

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. 2001-923

ILOCOS SUR ELECTRIC COOPERATIVE,
INC. (ISECO),

Applicant.

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DECISION

Before this Commission for resolution is the application filed by applicant Ilocos Sur Electric Cooperative, Inc. (ISECO) on December 21, 2001 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 9, 2002, were issued setting the case for hearing on May 27 and 28, 2002.

In the same Order, ISECO 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, ISECO published the Notice of Public Hearing in "*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 with copies of the Order and the Notice of Public Hearing and were requested to have their respective duly authorized representatives present at the aforementioned initial hearing.

Likewise, the City/Municipal Mayors of Banayoyo, Bantay, Burgos, Cabugao, Candon, Caoayan, Galimuyod, Lididda, Magsinkal, Nagbukel, Narvacan, Salcedo, San Esteban, San Idefonso, San Juan, Santiago, San Viciente, Sta. Catalina, Sta. Cruz, Sta. Lucia, Sta. Maria, Sto. Domingo, Sinait, Suyo, Tagudin, Vigan City, San Emilio, Alilem, Cervantes, Del Pilar, Quirino, Sugpon and Sigay, all in the Province of Ilocos Sur, were furnished with copies of the Order and the Notice of Public Hearing for the appropriate posting thereof on their respective bulletin boards.

At the initial hearing of this case on May 27, 2002, ISECO was present. The following also entered their appearances: Atty. Everin P. Molina for himself and for oppositors City of Vigan, Francisco Ranches, Jr. and Nicomedes Ramirez; Atty. Richardson G. Agbisit, as counsel for the aforementioned oppositors; Atty. Estelita Cordero for herself and for oppositor Save Ilocos Sur Alliance (SISA), a non-governmental organization against graft and corruption in Ilocos Sur; and Mr. Amado Pacpaco for himself as oppositor.

During the said hearing, ISECO presented proofs of compliance with the Commission's posting and publication of notice requirements which were duly marked as Exhibits "A" to "C-32", inclusive. In the course thereof, ISECO manifested that the Office of the City of Mayor of Vigan did not issue a certificate of posting in spite of the fact that it was furnished with copies of the Order and the Notice of Public Hearing. Consequently, ISECO presented an affidavit executed by Ms. Blesilda Dalit to the effect that the said office was indeed furnished with copies of the Order and the Notice of Hearing for the appropriate posting thereof on its bulletin board and that it did not issue said certificate. Said affidavit was duly marked as Exhibit "C-33". Thereafter, ISECO moved that it be given a period of ten (10) days from said date of hearing within which to submit a revised computation of its Overall Average Tariff Adjustment (OATA) using 2000 as base year. Said motion was granted.

Atty. Cordero, on the other hand, moved that ISECO be directed to furnish oppositors its latest Audited Financial Statement and Performance Audit. In this connection, ISECO manifested that it would furnish oppositors with copies of the requested documents within ten (10) days from the date of

hearing. Atty. Cordero then moved that oppositors be given sufficient time within which to submit their comments on the said documents. Said motion was granted.

Atty. Molina, for his part, moved that ISECO be directed to furnish oppositors with copies of its formula for computing its Purchased Power Adjustment (PPA) as well as the computation thereon. Relative thereto, ISECO manifested that it would furnish said oppositors with the PPA formula but considering the voluminous nature of the requested computations, it requested that it be allowed to furnish oppositors the PPA computations for a particular month or period. By agreement of the parties, ISECO would furnish the oppositors with copies of its PPA computation for the month of April 2002.

Finally, ISECO was directed to submit, within ten (10) days from said date of hearing, an explanation on why the payroll cost had increased from PhP 35 Million in the year 2000 to PhP 45 Million in the year 2002 and the co-relation between its proposed reinvestment fund to its system loss reduction program. The next hearing was set on July 5, 2002.

On even date, oppositors City of Vigan and private oppositors Atty. Molina, et al. filed their "Motion to Oppose" alleging that the approval of the application for unbundled rates will inevitably result to an increase in electric power rate that is unfair, unreasonable and unjust; that a reading of Schedules "A" and "B" of the application would show that ISECO retains an unreasonably large amount intended for the retirement fund and benefits of its few employees and officials; that it is expected that a substantial portion of the

proceeds of the proposed power rate hike is intended to be used to further increase the retirement fund and benefits of officials of ISECO; that the pending application of National Power Corporation (NPC) for the unbundling of its power rate should first be acted upon before ISECO's application considering that ISECO sources all its energy from NPC; that ISECO is overcharging the consumers the purchased power adjustment (PPA) charge; that as of April 2002, NPC charges a PPA of One Peso and Fifty Three Centavos (PhP 1.53) per kilowatt-hour in the Luzon Grid but ISECO passes the PPA charge to the consumers in the amount of Two Pesos and Sixty One Centavos (PhP 2.61); and that the existing rates of ISECO are not reflective of the true and actual rates.

On July 3, 2003, oppositor SISA filed its "Manifestation and Motion" praying that the July 5, 2003 hearing be cancelled in view of the failure of ISECO to furnish said oppositor with the documents requested by them at the May 27, 2002 hearing. However, due to the proximity of the scheduled hearing and the fact that SISA is not the only registered oppositor in this case, the Commission proceeded with the July 5, 2002 hearing of this case.

