service plus Cash Working Capital		4,893,852	(785,555)	4,108,297
Reinvestment Fund ³		2,723,625	18,822	2,742,447
TOTAL REVENUE REQUIREMENT	PhP	34,964,670	19,884,274	54,848,944

PROSIELCO proposed an OATA of PhP 0.0584/kWh using rates of year 2000. The OATA is a measurement tool based on the formula: (Total Revenue Requirement less Existing Revenue) divided by kWh sales. This measurement is not meant to refer to any specific customer class.

The Commission, after considering adjustments of PhP 19,884,274, approves a total revenue requirement of PhP 54,848,944 equivalent to an OATA⁴ of (PhP 0.3512)/kWh for PROSIELCO. 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.

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

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

II.B. RATE STRUCTURE/DESIGN DETERMINATION

II.B.1. FUNCTIONALIZATION, CLASSIFICATION and ALLOCATION

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

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 PROSIELCO 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	0.2691	0.4618	0.2691

PROSIELCO submitted a classification of distribution costs into demand- and customer-related cost using the Minimum-Plant Method. This method resulted in a 29%-71% 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 PROSIELCO'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 PROSIELCO.

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 not only results in additional unbundled generation costs to be paid by end-users. When system loss is within the allowable caps, the distribution utility shall recover from the end-users all

generation cost. 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 PROSIELCO'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 PROSIELCO's actual technical and non-technical system loss in 2000 was 8.49% which was lower than the aforementioned cap of 14%. The Commission however recognizes that PROSIELCO's current system loss level has already changed and therefore, may not reflect the fair System Loss Charge that will be provided to PROSIELCO. Hence, the Commission considered the 2000 to 2002 average system loss or 8.54% as a reasonable compromise to balance the interests of

both PROSIELCO and its end-users. This would, however, be subject to change upon the approval of a new policy relative thereto by the Commission.

II.B.2.c. DISTRIBUTION CHARGE

The distribution charge shall be billed on a fixed rate per kilowatt-hour for all end-users as none has demand meter.

PROSIELCO did not propose for distribution wheeling rates. However, the Commission believes that wheeling rates are parallel to the cost of service functionalized under Distribution. Thus, the Commission orders that the Distribution Charge provided on Rate Schedules be likewise utilized as Distribution Wheeling Charges available to the future contestable market. Other distribution utilities requesting to wheel power across PROSIELCO'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.

I.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 PROSIELCO to use a PhP 5.00 per meter per month and PhP 0.8696 per kWh rate for the metering function. And orders PROSIELCO to use a PhP 0.5230 per kWh rate for the supply function. Except for street light consumers which shall be billed only a fixed monthly charged for the supply function, all other end-users shall be billed a fixed monthly customer/meter charge for 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	Small Commercial	Large Commercial	Industrial	Public Buildings	Street Lights
New Cost-Based Rev. Reqs.	PhP	54,848,944	33,819,052	10,620,063	1,779,455	2,579,101	5,355,061	696,212
Existing Rates Rev.	PhP	57,083,292	33,175,852	11,739,369	2,167,707	3,054,392	6,125,248	820,724
Total Change in Rev.	PhP	(2,234,348)	643,200	(1,119,306)	(388,252)	(475,291)	(770,187)	(124,512)
%Change in Revenue		(3.91%)						
Normalized Existing Rev.	PhP	54,848,944	31,877,287	11,279,868	2,082,859	2,934,837	5,885,494	788,599
Inter-Class Cross Subsidy	PhP		(1,941,765)	659,805	303,404	355,736	530,433	92,387
Class Billing Determinants	kWh	6,362,360	3,702,703	1,302,940	240,592	340,896	683,629	91,600
Inter-Class Cross Subsidy Charge	PhP/kWh		(0.5244)	0.5064	1.2611	1.0435	0.7759	1.0086

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, PROSIELCO 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 PROSIELCO. 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 PROSIELCO. 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	-	15%
16 kWh	-	15%
17 kWh	-	10%
18 kWh	-	10%
19 kWh	-	5%
20 kWh	-	5%

PROSIELCO 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 PROSIELCO, the lifeline discounts result in a Lifeline Rate Subsidy by other end-users equal to PhP 0.0992/kWh.

II.B.5. OTHER CHARGES

PROSIELCO'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 PROSIELCO. 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 PROSIELCO are hereby pegged at their existing levels until such time that the Commission sets new rates on the same. Further, PROSIELCO 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 shall not be 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 45 kWh a month using rates based on PROSIELCO's actual existing rates as

of May 2003 against the unbundled rates approved by the Commission is shown below.

