

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. 2001-965

OCCIDENTAL MINDORO ELECTRIC COOPERATIVE,
INC. (OMEKO),

Applicant.

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DECISION

Before this Commission for resolution is the application filed on December 21, 2001 by Occidental Mindoro Electric Cooperative, Inc. (OMEKO) 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 April 9, 2002 were issued setting the same for hearing on May 31, 2002.

OMECO 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, OMECO published the Notice of Public Hearing in *Malaya* and *Balita* on May 4 and 11, 2002 and on May 5 & 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 aforesaid initial hearing.

Likewise, Municipal Mayors of Abra de Ilog, Calintaan, Magsaysay, Mamburao, Paluan, Rizal, Sablayan, San Jose and Sta Cruz, all in the Province of Occidental Mindoro were furnished copies of the Order and the Notice of Public Hearing for the appropriate posting thereof on their respective bulletin boards.

At the initial hearing on May 31, 2002, only the counsel for OMECO appeared. No oppositor appeared nor was there any opposition registered.

During the said hearing, OMECO submitted proofs of compliance with the Commission's publication and posting of notice requirements which were duly marked as Exhibits "A" to "C-8", inclusive. Thereafter, OMECO presented its two (2) witnesses. The first witness, Ms. Anita G. Juaño, OMECO's Finance Manager, testified on certain relevant schedules and on the documents submitted in support of the application. In the course of her testimony, additional documents were presented, identified by reference and marked as Exhibits "D" to "CC", inclusive. The second witness, Mr. Ricky Gonzales, OMECO's Supervisor of its Engineering Division, testified on the various technical aspects of the application. The Commission propounded clarificatory questions on the said witnesses. There being no other witnesses, the hearing was adjourned.

On July 29, 2002, OMECO submitted its "Formal Offer of Evidence" which was admitted by the Commission for the purpose for which they were offered. On September 17 and 25, 2002, OMECO submitted additional data and documents in compliance with the Commission's directive.

I. SUMMARY OF OMECO's APPLICATION

I.A. REVENUE REQUIREMENT

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

Account Name	HISTORICAL YEAR
kWh Sales	27,859,047
Purchased Power	PhP 84,920,766
Payroll	17,199,228
Operation and Maintenance (less Purchased Power & Payroll)	21,046,559
Debt Service (plus interest cost of cash working capital)	10,335,040
Revenue Requirement	PhP 133,501,593
Reinvestment Fund (4%) ¹	5,724,692
TOTAL REVENUE REQUIREMENT	PhP 139,226,285

OMECO's proposed revenue requirement was PhP 139,226,285 based on historical costs for the year 2000. The Overall Average Tariff Adjustment (OATA) published was PhP 0.0951/kWh. The same OATA was stated by witness Juaño, in her testimony on May 31, 2002 (Transcript of Stenographic Notes (TSN), May 31, 2002, page 30).

OMECO also submitted Audited Financial Statements for the year 2000.

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

I.B. RATE STRUCTURE/DESIGN

The unbundled rates proposed by OMECO were as follows:

Residential / BAPA

Energy Charge	PhP	4.6548 /kWh
Customer Charges		
Supply Charge		11.21 /customer/month
Metering Charge		28.79 /customer/month

Commercial

Energy Charge		4.1049 /kWh
Customer Charges		
Supply Charge		20.47 /customer/month
Metering Charge		59.53 /customer/month

Industrial

Energy Charge		3.8844 / kWh
Demand Charge		107.71 /kW
Customer Charges		
Supply Charge		29.29 /customer/month
Metering Charge		170.71 /customer/month

Large Load

Energy Charge		3.7124 / kWh
Demand Charge		110.65 /kW
Customer Charges		
Supply Charge		11.37 /customer/month
Metering Charge		188.63 /customer/month

Public Buildings

Energy Charge		4.7737 /kWh
Customer Charge		
Supply Charge		10.09 /customer/month
Metering Charge		29.91 /customer/month

Street Lights

Generation Charge		6.8655 /kWh
Distribution Facilities Charge		15.00 /customer/month

I.B.1. FUNCTIONALIZATION, CLASSIFICATION and ALLOCATION

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

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

I.B.2. SYSTEM LOSS

Witness Juaño, in her testimony, stated that OMECO's system loss in the year 2000 was 17.84% (May 31, 2002, TSN, page 43).

