

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. 2001-919**

TABLAS ISLAND ELECTRIC COOPERATIVE,  
INC. (TIELCO),

*Applicant.*

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**DECISION**

Before this Commission for resolution is the application filed on December 20, 2001 by Tablas Island Electric Cooperative, Inc. (TIELCO) for the 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 March 20, 2002 were issued setting the same for hearing on April 18, 2002.

TIELCO 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 Alcantara, Calatrava, Ferrol, Looc, Odiongan, San Agustin, San Andres, Sta. Fe, Sta. Maria (Imelda) and San Jose, all in the Province of Romblon 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 on April 18, 2002, only the counsel for TIELCO appeared and entered his appearance. No oppositor appeared nor was there any opposition registered.

During the said hearing, TIELCO presented proofs of compliance with the Commission's publication and posting of notice requirements which were duly marked as Exhibits "A" to "C-9", inclusive. Thereafter, TIELCO presented

Ms. Vivian O. Gaac, TIELCO's Finance Manager and Engr. Orville Ferranco, TIELCO's Engineering Services Manager as its witnesses. Witness Gaac testified on the documents submitted in support of the application. In the course of her testimony, additional documents were presented and duly marked as Exhibits "D" to "PP", inclusive. On the other hand, witness Ferranco testified on the technical aspects of the application particularly on applicant's system loss and load factors. The Commission propounded clarificatory questions to both witnesses.

On June 3, 2002, TIELCO submitted its "Formal Offer of Evidence" which was admitted by the Commission together with the purposes for which they were being offered.

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## I. SUMMARY OF TIELCO's APPLICATION

### I.A. REVENUE REQUIREMENT

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

ACCOUNT NAME	TEST YEAR	
kWh Sales		10,066,650
Purchased Power	PhP	28,303,943
Payroll		8,895,539
Operation and Maintenance (less Purchased Power & Payroll)		7,624,108
Debt Service		4,868,101
Revenue Requirement	PhP	49,691,691
Reinvestment Fund (5%) <sup>1</sup>		2,471,874
<b>TOTAL REVENUE REQUIREMENT</b>	<b>PhP</b>	<b>52,163,565</b>

TIELCO's proposed revenue requirement was PhP 52,163,565 based on historical costs for the year 2000. The Overall Average Tariff Adjustment (OATA) published was PhP 0.4599/kWh. The same OATA was stated by witness Gaac, in her testimony on April 18, 2002 [Transcript of Stenographic Notes (TSN), April 18, 2002, page 21].

TIELCO also submitted Audited Financial Statements for the year 2000.

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

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

The unbundled rates proposed by TIELCO were as follows:

**Residential**

Distribution Charge	PhP	1.5150/kWh
Generation Charge		2.8817/kWh
Supply Charges		
Retail Customer Charge		22.05/customer/month
Metering Charge		25.15/customer/month

**Commercial**

Distribution Charge		0.9100/kWh
Generation Charge		2.8100/kWh
Supply Charges		
Retail Customer Charge		30.75 /customer/month
Metering Charge		40.13 /customer/month

**Special Light**

Distribution Charge		0.9000/kWh
Generation Charge		2.8100/kWh
Supply Charges		
Retail Customer Charge		19.73/customer/month
Metering Charge		27.41/customer/month

**Industrial**

Distribution Charge		0.4196/kWh
Generation Charge		2.2324/kWh
Supply Charges		
Retail Customer Charge		98.65/customer/month
Metering Charge		138.63/customer/month

**Public Buildings**

Distribution Charge		1.0563/kWh
Generation Charge		2.8117/kWh
Supply Charges		
Retail Customer Charge		21.2823/customer/month
Metering Charge		26.0857/customer/month

## Street Lights

Distribution Facilities Charge	PhP	38.78/lamp
Generation Charge		7.06/kWh

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

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

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

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

Witness Ferranco, in his testimony, stated that the average system loss for the years 1999 to 2002 was 8.60% (April 18, 2002, TSN, page 43). He stated that if the system loss rate used was 8.7%, about 7.6% accounted for technical loss while the remaining accounted for non-technical loss pertaining to right of way clearing, error in meter reading and tilted poles (April 18, 2002, TSN, pages 44 and 45).

The system loss reflected in TIELCO's unbundling application, particularly Schedule J: System Loss, was 8.64%.