At the July 5, 2003 hearing, Atty. Molina manifested that he just received on the same afternoon from ISECO a copy of the supporting documents previously requested by the oppositors. Said manifestation was noted. ISECO then moved that it be allowed to present its witnesses. Said motion was granted subject to the condition that said witnesses would be made available for cross-examination by the oppositors at the next hearing in view of Atty. Molina's earlier manifestation.

ISECO presented its first witness, Ms. Lawrence Severo, ISECO's Accountant, who testified on the various schedules submitted in support of the application. In the course thereof, several documents were presented and subsequently marked as Exhibits "D" to "ZZ", inclusive. After the termination of the direct examination, the Commission propounded clarificatory questions on the said witness. In the course thereof, ISECO was directed to submit various data/documents.

Thereafter, Mr. Pacpaco conducted his cross-examination of the same witness. In the course thereof, ISECO was directed to submit a list of its ten (10) big uncollected accounts. Consequently, Mr. Pacpaco reserved his right to conduct further cross-examination upon submission by ISECO of the required documents. Said manifestation was noted.

ISECO then presented its second witness, Mr. Fred Jacob, ISECO's Technical Services Department (TSD) Manager. After the termination of the direct examination, the Commission again propounded clarificatory questions on the said witness. In the course thereof, ISECO was directed to submit a record on unscheduled interruptions from January 2002 to June 2002. Mr. Pacpaco conducted his cross-examination of the same witnesses. Said cross-examination having been terminated, ISECO moved that it be given ten (10) days from said date of hearing within which to submit the required documents. Said motion was granted.

Thereafter, ISECO was directed to furnish oppositor SISA with copies of documents requested by them at the May 27, 2002 hearing. In this regard, ISECO manifested that it had already furnished said oppositor with the requested documents, although belatedly, in view of its failure to secure the forwarding address of said oppositor. The next hearing was set on August 20, 2002.

On July 6, 2002, ISECO filed its "Comments to Opposition of the City of Vigan and Some Private Oppositors with Additional Compliance" manifesting that it provides for the retirement and pension benefits to qualified employees as mandated by Republic Act No. 7641 on a contributory basis; that the PhP 33 Million gratuity fund is not even enough to cover the minimum funding requirement for its employees' retirement fund which is estimated, based on a study, to be approximately PhP 86 Million; that electric cooperatives, although non-profit, must however, operate viably to such extent that it must pay all its obligations not only the loan amortization from which one hundred percent (100%) of its initial assets and the putting up of its system was derived at all other obligations such as power from NPC, salaries and wages for its employees, rehabilitation and maintenance of its lines; that the resulting overall average tariff adjustment is merely a reflection of the true cost of service which is also its revenue requirement to enable it to finance its operations as an electric utility; that the PPA issue is completely irrelevant in the unbundling or reformatting of the rates; that for the month of April 2002, it was charged by NPC the amount of PhP 2.3353 per kWh as billing adjustment and not PhP 1.53 per kWh; and that the increase in rates as a result of the unbundling or reformatting of rates is inevitable due to increase in the operating costs since

its present basic rate of PhP 3.5063/kWh remain unchanged since February 1996.

In the same pleading, ISECO manifested that it had furnished Atty. Cordero of oppositor SISA with its Audited Financial Report for the Years 2000-2001 and the Financial Management Audit for the period October 1, 1998 to September 30, 2001.

Meanwhile, on various dates, the Commission received resolutions of the different local legislative bodies within ISECO's franchise area, to wit:

- a) Resolution No. 02-47 passed by the Sangguniang Bayan of Alilem, Ilocos Sur, vehemently opposing the petition to increase electric power rate charged by ISECO to electric power members-consumers within its service area;
- b) Municipal Resolution No. 47 Series of 2002 passed by the Sangguniang Bayan of Cabugao, Ilocos Sur, registering vehement opposition to the petition of ISECO to increase its electric bills;
- c) Resolution No. 23 Series of 2002 passed by the Sangguniang Bayan of Burgos, Ilocos Sur, opposing the continued charging of power purchase adjustment by ISECO and Resolution No. 24 Series of 2002 passed by the same Sanggunian, requesting the Commission to disregard/reject the proposed power rate increase by ISECO;
- d) Resolution No. 002-37 passed by the Sangguniang Bayan of San Esteban, Ilocos Sur, opposing the approval of increase in electric rates filed by ISECO;
- e) Resolution No. 23 Series of 2002 passed by the Sangguniang Bayan of Bantay, Ilocos Sur, expressing its opposition to the application for the approval of the unbundled rates of ISECO which is docketed as ERC Case No. 2001-923 at the Commission;
- f) Resolution No. 49, Series of 2002 passed

by the Sangguniang Bayan of Santiago, Ilocos Sur, expressing its opposition to the application for approval of the unbundled rates of ISECO which is docketed as ERC Case No. 2001-923 at the Commission; and g) Resolution No. 2002-Au86, opposing the approval to the petition for rate increase of ISECO before the Commission and Resolution No. 2002-Au84, Supporting the Vice Mayor's League Resolution No. 10 Series of 2002, opposing the application for approval of the unbundled rates of ISECO. The Commission in various Orders and correspondence noted the aforementioned resolutions and directed ISECO to submit its comments thereon and at the same time, addressed certain issues raised in the said resolutions.

