

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. 2002-014**

IN THE MATTER OF THE APPLICATION  
FOR AUTHORITY TO INCREASE RATES  
WITH PROVISIONAL AUTHORITY

**ERC CASE NO. 2001-349  
(ERB CASE NO. 96-109)**

FIRST LAGUNA ELECTRIC COOPERATIVE,  
INC. (FLECO),

*Applicant.*

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## **DECISION**

Before this Commission for resolution are the consolidated applications filed by applicant First Laguna Electric Cooperative, Inc. (FLECO) for: (a) authority to increase electric rates with prayer for provisional authority filed on May 28, 1996 and docketed as ERC Case No. 2001-349; and (b) approval of its unbundled rates pursuant to the provisions of Republic Act No. 9136 filed on January 15, 2002 and docketed as ERC Case No. 2002-014.

***ERC Case No. 2001-349:***

On May 28, 1996, FLECO filed an application for authority to increase its electric rates by PhP 1.0461/kWh with prayer for provisional authority.

Having found said application sufficient in form and in substance with the required fees having been paid, an Order and a Notice of Public Hearing, both dated June 7, 1996, were issued setting the application for hearing on July 3 and 4, 1996.

In the same Order, FLECO was directed to cause the publication of the Notice of Public Hearing, at its own expense, twice (2x) in two (2) newspapers of general circulation in the Philippines, which should include one (1) newspaper of local circulation within FLECO's franchise area, the last day of publication to be not later than two (2) weeks before the date of the initial hearing.

The Office of the Solicitor General, the Commission on Audit (COA) and the Committees on Energy of both Houses of Congress were furnished with copies of the application, 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 within FLECO's franchise area were furnished with copies of the Order and the Notice of Public Hearing for the appropriate posting thereof on their respective bulletin boards.

Several hearings were conducted wherein FLECO presented its evidence and witnesses in support of its application.

On May 3, 1999, the then Energy Regulatory Board (ERB) issued an Order granting FLECO a provisional authority to adopt a Forty-Four Sixty Five Centavo (PhP 0.4465) per kilowatt-hour rate increase to be implemented in two (2) phases: 50% or PhP 0.2233/kWh immediately upon receipt of the Order; and the remaining 50% or PhP 0.2232/kWh six (6) months thereafter.

***ERC Case No. 2002-014:***

On January 15, 2002, FLECO filed an application 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 January 22, 2003 were issued setting the case for initial hearing on March 11, 2003.

FLECO 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.

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 Cavinti, Pagsanjan, Lumban, Kalayaan, Paete, Pakil, Pangil, Siniloan, Mabitac, Famy and Sta. Maria, all in the Province of Laguna, were furnished with copies of the Order and the Notice of Public Hearing for the appropriate posting thereof on their respective bulletin boards.

Upon evaluation, it was found that the rates being prayed for by FLECO in its application for rate increase (ERC Case No. 2001-349) were included in its application for approval of its unbundled rates (ERC Case No. 2002-014).

Thus, on November 25, 2002, an Order was issued by the Commission consolidating ERC Case No. 2001-349 with ERC Case No. 2002-014.

In the Commission's Order dated February 27, 2003, FLECO was directed to submit various documents.

On March 10, 2003, FLECO filed a "Motion for Resetting", praying that the hearing scheduled on March 11, 2003 be reset to April 21, 2003 on the ground that the first publications were made only on February 25, 2003 as evidenced by their respective affidavits of publication and thus, the mandatory requirement that the last date of publication to be made not later than two (2) weeks before the scheduled date of initial hearing was not complied with.

In the Order dated March 12, 2003, the Commission granted said motion for resetting. In connection therewith, FLECO was directed to publish anew, at its own expense, the Notice of Public Hearing indicating therein the new date of hearing. In compliance with the said directive, FLECO published the Notice of Public Hearing in the "*Malaya*" and "*Daily Tribune*" both on March 28 and April 4, 2003.

At the initial hearing on April 21, 2003, only FLECO was present. No oppositor appeared nor was there any opposition registered.

During the said hearing, FLECO presented proofs of compliance with the Commission's publication and posting of notice requirements which were duly marked as Exhibits "A" to "D-10", inclusive. Thereafter, FLECO presented its two (2) witnesses. The first witness, Ms. Milagros C. Castillo, FLECO's Finance Manager, testified on certain relevant schedules and on the documents submitted in support of the application. After the termination of the direct examination, the Commission propounded clarificatory questions on the said witness.