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

TIELCO 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	38,420,293	40,117,975	1,697,682
Small Commercial	6,871,770	5,441,045	(1,430,725)
Special Light	375,496	282,752	(92,744)
Industrial	1,510,402	1,216,456	(293,946)
Public Buildings	4,173,838	3,433,759	(740,079)
Street Lights	811,766	1,671,578	859,812
<b>TOTAL</b>	<b>52,163,565</b>	<b>52,163,565</b>	<b>0</b>

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

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

	<b>Option 1 (At Proposed Energy Charge)</b>
<b>Level</b>	10 kWh
<b>Rate</b>	PhP 4.3267/kWh

*Based on Schedule H-3*

**I.C. OTHER CHARGES**

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

PARTICULARSRATES

## Standard Fees

1. Bunking Cost	PhP 20.00/kVa
2. Testing Fee	20.00/kVa
3. Connection Fee	100.00
4. Service Fee	50.00
5. Special Service	10.00/kms
6. Inspection Fee	
30 amps. not more than 60 amps.	50.00
50 amps. to 100 amps.	75.00
100 amps. Above	100.00

7. Meter Deposit		
Class 30		PhP 950.00
Class 100		1,600.00
8. Calibration Fee / Deposit		50.00
9. Reconnection Fee		100.00
10. Interest Charge 5% or PhP 30.00 of the Bill whichever is higher		
11. Penalty Charge ( Pilferage – 1 <sup>st</sup> Offense )		2,000.00
12. Membership Fee		5.00
13. ID and Lamination		20.00
14. Pole Rentals		9.00/pole
15. Transformer Rental	10 kVa to 100 kVa	1,000.00/year
	25 kVa to 100 kVa	2,500.00/year

## II. COMMISSION DISCUSSIONS and CONCLUSIONS

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

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

The Commission finds TIELCO'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, TIELCO is buying power only from the National Power Corporation – Small Power Utilities Group (NPC - SPUG).

The Generation charge shall reflect the NPC-SPUG's generation charge as approved in ERC Order dated December 20, 2002, Case No. 2002-01 [In the Matter of the Application for the Approval of Unbundled Power Rates and Basic Rate Increase in the Small Island Grids, National Power Corporation (NPC) – Applicant]. A separate charge to account for the allowable system loss shall likewise be provided in the bill to end-users (please refer to Section II.B.2.c. for details). Hence, a distribution utility with system loss that are within the allowable caps can recover from its end-users the total cost of generation. *Annualization*<sup>2</sup> of billing determinants was applied.

The adjustment made by the Commission to Purchased Power Cost of PhP 13,365,614 pertains to the difference between the proposed Purchased Power of TIELCO amounting to PhP 28,303,943 and the purchased power cost based on the new rates of NPC-SPUG amounting to PhP 41,669,557.

Records show that TIELCO's average system loss for the years 2000, 2001 and 2002 was 8.19% (excluding cooperative's own use). The

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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 the year-end number of customers.

Commission allowed TIELCO's average system loss of 8.19% in the calculation of its revenue requirement as discussed in Section II.B.2.c. of this Decision.

Based on the new NPC-SPUG generation charge, as well as the allowable system loss, the Commission considered TIELCO's unbundled Generation and Recoverable System Loss as follows:

Generation Charge	PhP	38,075,078
Recoverable System Loss		3,594,479
Total	PhP	41,669,557

TIELCO's approved generation charge shall remain fixed until changes in NPC-SPUG's generation rate are approved and authorized by the Commission pursuant to its Orders dated February 24, 2003 and 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)]. In which case, TIELCO shall bill its end-users the new generation rate charged by NPC-SPUG. In the meantime, TIELCO shall discontinue charging the Purchased Power Adjustment (PPA) upon effectivity of the unbundled rates.

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

The Commission finds TIELCO's payroll amounting to PhP 8,895,539 acceptable.

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.

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

The Commission enjoins TIELCO 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 TIELCO 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.

TIELCO'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 TIELCO's viability. To this end, TIELCO should view a petition for an increase in rates to be the last recourse. In future filings, TIELCO 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 did not consider expenses of PhP 1,537,332 [inclusive of Customer Prompt Payment Discount of PhP 200,830 which was re-classified under Other Revenue Items (ORI)] which consist of meals, accommodation, BOD's anniversary bonus, productivity pay, cash award and

other miscellaneous expenses which were found to have gone beyond the need by which these expenses were meant for.

These expenses were excluded for revenue requirement determination. These expenses translate to PhP 0.1301/kWh which the Commission considers material.

For future rate cases, TIELCO 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. TIELCO 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 revenue earned (net of other expenses) by the electric utilities from activity other than sale of electricity.