At the hearing on August 20, 2002, the counsel for City of Vigan and Mr. Pacpaco conducted their respective cross-examinations of ISECO's witnesses. Said cross-examinations having been terminated, the Commission inquired from the oppositors present at the hearing if they intend to present their evidence and witnesses. Said oppositors manifested that they would not present any evidence or witnesses.

The Commission then called to the witness stand Mr. Cesar Gironella, ISECO's General Manager, for some clarifactory questions. In the course thereof, ISECO was directed to submit an itemized list of travel allowances granted to its employees.

ISECO then moved that it be given a period of five (5) days from said date of hearing within which to submit the required documents and thereafter file its formal offer of evidence. Considering that another oppositor, SISA,

represented by Atty. Cordero, failed to attend said hearing, said motion was granted subject to the conduct of another hearing if requested by said oppositor. Relative thereto, in the Order dated September 5, 2002, oppositor SISA was directed to inform the Commission, within fifteen (15) days from receipt of the Order, whether or not it is interested in having the case set for another hearing for its presentation of evidence and witnesses. However, said oppositor to date, has failed to make such information.

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

On September 26, 2002, ISECO submitted its "Formal Offer of Evidence" which was admitted by the Commission for the purposes for which they were being offered.

I. SUMMARY OF ISECO's APPLICATION

I.A. REVENUE REQUIREMENT

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

Account Name	TEST YEAR	
kWh Sales		94,775,950
Purchased Power	PhP	368,731,368
Payroll		40,295,035
Operation and Maintenance (less Purchased Power & Payroll)		50,710,542
Other Expenses		0
Debt Service		18,099,510
Revenue Requirement	PhP	477,836,455
Less: Other Revenue Items		0
Reinvestment Fund (10%) ¹		46,623,991
TOTAL REVENUE REQUIREMENT	PhP	524,460,446

ISECO's proposed revenue requirement was PhP 524,460,446 based on historical costs for the test year 2000. The Overall Average Tariff Adjustment (OATA) published was PhP 0.5274/kWh. The same OATA was stated by witness Severo, in her testimony on July 5, 2002 (Transcript of Stenographic Notes (TSN), July 5, 2002, page 20).

ISECO also submitted Audited Financial Statements for the year 2000.

I.B. RATE STRUCTURE/DESIGN

The unbundled rates proposed by ISECO are as follows:

Residential Retail Service			
Distribution Charge			
Distribution System Charge	PhP	1.5362	per kWh
Generation Charge		3.8926	per kWh
Supply Charges			
Retail Customer Charge		11.49	per retail customer/month
Metering Charge		13.51	per retail customer/month
Small Commercial Retail Service			
Distribution Charge			
Distribution System Charge		1.0207	per kWh
Generation Charge		3.8926	per kWh
Supply Charges			
Retail Customer Charge		10.44	per retail customer/month
Metering Charge		19.56	per retail customer/month

¹ In the UFR, this item is reflected as "Plus Percentage for Cooperative Investment (10%)".

Large Commercial Retail Service			
Distribution Charge			
Distribution System Charge	PhP	0.5313	per kWh
Generation Charge		3.8926	per kWh
Energy Charge		4.4239	per kWh
Demand Charge		49.5403	
Supply Charges			
Retail Customer Charge		4.57	per retail customer/month
Metering Charge		25.43	per retail customer/month
Public Buildings Retail Service			
Distribution Charge			
Distribution System Charge		0.8298	per kWh
Generation Charge			
Energy Charge		3.8926	per kWh
Supply Charges			
Retail Customer Charge		13.23	per retail customer/month
Metering Charge		26.77	per retail customer/month
Industrial Retail Service			
Distribution Charge			
Distribution System Charge		0.6448	per kWh
Generation Charge		3.8926	per kWh
Energy Charge		4.5374	per kWh
Demand Charge		34.5090	per kW
Supply Charges			
Retail Customer Charge		25.56	per retail customer/month
Metering Charge		174.44	per retail customer/month
Street Lightings Retail Service			
Distribution Facilities Charge			
Distribution System Charge		116.7039	per pole/month
Energy Charge		4.5487	per kWh
Irrigational Retail Service			
Distribution Charge			
Distribution System Charge		1.2198	per kWh
Generation Charge		3.8926	per kWh
Supply Charges			
Retail Customer Charge		12.55	per retail customer/month
Metering Charge		17.45	per retail customer/month

I.B.1. FUNCTIONALIZATION, CLASSIFICATION and ALLOCATION

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

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

I.B.2. SYSTEM LOSS

Witness Jacob, in his testimony stated that the system loss used in the year 2000 was 15.39% (July 5, 2002, TSN, page 84).

Witness Jacob also mentioned that of the 15% system loss, around 13% is technical loss and 2% is non-technical loss. Further, he said that the reasons for the technical system loss were undersized conductors, electric meters and also the overloading of some substations. The non-technical system loss was due to pilferages, right of way clearing and some from street lights (July 5, 2002, TSN, page 86).