The second witness, Engr. Ricardo S. Flores, FLECO's Technical Service Manager, 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 direct examination, the Commission again propounded clarificatory questions on the said witness.

In the same hearing, FLECO was directed in open court to submit various documents.

On June 12, 2003, FLECO submitted its "Formal Offer of Evidence" which was admitted by the Commission for the purposes for which they were being offered.

## I. SUMMARY OF FLECO'S APPLICATION

### I.A. REVENUE REQUIREMENT

FLECO's revenue requirement per unbundled application based on Audited Financial Statements for the year 2000 was as follows:

<b>Account Name</b>	<b>TEST YEAR</b>	
Purchased Power	PhP	178,433,120
Payroll		19,143,709
Operation and Maintenance (less Fuel, Purchased Power & Payroll)		24,791,363
Debt Service		21,132,537
Revenue Requirement	PhP	243,500,729
Other Revenue Items		(2,426,109)
Reinvestment Fund (5%) <sup>1</sup>		12,175,036
<b>TOTAL REVENUE REQUIREMENT</b>	<b>PhP</b>	<b>253,249,656</b>

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

FLECO's proposed revenue requirement was PhP 253,249,656 based on historical costs for the year 2000. The Overall Average Tariff Adjustment (OATA) published was PhP 0.9051/kWh. The same OATA was stated by witness Castillo in her testimony on April 21, 2003 (Transcript of Stenographic Notes (TSN), April 21, 2003, page 20).

FLECO also submitted Audited Financial Statements for the year 2000.

### **I.B. RATE STRUCTURE/DESIGN**

The unbundled rates proposed by FLECO were as follows:

#### Residential

Retail Customer Charge	PhP	54.37/customer/month
Metering Charge		25.36/customer/month
Energy Charge		5.3131/kWh

#### Small Commercial

Retail Customer Charge		28.03/customer/month
Metering Charge		20.28/customer/month
Energy Charge		5.0624/kWh

#### Industrial

Retail Customer Charge		84.02/customer/month
Metering Charge		153.84/customer/month
Energy Charge		4.4955/kWh
Demand Charge		108.40/kW

#### Public Buildings

Retail Customer Charge		28.47/customer/month
Metering Charge		21.34/customer/month
Energy Charge		4.9736/kWh

## Street Lights

Energy Charge	PhP	5.1651/kWh
Distribution Facilities Charge		44.9565/pole/month

## BAPA

Retail Customer Charge		43.93/customer/month
Metering Charge		58.22/customer/month
Energy Charge		4.4269/kWh

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

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

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

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

Witness Flores, in his testimony, stated that the average system loss for the year 2000 was 21.76% (April 21, 2003, TSN, page 80).

He further added that out of the 21.76% system loss, 12% was technical loss brought about by new lines, new transformers and new service drops while the remaining was non-technical loss (April 21, 2003, TSN, pages 79 and 80).

The system loss reflected in FLECO's unbundling application, particularly Schedule J: System Loss, was 21.70%.

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

FLECO 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 EXISTING (PhP)</b>	<b>INTER-CLASS CROSS SUBSIDIES (PhP)</b>
Residential	191,590,828	200,445,387	(8,854,559)
Commercial	30,502,498	26,909,589	3,592,909
Industrial	21,678,515	17,783,739	3,894,776
Public Building	2,870,261	2,494,606	375,655
Street Lights	2,953,358	2,805,779	147,579
BAPA	3,654,196	2,810,557	843,640
<b>Total</b>	<b>253,249,657</b>	<b>253,249,657</b>	<b>0</b>

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

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

	<b>At Existing Rates</b>
<b>Level</b>	12/kWh
<b>Rate</b>	PhP 5.1679/kWh

During the hearing of the subject case, witness Castillo stated that FLECO's proposed lifeline level is 0 to 12 kilowatthours which is PhP 5.1679/kWh (April 21, 2003, TSN, page 46).