The Commission encourages TIELCO to improve its financial condition through the development of other related sources of revenue. However, in order to balance the interests of TIELCO and its end-users and in

recognition of the fact that some of the costs incurred in improving certain services classified under ORI had already been included in the revenue requirement, the Commission is reducing the total revenue requirement by 50% of the total ORI. This reduction of 50% amounts to PhP 1,327,107 computed as shown below:

<b>Other Revenue Items</b>	<b>Amount (PhP)</b>
Prompt Payment Discount from NPC	816,957
Other Electric Revenues (includes Service Fee, and Connection Fee)	251,414
Revenue from Contract Work	86,860
Transformer Rental	43,013
Pole Rental	1,656,799
Less: Customer Prompt Payment Discount	(200,830)
<b>Other Revenue Items</b>	<b>2,654,213</b>
<b>50% of the above</b>	<b>1,327,107</b>

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

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

The Commission made a downward adjustment of PhP 70,736 to assure that the debt service included on TIELCO's revenue requirement is consistent with NEA's records. The details of the adjustment are shown below.

LOANS	LOAN PROFILE		DIFFERENCE (PhP)
	PER NEA (PhP)	PER TIELCO (PhP)	
Rural Electrification:			
LOAN A	684,789	684,789	0
LOAN B	520,584	520,584	0
LOAN C	0	38,072	(38,072)
LOAN D2	1,234,132	1,234,132	0
LOAN E	0	32,664	(32,664)
LOAN Re F	1,774,384	1,774,384	0
LOAN F	535,960	535,960	0
OECF	47,516	47,516	0
<b>TOTAL</b>	<b>4,797,365</b>	<b>4,868,101</b>	<b>(70,736)</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 TIELCO's end-users. TIELCO 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 10, 2003, granted TIELCO a Provisional Authority to reduce its rates by PhP 0.1361/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**

TIELCO made a proposal for the provision for reinvestment fund in its unbundling of rates application in the amount of PhP 2,471,874.

The Commission permits a reinvestment fund equivalent to 5% of TIELCO's Gross Revenue to finance expansion and rehabilitation/upgrading of its existing electric power system in accordance with the submitted System Rehabilitation/Upgrading and/or System Loss Reduction Plan. This resulted in an upward adjustment of PhP 692,449 in the reinvestment fund account, to bring it to the 5% allowable amount of PhP 3,164,323.

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

- d) TIELCO 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 TIELCO:

		<b>TIELCO Proposal</b>	<b>Adjustments</b>	<b>ERC Approval</b>
Purchased Power	PhP	28,303,943	13,365,614	41,669,557
Payroll		8,895,539	0	8,895,539
O & M (less PP & Payroll)		7,624,108	(1,537,332)	6,086,776
Debt Service		4,868,101	(70,736)	4,797,365
Reinvestment Fund <sup>3</sup>		2,471,874	692,449	3,164,323
Other Revenue Items		0	(1,327,107)	(1,327,107)
<b>Total Revenue Requirement PhP</b>		<b>52,163,565</b>	<b>11,122,888</b>	<b>63,286,453</b>

TIELCO proposed an OATA of PhP 0.4599/kWh. 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 11,122,888 approves a Total Revenue Requirement of PhP 63,286,453 equivalent to an OATA<sup>4</sup> of PhP 0.1056/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".

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

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

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

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

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

Second, since the Commission considered 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	0.3405	0.4404	0.2191

TIELCO adopted a demand-customer classification ratio of 71% - 29%. The Commission required TIELCO to submit data and information for more reasonable calculations using the Minimum-Plant Method. This method resulted in a 35% - 65% demand-customer 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 Association (BAPAs) which was 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. 2002 - 01, In the Matter of the Application for Approval of the Unbundled Power Rates and Basic Rate Increase in the Small Island Grids, National Power Corporation – Applicant, dated December 20, 2002, the generation charge to be billed to end-users shall be the approved rate per kilowatt-hour including Basic Rate, Fuel Cost Adjustment (FCA) and Foreign Exchange Rate (FOREX). The NPC-SPUG's approved rate will remain fixed until changes are authorized by the Commission pursuant to its Order dated February 24, 2003 as discussed in Section II.A.2. of this Decision. This allows TIELCO's Generation Charge to remain fixed until such time that NPC-SPUG's approved rate is adjusted. This eliminates the need for future Purchased Power Adjustment (PPA).