I.B.3. INTER-CLASS CROSS SUBSIDY

ISECO 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	371,561,203	391,137,914	(19,576,711)
Small Commercial	57,000,467	51,545,170	5,455,296
Large Commercial	28,286,179	23,066,325	5,219,854
Public Buildings	30,280,846	26,692,633	3,588,213
Industrial	33,054,983	27,996,901	5,058,082
Street Lights	2,303,917	2,057,832	246,085
Irrigation	1,972,851	1,963,671	9,180
Total	524,460,446	524,460,446	0.00

I.B.4. LIFELINE RATE and LEVEL

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

	Option 1 (At Existing Rates)	Option 2 (At Proposed Customer Charges)
Level	10 kWh	10 kWh
Rate	PhP 4.9837/kWh	PhP 25.00/customer/month

During the hearing of the subject case, witness Severo stated that ISECO's proposed lifeline rate for marginalized consumers is 0 to 10 kilowatt-hours which will be equal to its existing rates as of December, 2000 which is PhP 4.9837/kWh. She further stated that ISECO considered the lifeline consumers to be the minimum billers from 0 – 10 consumption (July 5, 2002, TSN, pages 22-23).

I.C. OTHER CHARGES

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

PARTICULARS	RATES
1. Reconnection Fee (for delinquent consumers)	
First Offense	PhP 300.00
Second Offense	400.00
Third Offense	500.00
2. Reconnection Fee (pilferage)	
Residential/Public Buildings	
First Offense	300.00
Second Offense	500.00
Commercial	
First Offense	2,000.00
Second Offense	3,000.00
Industrial	
First Offense	4,000.00
Second Offense	5,000.00
3. Penalty	
A penalty is imposed to all type of consumers for late payment	50.00
4. kWh Meter – Calibration Testing Fee	
Residential	50.00
Industrial/Commercial	300.00
5. Inspection Fee	
Residential	
Minimum of 4 outlets	250.00
Exceeding 4 outlets	7.50 per outlet
Commercial	
Minimum of 4 outlets	35.00
Exceeding 4 outlets	15.00 per outlet
6. Transformer Testing/Installation/Pull-out Fee	
10 kVA	300.00
15 kVA	400.00
25 kVA	500.00
37.5 kVA	600.00
50 kVA	700.00
75 kVA	800.00
7. Special/Temporary Lightings – Service Fee	200.00
8. Transformer Rental	10.00 kVA/month

II. COMMISSION DISCUSSIONS and CONCLUSIONS

II.A. DETERMINATION OF TOTAL REVENUE REQUIREMENT

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

II.A.1. TEST YEAR

The Commission finds ISECO'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, ISECO is buying power from two (2) sources, namely: National Power Corporation (NPC) and Mountain Province Electric Cooperative, Inc. (MOPRECO). The Commission notes that the contractual arrangement between ISECO and MOPRECO had no prior approval from the then Energy Regulatory Board (ERB). The Commission further notes that the average power rate charged by MOPRECO for the year 2002 is higher than that of NPC. In view thereof, pending the Commission's approval of the

purchased power agreement between ISECO and MOPRECO, the cost of electric service power supplied by MOPRECO shall be pegged at the existing NPC generation rate.

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 No. 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)]; 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 NPC's Generation Charge used is as of June 2003 amounting to PhP 0.2506 per kWh. A separate charge to account for the allowable system losses 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*² of billing determinants was applied.

The downward adjustment of PhP 15,519,334 made by the Commission to the Purchased Power consisted of the following:

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.*

Adjustment to Purchased Power Cost	PhP	7,439,873
Adjustment to System Loss	PhP	8,079,461
Total Adjustments	PhP	15,519,334

The adjustment to Purchased Power Cost of PhP 7,439,873 pertains to the difference between the proposed purchased power of ISECO amounting to PhP 368,731,368 and the purchased power cost based on the new rates of NPC and TRANSCO amounting to PhP 361,291,495.

Records show that ISECO's 2000-2002 average system loss was 15.91%. The Commission allowed a system loss of 14% in the calculation of ISECO'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 8,079,461 to exclude the excess of actual system loss over the allowable recoverable cap of PhP 51,533,635.

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

Generation Charge	PhP	229,965,331
Transmission Charge		71,713,068
Recoverable System loss		51,533,635
Total	PhP	353,212,034

ISECO's approved generation charge shall remain fixed and any change thereon, shall be reflected as deferred charges or credits which shall be recovered through GRAM and ICERA pursuant to the Commission's 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 the meantime, ISECO shall discontinue charging the Purchased Power Adjustment (PPA) upon effectivity of the unbundled rates.

II.A.3. PAYROLL

The Commission made an upward adjustment in ISECO's payroll by PhP 1,119,425 to update it to the current salary level of PhP 41,414,460. The adjustment is due to one-rank salary adjustment implemented by ISECO in the year 2001 per Resolution No. 184 and approved by NEA on June 13, 2001.

The Commission likewise limits the expenses pertaining to the contribution required to provide retirement benefit to an amount equivalent to one month basic salary of ISECO's employees.

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

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

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 ISECO 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 maybe not the lowest in price, need to be incurred with consideration of quality, efficiency, reliability, and security, which are

characteristics of the service that should be delivered by the distribution utility. “Prudent costs” demand that the utility ensures that its purchases of goods and services are at their minimum, without sacrificing the foregoing characteristics. When making a purchase or executing a contract, it cannot simply rely on its right to pass on its costs to its end-users.

As such, the Commission, in fulfillment of the policy of R.A. 9136 to establish a regime of free and fair competition and full public accountability to achieve greater operational and economic efficiency, enjoins ISECO 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.