## I.C. OTHER CHARGES

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

PARTICULARS	RATES
1. Reconnection Fees	
Residential	PhP 100.00
Commercial	200.00
Industrial	300.00
2. Meter Installation	
Socket-type	2,000.00
Square-type	1,500.00
3. Cost of Wire (per meter)	
Duplex #6	23.00
Duplex #2	38.30
Duplex #2/0	68.00
Duplex #1/0	54.68
4. Inspection Fees	
Res. below 4 outlets	25.00
Res. more than 4 outlets	40.00
Big Com. with transformer	100.00
5. Private Construction	
Staking Fee	500.00

## II. COMMISSION DISCUSSIONS and CONCLUSIONS

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

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

The Commission finds FLECO'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, FLECO is buying power only from the National Power Corporation (NPC).

The Generation and Transmission charges shall reflect the generation charges of the NPC as approved in the Commission's Orders dated May 15, 2003, Case Nos. 2003-44 [In the Matter of the Adoption of the Generation Rate Adjustment Mechanism (GRAM) and Incremental Currency Exchange Recovery Adjustment (ICERA)] and 2003-156 [In the Matter of the Application for the Recovery of Fuel Independent Power Producer Costs Under the Generation Rate Adjustment Mechanism (GRAM)]; and the 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 is as of June 2003 amounting to PhP 0.2506 per kWh. A separate charge to account for the allowable system loss shall likewise be provided (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>2</sup> of billing determinants was applied.

The downward adjustment made by the Commission to Purchased Power of PhP 20,258,015 consisted of the following:

Adjustment to Purchased Power Cost	PhP	5,088,696
Adjustment to System Loss in Excess of Cap		(25,346,711)
<b>Total Adjustments</b>	<b>PhP</b>	<b>(20,258,015)</b>

The adjustment to Purchased Power Cost of PhP 5,088,696 pertains to the difference between the proposed Purchased Power of FLECO amounting to PhP 178,433,120 and the Generation and Transmission Charges based on the new rates of NPC and TRANSCO amounting to PhP 183,521,816.

Records show that FLECO's average system loss for the years 2000, 2001 and 2002 was 25.80%. The Commission allowed a system loss of 14% in the calculation of FLECO'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 25,346,711 to exclude the excess of actual system loss over the allowable recoverable cap of PhP 23,037,157.

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

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<sup>2</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.

Generation Charge	PhP	103,393,302
Transmission Charge		31,744,646
Recoverable System Loss		23,037,157
Total	PhP	158,175,105

FLECO'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 May 15, 2003, Case Nos. 2003-44 (In the Matter of the Adoption of the Generation Rate Adjustment Mechanism [GRAM] and Incremental Currency Exchange Recovery Adjustment [ICERA]) and 2003-156 (In the Matter of the Application for the Recovery of Fuel and Independent Power Producer Costs Under the Generation Rate Adjustment Mechanism [GRAM]). In which case, FLECO shall bill its end-users the new generation rate charged by NPC. In the meantime, FLECO shall discontinue charging the Purchased Power Adjustment (PPA) upon effectivity of the unbundled rates.

### **II.A.3. PAYROLL**

The Commission adjusted the payroll account upwards by PhP 807,507 to update it to the current salary level of PhP 19,951,216. The adjustment was due to implemented salary increases including those related to Wage Order Nos. IV-7 and IV-8 implemented on January 2001 and February 2002, respectively.

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

Formula based on three (3) established criteria for it to be classified under automatic adjustment clauses. These are: 1) when such costs are extremely volatile, changing rapidly over a short period of time; 2) when such volatile cost changes represent significant portions of total utility operating expenses; and 3) when such volatile cost changes are beyond the ability of the utility to control.

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

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

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

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

The Commission enjoins FLECO to incur only “prudent and reasonable costs” for inclusion in the determination of retail rates. While a distribution

utility is allowed to pass through its costs of purchased power and other reasonable costs to the end-users, it is obligated as a public utility to ensure that its costs of operations 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 R.A. 9136 to establish a regime of free and fair competition and full public accountability to achieve greater operational and economic efficiency, enjoins FLECO 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.

FLECO’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 FLECO’s viability. To this end, FLECO

should view a petition for an increase in rates to be the last recourse. In future billings, FLECO 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.