BASED ON ACTUAL EXISTING RATE			ERC APPROVED UNBUNDLED RATES		
	PhP/kWh	Amount PhP		PhP/kWh	Amount PhP
Basic Rate	4.9086	220.89	Generation System Charge	5.6404	253.82
PPA	4.0754	183.39	System Loss Charge	0.5643	25.39
Power Act Reduction	(0.3000)	(13.50)	Distribution Charge	1.4258	64.16
Universal Charges:			Supply Charge	0.5230	23.53
Mission. Elect. Charge	0.0168	0.76	Metering Charges:		
Environmental Charge	0.0025	0.11	Retail Customer Charge/Month		5.00
			Metering System Charge	0.8696	39.13
			Universal Charges:		
			Missionary Electrification Charge	0.0168	0.76
			Environmental Charge	0.0025	0.11
			Lifeline Rate [(Discount)/Subsidy]	(0.5244)	(23.60)
			Inter-class Cross Subsidy Charge	0.0992	4.46
			Power Act Rate Reduction	(0.3000)	(3.50)
TOTAL BILL		<u>391.65</u>	TOTAL BILL		<u>379.27</u>
PhP/kWh		<u>8.7033</u>	PhP/kWh		<u>8.4283</u>
Missionary Electrification Charge will change from PhP 0.0168/kWh to PhP 0.0373/kWh pursuant to the final authority granted by ERC in its Decision dated June 26, 2003 on ERC Case No. 2002-165.					
No effect of rate reduction due to Loan Condonation yet (as discussed in Section II.A.6. of this Decision)					

DISPOSITION

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

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

		Residential	Small Comm.	Large Comm.	Ind.	Public Bldgs.	St. Lights
Generation Charge	PhP/kWh	5.6404	5.6404	5.6404	5.6404	5.6404	5.6404
System Loss Charge	PhP/kWh	0.5643	0.5643	0.5643	0.5643	0.5643	0.5643
Distribution Charges:							
Demand Charge	PhP/kWh						
Dist. System Charge	PhP/kWh	1.4258	1.2156	1.0668	1.1069	1.1783	1.3651
Supply Charges:							
Retail Customer Charge	PhP/Cust./Mo.		24.55	33.46	27.75	25.58	2.35
Supply System Charge	PhP/kWh	0.5230					
Metering Charges:							
Retail Customer Charge	PhP/Meter/Mo.	5.00	49.86	49.86	49.86	49.86	
Metering System Charge	PhP/kWh	0.8696					
Inter-class Cross Subsidy Charge:	PhP/kWh	(0.5244)	0.5064	1.2611	1.0435	0.7759	1.0086
Universal Charge:							
Missionary Electrification Charge	PhP/kWh	0.0373	0.0373	0.0373	0.0373	0.0373	0.0373
Environmental Charge	PhP/kWh	0.0025	0.0025	0.0025	0.0025	0.0025	0.0025
Lifeline Rate (Discount)/Charge	PhP/kWh	0.0992	0.0992	0.0992	0.0992	0.0992	0.0992
Power Act Rate Reduction	PhP/kWh	(0.3000)					
Rate Reduction due to Condonation of Loan	PhP/kWh	(0.3652)	(0.3652)	(0.3652)	(0.3652)	(0.3652)	(0.3652)
Lifeline Rate (Discount)/Subsidy To be based on Residential Rate in a graduated scale as provided in Sec. II.B.4. of this Decision.							
Missionary Electrification Charge will change from PhP 0.0168/kWh to PhP 0.0373/kWh pursuant to the final authority granted by ERC in its Decision dated June 26, 2003 on ERC Case No. 2002-165.							
Rate Reduction due to Loan Condonation per ERC Order dated June 19, 2003 in ERC Case No. 2003-033.							

2. To direct PROSIELCO to comply with the following:
 - a. Discontinue charging the PPA upon effectivity of the approved unbundled rates; PROSIELCO shall 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. 2001-165 (In the Matter of the Petition for the

Availment from the Universal Charge the Share for Missionary Electrification, NPC-SPUG, Applicant);

- c. Bill PhP 0.0025/kWh representing the environmental portion of the Universal Charge in accordance with the Decision of the Commission in ERC Case No. 2002-194 (In the Matter of the Petition for the Availment from the Universal Charge the Environmental Share/Charge for the Rehabilitation and Management of Watershed Areas, NPC, Applicant);
- d. 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 value 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 no later than 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, no later than 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 14, 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 Suarez**
Counsel for Applicant
4/F Casman Bldg.,
1198 Quezon Avenue, Quezon City
2. **Province of Siquijor Electric Cooperative, Inc.**
6226 Larena, Siquijor
3. **Office of the Solicitor General**
134 Amorsolo Street, Legaspi Village
1229 City of Makati
4. **Commission on Audit**
Commonwealth Avenue
1121 Quezon City
5. **Senate Committee on Energy**
GSIS Building, Roxas Boulevard
1300 Pasay City
6. **House Committee on Energy**
1126 Batasan Hills, Quezon City
7. **The Municipal Mayor**
6230 E. Villanueva, Siquijor
8. **The Municipal Mayor**
6226 Larena, Siquijor
9. **The Municipal Mayor**
6228 Lazi, Siquijor
10. **The Municipal Mayor**
6229 Maria, Siquijor
11. **The Municipal Mayor**
6227 San Juan, Siquijor
12. **The Municipal Mayor**
6225 Siquijor, Siquijor
13. **National Electrification Administration**
Diliman, Quezon City
14. **Congressman Ernesto C. Pablo**
House of Representatives
Batasan Hills, Diliman
1126 Quezon City
15. **Mr. Edgardo M. Del Fonso**
President and CEO
Power Sector Assets & Liabilities Management Corporation (PSALM)
2/F SGVII Building, Ayala Avenue
1200 Makati City