ISECO'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 ISECO's viability. To this end, ISECO should view a petition for an increase in rates to be the last recourse. In future filings, ISECO 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 21,676,654 [inclusive of Customer Prompt Payment Discount of PhP 1,832,582 which was re-classified under other Revenue Items (ORI)] which consist of meals, snacks, accommodation of guests/visitors, financial assistance, incentive commission,

health insurance, HMO and excess representation allowance which were found to have gone beyond the necessity by which these expenses were meant for. ISECO's adjustment for uncollectible accounts in its application was also excluded to be consistent with its Audited Financial Statements for the year 2000. The disallowed expenses were excluded for revenue requirement determination. These expenses translate to PhP 0.2072/kWh which the Commission considers material.

For future rate cases, ISECO will continually be required to make full disclosure of all its O & M expenses and be responsible in providing documentation to prove the reasonableness and prudence of all its expenditures. ISECO 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 ISECO to improve its financial condition through the development of other related sources of revenue. However, in order to balance the interest of ISECO 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 net ORI. This reduction of 50% amounts to PhP 8,291,109 as shown below:

OTHER REVENUES	AMOUNT (PhP)
Prompt Payment Discount from NPC	PhP 10,670,037
Less: Customer Prompt Payment Discount	1,832,582
Net Prompt Payment Discount	8,837,455
Reconnection Fee	476,800
Service Fee	131,078
Penalty	1,019,789
Transformer Inst'n Pullout/Testing Fees	135,366
Overhead and Labor	82,958
Special Lighting	979,982
Labor & Overhead on Private Construction	227,831
Pole Rental & Energy Bill – Cable TV	46,698
Other Non-Operating Revenues (Net of Other Expenses)	4,644,260
Net Other Revenues	16,582,217
Fifty Percent (50%) of Net Other Revenues	8,291,109

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

II.A.6. DEBT SERVICE

The Commission made a downward adjustment of PhP 5,798,394 to ensure that the debt service account included in ISECO's revenue requirement is consistent with NEA's records. The details of the adjustment are as follows:

LOANS	LOAN PROFILE (EQA)		DIFFERENCE (PhP)
	PER NEA (PhP)	PER ISECO (PhP)	
RURAL ELECTRIFICATION:			
A	596,100	596,100	
B	322,884	322,884	
C	632,984	632,984	
D	656,364	656,364	
E1	89,052	89,052	
E2	1,021,796	1,021,796	
G	1,796,080	1,796,080	
F	2,272,184	2,272,184	
WORLDBANK (ESL)	1,934,748	1,934,748	
WORLDBANK (RERP-(RE)	2,228,148	2,228,148	
WORLDBANK (RERP-(LOG)	698,148*	698,148	
OTHER LOANS:			
MINI-HYDRO PROJECT	127,884		127,884
DAWARA FALLS	622,892		622,892
TOTAL	12,999,264	12,248,488	750,776
Amortization for 2002 Loan		5,851,022	(5,851,022)
TOTAL	12,999,264	18,099,510	(5,100,246)
Fully Paid 6/30/02 *	(698,148)		(698,148)
TOTAL	12,301,116	18,099,510	(5,798,394)

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 ECs' end-users. ISECO applied for a rate reduction under the Guidelines for the Implementation of the Reduction in Rates of the Electric Cooperatives Due to Condonation of Debts issued by the Commission on October 21, 2002, as amended on November 15, 2002.

The Commission, in its Order dated March 21, 2003, granted ISECO a Provisional Authority to reduce its rates by PhP 0.0875/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 in the Disposition of this Decision.

II.A.7. REINVESTMENT FUND

ISECO made a proposal for the provision for reinvestment fund in the amount of PhP 46,623,991.

The Commission permits a reinvestment fund equivalent to 5% of the 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 22,508,968, representing the excess over the 5% permitted.

One of the main purposes of providing the 5% Reinvestment Fund is for the end-users of ISECO 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 ISECO;

- c) ISECO 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 ISECO to appear and show cause why it should continue collection of the reinvestment fund; and

- d) ISECO 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 the comparison of the approved revenue requirement with that proposed by ISECO:

	ISECO Proposal	Adjustments	ERC Approval
Purchased Power	368,731,368	(15,519,334)	353,212,034
Payroll	40,295,035	1,119,425	41,414,460
O & M (less PP & Payroll)	50,710,542	(21,676,654)	29,033,888
Other Expenses	0	0	0
Debt Service	18,099,510	(5,798,394)	12,301,116
Reinvestment Fund ³	46,623,991	(24,115,023)	22,508,968
Other Revenue Items	0	(8,291,109)	(8,291,109)
Total Revenue Requirement	524,460,446	(74,281,089)	450,179,357

ISECO proposed an OATA of PhP 0.5274/kWh using rates of 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 74,281,089 approves a total revenue requirement of PhP 450,179,357 equivalent to an OATA⁴ of (PhP 0.2151/kWh) for ISECO. 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.

³ In the UFR, 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 June 2003.

II.B. RATE STRUCTURE/DESIGN DETERMINATION

II.B.1 FUNCTIONALIZATION, CLASSIFICATION and ALLOCATION

The functionalization and allocation factors used by ISECO were the default factors provided for in the UFR issued by the Commission on October 30, 2001. In the case of ISECO, 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 ISECO 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 was used as a default factor to functionalize costs under outside services, was replaced with the factor "Total Payroll Excluding Administrative and General Payroll" (PAYXAG) in order to remove the possibility of allocating a portion of outside services costs to transmission function.