Upon review of the components of the expenses included in the revenue requirement, the Commission disallowed expenses of PhP 6,934,626 which consist of advertisements to build cooperative's image, death assistance, meals for visitors, donations and other miscellaneous expenses found to have gone beyond the need by which these expenses were meant for. Further, the Commission limits the expenses pertaining to the contribution required to provide pension benefit to an amount equivalent to one month's basic salary of its employees, thus resulting into disallowance of the excess over the limit.

The disallowed expenses were excluded for revenue requirement determination. These expenses translate to PhP 0.1610/kWh which the Commission considers material.

For future rate cases, FLECO will continually be required to make full disclosure of all its Operation & Maintenance expenses and be responsible in providing documentation to prove the reasonableness and prudence of all its expenditures. FLECO should ensure that procedures are put in place so that all expenditures that are included in the determination of revenue requirement are adequately documented and that such documentation is reasonably accessible to the ERC.

## II.A.5. OTHER REVENUE ITEMS

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

The Commission encourages FLECO to improve its financial condition through the development of other related sources of revenue. However, in order to balance the interests of FLECO 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 839,255 computed as shown below. FLECO already reflected an amount of PHP 2,426,109 in its ORI account, hence, the adjustment of PhP 1,586,854.

<b>Other Revenue Items</b>	<b>Amount (PhP)</b>
Rent from Electric Property	407,151
Other Electric Revenue	1,271,358
<b>Total Other Revenue Items</b>	<b>1,678,509</b>
<b>50% of Other Revenue Items</b>	<b>839,255</b>
<b>Other Revenue Items Already Deducted per UFR</b>	<b>(2,426,109)</b>
<b>Adjustment to Other Revenue Items</b>	<b>1,586,854</b>

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

## II.A.6. DEBT SERVICE

The Commission made an upward adjustment of PhP 148,030 to assure that the debt service included in FLECO's revenue requirement is consistent with NEA's records.

The details of the adjustment are shown below.

<b>LOANS</b>	<b>PER NEA (PhP)</b>	<b>PER FLECO (PhP)</b>	<b>DIFFERENCE (PhP)</b>
Rural Electrification:			
LOAN A	254,715		254,715
LOAN B	749,696		749,696
LOAN C	288,340		288,340
LOAN D	855,796		855,796
LOAN E	75,184		75,184
LOAN F	118,224		118,224
LOAN G	863,732		863,732
WORLD BANK-ESL			
A	1,235,772		1,235,772
B	1,656,695		1,656,695
WORLD BANK-RERP			
Construction	4,838,724		4,838,724
Logistical-A	2,214,204		2,214,204
EMERGENCY LOAN			
Concessional	267,500		267,500
Restructured Loan – 2	7,861,985		7,861,985
<b>OTHER LOANS:</b>			
Logistical		4,137,050	(4,137,050)
EVAT		16,417,009	(16,417,009)
Rehabilitation		244,272	(244,272)
Expansion		73,923	(73,923)
Other Long Term Debt		173,715	(173,715)
Short Term Debt		75,541	(75,541)
Power Use Loan		11,027	(11,027)
<b>TOTAL</b>	<b>21,280,567</b>	<b>21,132,537</b>	<b>148,030</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 EC's end-users. FLECO applied for a rate reduction

under the Guidelines for the Implementation of the Reduction in Rates of the Electric Cooperatives due to Condonation of Debts issued by the Commission on October 21, 2002, as amended on November 15, 2002.

The Commission, in its Order dated June 4, 2003, granted FLECO a Provisional Authority to reduce its rates by PhP 0.5270/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**

FLECO made a proposal for the provision for reinvestment fund in its unbundling of rates application in the amount of PhP 12,175,036.

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 a downward adjustment of PhP 784,279 in the reinvestment fund account representing the excess over the 5% allowed by the Commission.

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

- d) FLECO 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 the approved revenue requirement with that proposed by FLECO:

	<b>FLECO Proposal</b>	<b>Adjustments</b>	<b>ERC Approval</b>
Purchased Power PhP	178,433,120	(20,258,015)	158,175,105
Payroll	19,143,709	807,507	19,951,216
O & M (less PP & Payroll)	24,791,363	(6,934,626)	17,856,737
Other Expenses	0	0	0
Debt Service	21,132,537	148,030	21,280,567
Reinvestment Fund <sup>3</sup>	12,175,036	(784,279)	11,390,757
Other Revenue Items	(2,426,109)	1,586,854	(839,255)
<b>Total Rev. Requirement PhP</b>	<b>253,249,656</b>	<b>(25,434,529)</b>	<b>227,815,127</b>

FLECO proposed an OATA of PhP 0.9051/kWh using rates of year 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.