#### **II.B.2.c. 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 TIELCO.

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 Charge results in additional unbundled generation costs to be paid by end-users. When System Loss is within the allowable cap, the distribution utility shall recover from the end-users all generation and transmission costs. Thus, System Loss in excess of the allowable cap shall not be recovered as discussed 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 notes that TIELCO's witnesses presented two (2) different system loss rates: 8.60% and 8.64% (as discussed in Section I.B.2. of this Decision). The Commission believes that the present cap on Technical

and Non-Technical System Loss of 14% should be used in the calculation of revenue requirements at this time. This would, however, be subject to change upon the approval of a new policy by the Commission. The average System Loss or cap of 14% plus 1% cooperative own use (which should not include personal consumption of TIELCO'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 TIELCO's 2000 to 2002 average system loss (excluding cooperative's own use) was 8.19% which is lower than the aforementioned cap of 14%. Hence, the Commission used the average system loss of 8.19% in the calculation of TIELCO's revenue requirement.

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

The distribution charge shall be billed on a fixed rate per kilowatt-hour for all end-users.

TIELCO did not propose for distribution wheeling rates. The Commission however believes that wheeling rates are parallel to the cost of service functionalized under Distribution. Thus, the Commission orders that the Distribution Charge provided on Rate Schedules be likewise utilized as Distribution Wheeling Charges available to the future contestable market. However, other distribution utilities requesting to wheel power across TIELCO'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.e. 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 TIELCO to use a combination of PhP 5.00 per customer per month and a PhP 0.6995 per kWh rate for the metering function and orders TIELCO to use a fixed PhP per kWh rate for the supply function. For the Commercial, Special Lighting, Industrial, Public Buildings and Street Lights end-users, metering charge shall be billed on a fixed rate per meter per month. The supply charge shall be billed on a fixed rate per customer per month for all end-users (except the Residential).

All BAPA end-users will be charged with rates used in their specified customer class. Hence, BAPA residential end-users will be charged with rates used for the residential class, and so forth. TIELCO will draw the various incentives it will provide the BAPA for 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	Special Light	Industrial	Public Bldgs.	Street Lights
New Cost-Based Rev. Req.	63,286,453	46,963,043	7,785,768	368,992	1,931,119	4,531,811	1,705,720
Existing Rates Revenue	62,201,786	44,920,164	8,532,019	452,709	2,177,473	5,154,083	965,338
Total Change in Revenue	1,084,667	2,042,879	(746,251)	(83,717)	(246,354)	(622,272)	740,382
Percentage Change in Revenue	1.74%						
Normalized Existing Revenue	63,286,453	45,703,476	8,680,799	460,604	2,215,443	5,243,960	982,171
Inter-Class Cross - Subsidy Amounts (PhP)	0	(1,259,567)	895,031	91,612	284,324	712,149	(723,549)
Class Billing Determinants (in kWh)	10,272,792	7,418,686	1,409,086	74,766	359,615	851,211	159,428
Inter-Class Cross Subsidy Rates (PhP / kWh)		(0.1698)	0.6352	1.2253	0.7906	0.8366	(4.5384)

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

Section 74 of R.A. 9136 and Rule 16, Section 5 of its Implementing Rules and Regulations thereof provide that the ERC shall issue a scheme for phasing out all cross subsidies including subsidies within Grids, between Grids, and between classes of end-users. The phasing-out period shall not exceed three (3)

years from the establishment of the Universal Charge, which may be extended for a maximum period of one (1) year subject to certain conditions.

In the instant case, the Commission will order the cross subsidy removal process at a later date following the establishment of the Universal Charge. Until such time, TIELCO 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 lifeline level of consumption to be provided to the marginalized end-users, the Commission calculated the probable load requirement of typical low-income end-users by considering two (2) lighting facilities at 20 watts each and a 50-watt radio that are being used for a reasonable number of hours. In setting the maximum level of lifeline consumption, the Commission may adjust the minimum level of consumption and/or the level of the lifeline discount so as to maximize the benefit to low-income end-users while keeping the costs associated with such subsidy

between PhP 0.05 and PhP 0.10 per kWh. Thus, the Commission sets the lifeline consumption maximum level of 20 kWh for TIELCO. 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 TIELCO. The graduated scale is also based on the recognition that individual end-user consumption may likely vary from month to month.

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

TIELCO shall apply these discounts to the following residential charges: Generation, Distribution, Supply, Metering, and System Loss. In a given billing period, an end-user at any of the above consumption levels shall be given the specified corresponding discount on each of these rate components. An end-user with a level of consumption exceeding 20 kWh in a particular billing period shall not be entitled to any discounted lifeline rate for said period.

The cost of subsidy to lifeline end-users shall be passed on to all non-lifeline end-users. For TIELCO, the lifeline discounts result in a Lifeline Rate Subsidy by other end-users equal to PhP 0.0915/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 TIELCO's proposal to integrate the household connections of BAPAs into the Residential customer class.