Third, since the Commission is now including Other Revenue Items (ORI) not included by ISECO, 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	0.2248	0.6621	0.1131

ISECO submitted allocation of certain distribution costs into demand-and customer-related cost using the Minimum-Plant Method. This method resulted in a 36% - 64% 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 cooperative 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, annual cash rewards for outstanding BAPAs and livelihood projects.

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

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

II.B.2.b. GENERATION CHARGE

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

to the supply month of June 2003 amounting to PhP 0.2506/kWh. The NPC's approved rate will remain fixed until changes are authorized by the Commission pursuant to its Order dated May 15, 2003 as discussed in Section II.A.2. of this Decision. This allows ISECO'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 ISECO 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 ISECO have been calculated based on the approved TRANSCO rates, which include cross subsidy elements to be phased out over a three-year period.

Transmission Charges	Residential	Commercial	Industrial	Public Bldgs.	Street Lights	Irrigation	Sale for Resale
Year 1							
Demand Charge PhP/kW			27.50				
Transmission Line Charge PhP/kWh	0.6723	0.9991	0.9066	0.6935	0.5788	1.0313	1.2563
Year 2							
Demand Charge PhP/kW			27.50				
Transmission Line Charge PhP/kWh	0.8175	1.2149	1.1364	0.8432	0.7039	1.2540	1.5276
Year 3							
Demand Charge PhP/kW			27.50				
Transmission Line Charge PhP/kWh	0.9628	1.4308	1.3663	0.9931	0.8289	1.4768	1.7991
Year 4							
Demand Charge PhP/kW			27.50				
Transmission Line Charge PhP/kWh	1.1080	1.6466	1.5961	1.1429	0.9540	1.6996	2.0704

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 ISECO .

The allowed system loss is equal to the average system loss for the years 2000, 2001 and 2002 or the system loss cap, whichever is lower. In arriving at this decision, the Commission recognizes that the distribution utility faces some risk of over- or under-recovery in the event its load characteristics change through time. The system loss not only results in additional unbundled generation costs but also additional unbundled transmission costs to be paid by end-users. When system loss is within the allowable cap, the distribution utility is able to recover from the end-users all generation and transmission costs. Thus, system loss in excess of the allowable caps shall not be recovered from the end-users as calculated in Section II.A.2. of this Decision.

On December 8, 1994, Republic Act No. 7832, otherwise known as the Anti-Pilferage Law was enacted. In July 1995, the ERB promulgated 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 the IRR provide that the recoverable Technical and Non-Technical System Loss should not exceed the fourteen percent (14%) ceiling allowed for year 2000.

The Commission believes that the present cap on Technical and Non-Technical System loss of 14% should continue to be used. This would however be subject to change upon the approval of a new policy by the Commission. The actual Technical and Non-Technical System Loss or cap of 14% plus 1% cooperative own use (which should not include personal consumption of ISECO'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 ISECO's 2000 to 2002 average system loss was 15.91% which was higher than the aforementioned cap of 14%. Hence, the Commission considered system loss cap of 14% in the calculation of ISECO's revenue requirement.

II.B.2.e. DISTRIBUTION CHARGE

The distribution charge shall be billed on a fixed rate per kilowatt-hour for all end-users, except for Industrial end-users, which shall be billed using a combination of a fixed rate per kilowatt (kW) and a fixed rate per kilowatt-hour (kWh).

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

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

ISECO also sells power to the end-users in Sugpon, a municipality within the franchise area of La Union Electric Cooperative, Inc. (LUELCO). At present, LUELCO's distribution network does not extend to the Municipality of Sugpon even though it is within the franchise area of LUELCO. Hence, LUELCO buys electric power from ISECO to serve Sugpon. In view of this, LUELCO is a Sale for Resale customer of ISECO. However, in the unbundling application, ISECO did not propose for a Sale for Resale customer class. Instead, ISECO included its sales to LUELCO in its Residential customer class.

The Commission notes that ISECO sells power to LUELCO. The Commission decided to create a Sale for Resale customer class for ISECO or for similar purposes. The Commission allows ISECO to bill LUELCO the approved Sale for Resale unbundled rates as set forth in the Disposition portion of this Decision. However, ISECO should not charge metering costs since LUELCO owns the metering equipment.

The Commission also notes that ISECO proposed for the split of their Commercial customer class into small and large. However, the Commission finds it not appropriate at this time until inter-class cross-subsidies are fully removed.

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 (including those connected to BAPAs), the Commission orders ISECO to use a combination of PhP 5.00 per customer per month and a PhP 0.2645 per kWh rate for the

metering function. On the other hand, the Commission orders ISECO to use a PhP per kWh rate for the supply function. For Commercial, Industrial, Public Buildings, Street Lights and Irrigation end-users, metering charge shall be billed on a fixed rate per meter per month. In the case of Street Lights customers, the metering charge shall be billed to ISECO's metered customers. However, the Sale for Resale customer class will not be billed a metering charge as discussed in Section II.B.2.e. of this Decision. 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. ISECO will draw the various incentives it will provide the BAPA for revenues that will be generated from the Supply and Metering Charge 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 Buildings	Street Lights	Irrigation	Sale for Resale
New Cost-Based Revenue Requirement PhP	450,179,357	328,423,220	72,033,327	23,191,707	22,629,564	1,705,196	2,179,016	17,327
Existing Rates Revenue PhP	470,786,689	337,358,571	77,334,964	25,064,998	27,161,869	2,090,765	1,757,467	18,055
Total Change in Revenue PhP	(20,607,332)	(8,935,351)	(5,301,637)	(1,873,291)	(4,532,305)	(385,569)	421,549	(728)
Percentage Change in Revenue	(4.38%)							
Normalized Existing Revenue PhP	450,179,357	322,591,671	73,949,849	23,967,850	25,972,936	1,999,248	1,680,539	17,264
Cross-Subsidy Amounts PhP	0	(5,831,549)	1,916,522	776,143	3,343,372	294,052	(498,477)	(63)
Class Billing Determinants kWh	95,782,968	68,722,060	15,594,780	5,137,292	5,533,043	425,902	366,213	3,678
Cross-Subsidy Rates PhP/kWh	0	(0.0849)	0.1229	0.1511	0.6043	0.6904	(1.3612)	(0.0169)