The Commission, after considering adjustments of PhP 25,434,529 approves a Total Revenue Requirement of PhP 227,815,127 equivalent to an OATA<sup>4</sup> of PhP 0.1358/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.

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

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

## **II.B. RATE STRUCTURE/DESIGN DETERMINATION**

### **II.B.1. FUNCTIONALIZATION, CLASSIFICATION and ALLOCATION**

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

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 is 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), 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	0.5854	0.2863	0.1283

FLECO submitted a classification of distribution costs into demand and customer-related costs using the Minimum-Plant Method. This resulted in a 56%-44% allocation on the average.

## **II.B.2. DESIGN and CALCULATION OF CHARGES**

### **II.B.2.a. BAPA**

The Commission, in the design and calculation of charges, takes note of the existence of the Barangay Power Associations (BAPAs) that were conceptualized by the National Electrification Administration (NEA) for the purpose of strengthening member awareness and involvement in efforts towards the reduction of system loss, improvement of collection efficiency and fortification of the institutional consciousness in the grassroots level. The creation of BAPAs was also necessitated by the growing number of cooperatives' membership which made it impossible for the cooperatives to physically reach out to all end-users.

The cooperatives are responsible for the energization of the BAPAs while the latter are 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, or annual cash rewards for outstanding BAPAs and livelihood projects.

The Commission further acknowledges that cooperatives that have instituted BAPAs in their respective franchise areas incur costs with respect to the generation and distribution of power. With reference to the supply and metering functions, the cooperatives generally sustain minimal costs because they only read and bill the BAPAs' mother meters.

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

#### **II.B.2.b. GENERATION CHARGE**

Consistent with the decision in ERC Case No. 2001-901, In the Matter of the Application for Approval of the Revised Unbundled Power Rates, National Power Corporation – Applicant, dated June 26, 2002 and the Commission's Orders dated September 6 and 20, 2002, the generation charge to be billed to end-users shall be the approved rate per kilowatt-hour including Benefits to Host Communities and Franchise Charge and Foreign Exchange Rate Adjustment (FOREX). The FOREX component of the NPC's Generation

Rate used pertains to the supply month of June 2003 amounting to PhP 0.2506 per kWh. The NPC's approved rate will remain fixed until changes are authorized by the Commission pursuant to its Order dated May 15, 2003 as discussed in Section II.A.2. of this Decision. This allows FLECO's Generation Charge to remain fixed until such time that NPC's approved rates are adjusted, thus, eliminates the need for future Purchased Power Adjustment (PPA).

### II.B.2.c. TRANSMISSION CHARGE

The Commission's Decision in ERC Case No. 2001-901 dated June 26, 2002 and Order dated September 20, 2002 set the transmission charges for the TRANSCO without automatic adjustments. Since the transmission rates to be paid by FLECO 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 FLECO have been calculated based on the approved TRANSCO rates which include cross subsidy elements to be phased out over the three-year period.

Transmission Charges		Residential	Commercial	Industrial	Public Bldg.	Street Light
<b>YEAR 1</b>						
Demand Charge	PhP/kW			22.00		
Transmission System Charge	PhP/kWh	0.8391	0.3730	0.1911	0.7795	0.5772
<b>YEAR 2</b>						
Demand Charge	PhP/kW			22.00		
Transmission System Charge	PhP/kWh	0.9810	0.4360	0.2430	0.9112	0.6747
<b>YEAR 3</b>						
Demand Charge	PhP/kW			22.00		
Transmission System Charge	PhP/kWh	1.1229	0.4991	0.2949	1.0431	0.7724
<b>YEAR 4</b>						
Demand Charge	PhP/kW			22.00		
Transmission System Charge	PhP/kWh	1.2648	0.5622	0.3468	1.1749	0.8699

#### **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 FLECO.

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 cap 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 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 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 average Technical and Non-Technical System Loss or cap of 14% plus 1% cooperative own use (which should not include personal consumption of FLECO'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 FLECO's 2000 to 2002 average system loss was 25.80% which is higher than the aforementioned cap of 14%. Hence, the Commission used the system loss cap or 14% in the calculation of FLECO's revenue requirement.