TIELCO 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**

TIELCO's additional submission 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 TIELCO. 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 TIELCO are hereby pegged at their existing levels until such time that the Commission sets new rates on the same. Further, TIELCO 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 not limited to the amount of actual time and wages of employees performing each task encompassed by each type of Other Charges.

#### **II.B.6. ESTIMATED IMPACT ON AN AVERAGE RESIDENTIAL END-USER**

A comparison of the estimated impact of all adjustments to the revenue requirement on the monthly bill of an average residential end-user consuming 103 kWh a month using rates based on TIELCO's actual existing rates as of August 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	4.1304	425.43	Generation Charges:		3.7064	381.76
PPA	1.8228	187.75	Distribution Charge		1.0757	110.80
WAC	0.1100	11.33	System Loss Charge		0.3499	36.04
PAR	(0.3000)	(30.90)	Supply Charge		0.7229	74.46
Univ. Charge			Metering Charges:			
Missionary	0.0373	3.84	Per Customer Per Month			5.00
Environmental	0.0025	0.26	Per kWh		0.6995	72.05
Loan Condonation	(0.1361)	(14.02)	Inter-Class Cross Subsidy		(0.1698)	(17.49)
			Universal Charge			
			Missionary Electrification Charge		0.0373	3.84
			Environmental Share		0.0025	0.26
			Lifeline Rate[(Discount)/Subsidy]		0.0915	9.42
			Power Act Reduction		(0.3000)	(30.90)
			Loan Condonation		(0.1361)	(14.02)
<b>TOTAL BILL</b>		<b>583.69</b>	<b>TOTAL BILL</b>			<b>631.22</b>
<b>PhP/kWh</b>		<b>5.6669</b>	<b>PhP/kWh</b>			<b>6.1283</b>

## DISPOSITION

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

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

	Residential	Commercial	Special Light	Industrial	Public Bldgs.	Street Lights
<b>Generation Charges:</b>						
Generation System Charge (PhP/kWh)	3.7064	3.7064	3.7064	3.7064	3.7064	3.7064
<b>System Loss Charge</b> (PhP/kWh)	0.3499	0.3499	0.3499	0.3499	0.3499	0.3499
<b>Distribution Charges:</b>						
Demand Charge (PhP/kW)						
Distribution System Charge (PhP/kWh)	1.0757	0.6771	0.5862	0.6630	0.7081	6.0642
<b>Supply Charges:</b>						
Retail Customer Charge (PhP/Customer/ Mo.)		46.70	49.46	49.29	45.92	37.25
Supply System Charge (PhP/kWh)	0.7229					
<b>Metering Charges:</b>						
Retail Customer Charge (PhP/Meter/Mo.)	5.00	29.85	29.85	137.28	29.85	29.85
Metering System Charge (PhP/kWh)	0.6995					
<b>Inter-Class Cross Subsidy Charge</b> (PhP/kWh)	(0.1698)	0.6352	1.2253	0.7906	0.8366	(4.5384)
<b>Universal Charges:</b>						
Missionary Electrification (PhP/kWh)	0.0373	0.0373	0.0373	0.0373	0.0373	0.0373
Environmental Share (PhP/kWh)	0.0025	0.0025	0.0025	0.0025	0.0025	0.0025
<b>Lifeline Rate (Discount)/Subsidy</b> (PhP/kWh)	0.0915	0.0915	0.0915	0.0915	0.0915	0.0915
<b>Loan Condonation *</b> (PhP/kWh)	(0.1361)	(0.1361)	(0.1361)	(0.1361)	(0.1361)	(0.1361)
<b>Power Act Reduction</b> (PhP/kWh)	(0.3000)					
<b>Lifeline Rate (Discount) Subsidy</b> to be based on residential rate in a graduated scale as provided in Section II.B.4. of this Decision.						
<b>*Loan Condonation.</b> Pursuant to Order on ERC Case No. 2003 – 66 dated March 10, 2003.						

2. To order TIELCO to comply with the following:

- a) Discontinue charging the PPA upon effectivity of the approved unbundled rates; TIELCO shall automatically bill its end-users the new Generation Rate Charged by NPC-SPUG as approved and authorized by the Commission;

- 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-SPUG, 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 (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;
  
- 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 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 & 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;
  
- k) 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
  
- 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, September 25, 2003.

**MANUEL R. SANCHEZ**  
Chairman

**OLIVER B. BUTALID**  
Commissioner

**CARLOS R. ALINDADA**  
Commissioner

**LETICIA V. IBAY**  
Commissioner

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