II.B.3.b. CROSS SUBSIDY REMOVAL

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

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

15 kWh and below	-	50%
16 kWh	-	40%
17 kWh	-	30%
18 kWh	-	25%
19 kWh	-	15%
20 kWh	-	10%

ISECO shall apply these discounts to the following residential charges: Generation, Transmission, Distribution, Supply, Metering and System Loss. In a given billing period, an end-user at any of the above consumption levels shall be given the specified corresponding discount on each of these rate components.

An end-user with a level of consumption exceeding 20 kWh in a particular billing period shall not be entitled to any discounted lifeline rate for said period.

The cost of subsidy to lifeline end-users shall be passed on to all non-lifeline end-users. For ISECO the lifeline discounts result in a Lifeline Rate Subsidy by other end-users equal to PhP 0.0510/kWh.

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

ISECO 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.

ISECO, however, shall not bill LUELCO the lifeline rate subsidy. The consumers of LUELCO should not bear the costs of the lifeline rate policy for ISECO. These consumers, however, shall be included in the lifeline program once the Commission has rendered its Decision on the unbundled rate application filed by LUELCO.

II.B.5. OTHER CHARGES

ISECO's additional submissions to this Commission of its existing Other Charges as previously presented was considered in the determination of its revenue requirement. Fifty percent (50%) of the revenues derived from these charges were appropriately deducted from the determination of the revenue requirement allowed to ISECO. 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 ISECO are hereby pegged at their existing levels until such time that the Commission sets new rates on the same. Further, ISECO 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 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 80 kWh a month, using rates based on ISECO's actual existing rates as of

June 2003 against the unbundled rates approved by the Commission, is shown below.

Based on Actual Existing Rate			Based on ERC Approved Unbundled Rates		
	PhP/kWh	PhP		PhP/kWh	PhP
Basic	3.5063	280.50	Generation Charges:		
PPA	1.4180	113.44	Generation	2.1258	170.06
WAC	0.0698	5.58	Benefits to HC	0.0245	1.96
Power Act Reduction	(0.3000)	(24.00)	FOREX	0.2506	20.05
Universal Charge:			Transmission Charge	0.6723	53.78
Missionary Electrification	0.0168	1.34	System loss Charge	0.5380	43.04
Environmental Charge	0.0025	0.20	Distribution Charge	0.6224	49.79
Rate Reduction Due to Loan Condonation	(0.0875)	(7.00)	Supply Charge	0.2777	22.22
			Metering Charge		
			PhP/customer/month		5.00
			PhP/kWh	0.2645	21.16
			Inter-Class Cross-Subsidy	(0.0849)	(6.79)
			Universal Charge:		
			* Missionary Electrification	0.0168	1.34
			Environmental Charge	0.0025	0.20
			Lifeline		
			Rate(Discount)/Charge	0.0510	4.08
			Power Act Reduction	(0.3000)	(24.00)
			Rate Reduction Due to Loan Condonation	(0.0875)	(7.00)
TOTAL BILL		370.06	TOTAL BILL		354.89
PhP/kWh		4.6258	PhP/kWh		4.4361

* **Missionary Electrification Charge** will change from PhP 0.0168 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.

DISPOSITION

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

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

	Residential	Commercial	Industrial	Public Bldgs	Street Lights	Irrigation	Sale for Resale
Generation Charges:							
Generation Line Charge PhP/kWh	2.1258	2.1258	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	0.0245	0.0245
FOREX Adjustment Charge PhP/kWh	0.2506	0.2506	0.2506	0.2506	0.2506	0.2506	0.2506
Transmission Charges:							
Demand Charge PhP/kW			27.50				
Transmission System Charge PhP/kWh	0.6723	0.9991	0.9066	0.6935	0.5788	1.0313	1.2563
Distribution Charges:							
Demand Charge PhP/kW			27.50				
Distribution System Charge PhP/kWh	0.6224	0.3615	0.3283	0.2942	0.3632	0.5397	0.4513
Supply Charges:							
Retail Customer Charge PhP/Customer/Month		20.36	20.36	20.36	20.36	20.36	19.77
Supply System Charge PhP/kWh	0.2777						
Metering Charges:							
Retail Customer Charge PhP/Meter/Month	5.00	98.82	272.95	28.88	20.78	152.68	
Metering System Charge PhP/kWh	0.2645						
System loss Charge PhP/kWh	0.5380	0.5380	0.5380	0.5380	0.5380	0.5380	0.5380
Inter-class Cross Subsidy Charge PhP/kWh	(0.0849)	0.1229	0.1511	0.6043	0.6904	(1.3612)	(0.0169)
Universal Charge:							
*Missionary Electrification Charge PhP/kWh	0.0373	0.0373	0.0373	0.0373	0.0373	0.0373	0.0373
Environmental Charge	0.0025	0.0025	0.0025	0.0025	0.0025	0.0025	0.0025
Lifeline Rate Discount/Subsidy Subsidy PhP/kWh	0.0510	0.0510	0.0510	0.0510	0.0510	0.0510	0.0510
Condonation of Loan PhP/kWh	(0.0875)	(0.0875)	(0.0875)	(0.0875)	(0.0875)	(0.0875)	(0.0875)
Power Act Reduction PhP/kWh	(0.3000)						
Lifeline Rate (Discount)/ Subsidy . To be based on Residential rate in a graduated scale as provided in Section II.B.4. of this Decision							
Rate Reduction Due to Loan Condonation as per ERC Order dated March 21, 2003.							
*Missionary Electrification Charge was adjusted fro 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.							