#### **II.B.2.e. DISTRIBUTION CHARGE**

The distribution charge shall be billed on a fixed rate per kilowatt-hour for all Residential, Commercial, Public Buildings and Street Lights end-users. In the case of Industrial end-users, distribution charge shall be billed using a

combination of a fixed rate per kilowatt (kW) and fixed rate per kilowatt-hour (kWh).

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

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

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

The Commission acknowledges that cost-causation rate design principle suggests the recovery of customer-related costs associated with the metering and supply functions through fixed monthly charges. Along with this cost of

service principle, however, the Commission also considers rate design impacts across the spectrum of customers within each rate class. Although R.A. 9136 requires the removal of inter-class cross subsidies, the law does not require removal of revenue flows that may be characterized as intra-class cross subsidies. The Commission has the flexibility to consider other factors in determining rate design for a particular class of end-users. Therefore, to mitigate the impact on below-average consumption of residential end-users, the Commission orders FLECO to use a combination of PhP 5.00 per meter per month and a PhP 0.1892 per kWh rate for the metering function and orders FLECO to use a PhP per kWh rate for the supply function. For Commercial, Industrial, and Public Buildings end-users, metering charge shall be billed a fixed rate per meter per month. The Street Lights end-users do not have metering charge. 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. FLECO will draw the various incentives it will provide the BAPA from the revenues that will be generated from the Supply and Metering Charges from BAPA end-users.

### **II.B.3. INTER-CLASS CROSS SUBSIDY**

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

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

	Total	Residential	Commercial	Industrial	Public Bldg.	Street Light
New Cost-Based Rev. Req.	227,815,127	186,017,176	22,621,956	14,360,737	2,380,008	2,435,250
Existing Rates Revenue	221,966,024	172,675,631	26,026,699	18,116,184	2,608,638	2,538,872
Total Change in Revenue	5,849,103	13,341,545	(3,404,743)	(3,755,447)	(228,630)	(103,622)
Percentage Change in Revenue	2.64%					
Normalized Existing Revenue	227,815,127	177,225,866	26,712,538	18,593,569	2,677,379	2,605,775
Inter-Class Cross - Subsidy Amounts (PhP)	0	(8,791,310)	4,090,582	4,232,832	297,371	170,525
Class Billing Determinants (in kWh)	43,064,394	33,480,553	5,026,895	3,540,052	505,796	511,098
Inter-Class Cross Subsidy Rates (PhP / kWh)		(0.2626)	0.8137	1.1957	0.5879	0.3336

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

Section 74 of R.A. 9136 and Rule 16, Section 5 of its Implementing Rules and Regulations provide that the ERC shall issue a scheme for phasing out all cross subsidies including subsidies within Grids, between Grids, and between classes of end-users. The phasing-out period shall not exceed three (3) years from the establishment of the Universal Charge, which may be extended for a maximum period of one (1) year subject to certain conditions.

The Commission approved the cross subsidy removal scheme for the TRANSCO in its Decision dated June 26, 2002, Case No. 2001-901, which impacts the unbundled transmission rates for FLECO'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, FLECO 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 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 25 kWh for FLECO. 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 FLECO. The graduated scale is also based on the recognition that individual end-user consumption may likely vary from month to month.

16 kWh and below	-	50%
17 kWh	-	40%
18 kWh	-	30%
19 kWh	-	20%
20 kWh	-	10%
21-25 kWh	-	5%

FLECO 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 25 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 FLECO, the lifeline discounts result in a Lifeline Rate Subsidy by other end-users equal to PhP 0.0562/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.

FLECO 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**

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

The compliance filing for the approval of Other Charges shall include rates that are cost-based, as well as all supporting cost justification 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 AN AVERAGE RESIDENTIAL END-USER

A comparison of the estimated impact of all adjustments to the revenue requirement on the monthly bill of an average residential end-user consuming 114 kWh a month, using rates based on FLECO'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 Rates			
	PhP/kWh	Amount (PhP)			PhP/kWh	Amount (PhP)
Basic Rate	3.6057	411.05	Generation Charges:		2.4009	273.70
PPA	1.5877	181.00	Generation System Charge	2.1258		
PAR	(0.3000)	(34.20)	Benefits to Host Communities	0.0245		
Universal Charge:			FOREX	0.2506		
Missionary	0.0168	1.92	Transmission Charge		0.8391	95.66
Environmental	0.0025	0.29	Distribution Charge		1.0673	121.67
			System Loss Charge		0.5349	60.98
			Supply Charge		0.4864	55.45
			Metering Charges:			
			Per Customer Per Month			5.00
			Per kWh		0.1892	21.57
			Inter-Class Cross Subsidy		(0.2626)	(29.94)
			Universal Charge:			
			Missionary Electrification		0.0168	1.92
			Environmental Charge		0.0025	0.29
			Lifeline Rate[(Discount)/Subsidy]		0.0562	6.41
			Power Act Reduction		(0.3000)	(34.20)
<b>TOTAL BILL</b>		<b>560.06</b>	<b>TOTAL BILL</b>			<b>578.51</b>
<b>PhP/kWh</b>		<b>4.9128</b>	<b>PhP/kWh</b>			<b>5.0746</b>

**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:

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

	Residential	Commercial	Industrial	Public Bldg.	Street Lights
<b>Generation Charges:</b>					
Generation System Charge PhP/kWh	2.1258	2.1258	2.1258	2.1258	2.1258
Franchise & Benefits to Host Communities Charge PhP/kWh	0.0245	0.0245	0.0245	0.0245	0.0245
FOREX Adjustment Charge PhP/kWh	0.2506	0.2506	0.2506	0.2506	0.2506
<b>Transmission Charges:</b>					
Demand Charge PhP/kWh			22.00		
Transmission System Charge PhP/kWh	0.8391	0.3730	0.1911	0.7795	0.5772
<b>System Loss Charge</b> PhP/kWh	0.5349	0.5349	0.5349	0.5349	0.5349
<b>Distribution Charges:</b>					
Demand Charge PhP/kWh			22.00		
Distribution System Charge PhP/kWh	1.0673	0.8968	0.5833	0.7696	1.0363
<b>Supply Charges:</b>					
Retail Customer Charge PhP/Customer/ Mo.		55.33	271.81	58.22	51.56
Supply System Charge PhP/kWh	0.4864				
<b>Metering Charges:</b>					
Retail Customer Charge PhP/Meter/Mo.	5.00	35.88	226.74	21.92	
Metering System Charge PhP/kWh	0.1892				
<b>Inter-Class Cross Subsidy Charge</b> PhP/kWh	(0.2626)	0.8137	1.1957	0.5879	0.3336
<b>Universal Charges:</b>					
Missionary Electrification Charge PhP/kWh	0.0373	0.0373	0.0373	0.0373	0.0373
Environmental Share PhP/kWh	0.0025	0.0025	0.0025	0.0025	0.0025
<b>Lifeline Rate (Discount)/Subsidy</b> PhP/kWh	0.0562	0.0562	0.0562	0.0562	0.0562
<b>Power Act Reduction</b> PhP/kWh	(0.3000)				
<b>Rate Reduction due to Condonation of Loan</b> PhP/kWh	(0.5270)	(0.5270)	(0.5270)	(0.5270)	(0.5270)
<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.					
<b>Missionary Electrification Charge</b> was adjusted 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.					
<b>Rate Reduction due to Loan Condonation</b> per ERC Order dated June 4, 2003 in ERC Case No. 2003-83					

2. To direct FLECO to comply with the following:
  - a) Discontinue charging the PPA upon effectivity of the approved unbundled rates. FLECO shall automatically bill its end-users the new Generation Rate charged by NPC as approved and authorized by the Commission;
  - b) Bill P 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-users 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 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 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 Program covering the period 2004 to 2008, no later than one (1) year after the date of this Decision using a 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, July 25, 2003.

**MANUEL R. SANCHEZ**  
Chairman

**OLIVER B. BUTALID**  
Commissioner

**MARY ANNE B. COLAYCO**  
Commissioner

**CARLOS R. ALINDADA**  
Commissioner

**LETICIA V. IBAY**  
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15. The Municipal Mayor  
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16. The Municipal Mayor  
Mabitac, Laguna
17. The Municipal Mayor  
Paete, Laguna
18. The Municipal Mayor  
Pagsanjan, Laguna
19. The Municipal Mayor  
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21. The Municipal Mayor  
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