2. To direct ISECO to comply with the following:
 - a) Discontinue charging the PPA upon effectivity of the approved unbundled rates; any change in the cost of power purchased shall be reflected as deferred charges or credits which shall be recovered through GRAM and ICERA;
 - b) Discontinue the application of the Wage Adjustment Clause (WAC) formula upon effectivity of the approved unbundled rates;
 - c) Bill PhP 0.0373/kWh representing the missionary electrification portion of the Universal Charge in accordance with the Decision of the Commission in ERC Case No. 2002-165 (In the Matter of the Petition for the Availment from the Universal Charge the Share for Missionary Electrification, NPC-SPUG, Applicant);
 - d) 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);
 - e) 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;

- f) 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;

- g) 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:
 - 1) five (5) sample bills for each end-user class; 2) copy of bills from the generation and transmission companies; and
 - 3) Monthly Financial and Statistical Reports (MFSRs) complete with all related schedules;

- h) Make a formal application with the Commission for the approval of existing or future contracts with any entity for the wholesale purchases of power not yet approved by the Commission;

- i) Make a formal application to continue the use of Other Charges within one (1) year from the date of this Decision using a format to be prescribed by the Commission;

- j) 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, actual current system losses;

- k) Submit a new Systems 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

- l) Institute policies and procedures for cost-cutting and transparent and competitive procurement of goods and services and submit a report thereon to the Commission within six (6) months from receipt of this Decision.

SO ORDERED.

Pasig City, July 25, 2003.

MANUEL R. SANCHEZ
Chairman

OLIVER B. BUTALID
Commissioner

MARY ANNE B. COLAYCO
Commissioner

CARLOS R. ALINDADA
Commissioner

LETICIA V. IBAY
Commissioner

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4. Commission on Audit
Commonwealth Avenue
Quezon City – 1121
5. Senate Committee on Energy
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Pasay City – 1300
6. House Committee on Energy
Batasan Hills, Quezon City 1126
7. Hon. Ernesto C. Pablo
Representative – Party List
APEC
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Constitution Hills, Quezon City - 1126
8. Fr. Francisco G. Silva
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11. The Municipal Mayor
Bantay, Ilocos Sur – 2727

12. The Municipal Mayor
Burgos, Ilocos Sur - 2724
13. The Municipal Mayor
Cabugao, Ilocos Sur - 2732
14. The Municipal Mayor
Candon, Ilocos Sur – 2710
15. The Municipal Mayor
Caoayan, Ilocos Sur – 2702
16. The Municipal Mayor
Galimuyod, Ilocos Sur - 2709
17. The Municipal Mayor
Lididda, Ilocos Sur - 2723
18. The Municipal Mayor
Magsinkal, Ilocos Sur - 2703
19. The Municipal Mayor
Nagbukel, Ilocos Sur - 2725
20. The Municipal Mayor
Narvacan, Ilocos Sur - 2704
21. The Municipal Mayor
Salcedo, Ilocos Sur – 2711
22. The Municipal Mayor
San Esteban, Ilocos Sur – 2706
23. The Municipal Mayor
San Idefonso, Ilocos Sur – 2728
24. The Municipal Mayor
San Juan, Ilocos Sur – 2731
25. The Municipal Mayor
Santiago, Ilocos Sur – 2707
26. The Municipal Mayor
San Vicente, Ilocos Sur – 2726
27. The Municipal Mayor
Sta. Catalina, Ilocos Sur – 2701
28. The Municipal Mayor
Sta. Cruz, Ilocos Sur – 2713

29. The Municipal Mayor
Sta. Lucia, Ilocos Sur – 2712
30. The Municipal Mayor
Sta. Maria, Ilocos Sur – 2705
31. The Municipal Mayor
Sto. Domingo, Ilocos Sur – 2729
32. The Municipal Mayor
Sinait, Ilocos Sur – 2733
33. The Municipal Mayor
Suyo, Ilocos Sur – 2715
34. The Municipal Mayor
Tagudin, Ilocos Sur – 2714
35. The City Mayor
Vigan City, Ilocos Sur – 2700
36. The Municipal Mayor
San Emilio, Ilocos Sur – 2722
37. The Municipal Mayor
Alilem, Ilocos Sur – 2716
38. The Municipal Mayor
Cervantes, Ilocos Sur – 2718
39. The Municipal Mayor
Del Pilar, Ilocos Sur – 2720
40. The Municipal Mayor
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41. The Municipal Mayor
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