The system loss of 17.84% was also confirmed by witness Gonzales in his testimony. He added that for the year 2001, OMECO's system loss was 15.41% while 15.70% for the year 1999. Furthermore, witness Gonzales stated that the increase in system loss from 15.70% (for the year 1999) to 17.84% (for the year 2000) was due to the expansion and extension programs undertaken by OMECO in the year 2000 (May 31, 2002, TSN, pages 91-93).

Witness Gonzales stated that out of its system loss of 17.84% for year 2000, about 12% was attributable to technical loss while about 5% was non-technical loss. Witness Gonzales testified that the usual kind of pilferage was vegetation and that their terrain is typically rough and mountainous (May 31, 2002, TSN, pages 110 and 111).

The system loss reflected in OMECO's unbundling application, particularly Schedule J: System Loss was 17.84%.

I.B.3. INTER-CLASS CROSS SUBSIDY

OMECO 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/BAPA	84,281,444	86,657,226	2,375,781
Commercial	26,630,102	23,194,854	(3,435,248)
Industrial	4,961,433	4,901,228	(60,205)
Large Load	15,362,526	16,170,186	807,660
Public Buildings	6,936,418	6,714,884	(221,533)
Street Lights	1,054,362	1,587,907	533,545
Total	139,226,285	139,226,285	0.00

I.B.4. LIFELINE RATE and LEVEL

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

	Option 1 (At Existing Rates)	Option 2 (At Proposed Energy Charge)	Option 3 (At Proposed Customer Charges)
Level	10 kWh	10 kWh	10 kWh
Rate	PhP 5.0079/kWh	PhP 4.6548 kWh	PhP 40.00/customer/month

I.C. OTHER CHARGES

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

<u>PARTICULARS</u>	<u>RATES</u>
Standard Fees	
1. Membership Fee	PhP 5.00
2. ID	1.00
3. Inspection Fees	
Safety Switch	15.00
Service Entrance	24.00
Lighting Outlet	5.00
Tumble Switch	5.00
Junction Box	4.00
Convenience Outlet	8.00
4. Charge Meter / Calibration Fee	50.00

5. Reconnection Fee - disconnected by non payment of bills	PhP 100.00
- Disconnected through Special request	200.00
6. Change Name	10.00
7. Surcharge on non payment of bill on time	5% of bill
8. Transfer meter / Relocation of meter	
Within San Jose	150.00
Outside San Jose	300.00
9. Transformer Rental – Single Bushing per annum	
5 kVA	1,357.00
10 kVA	2,428.00
15 kVA	3,000.00
25 kVA	4,030.00
10. Transformer Installation fee – Single Bushing	
5 kVA	350.00
10 kVA	450.00
15 kVA	550.00
25 kVA	650.00
11. Transformer Rental – Double Bushing per annum	
5 kVA	-
10 kVA	2,792.00
15 kVA	3,651.00
25 kVA	5,248.00
37.50 kVA	7,223.50
50 kVA	9,214.00
100 kVA	1,661.00
167 kVA	26,592.00
12. Transformer Installation fee – Double Bushing	
5 kVA	-
10 kVA	750.00
15 kVA	900.00
25 kVA	1,250.00
37.50 kVA	1,450.00
50 kVA	1,550.00
100 kVA	1,950.00
167 kVA	3,000.00
13. Special Lighting fee (service charge)	300.00

II. COMMISSION DISCUSSIONS and CONCLUSIONS

II.A. DETERMINATION OF TOTAL REVENUE REQUIREMENT

II.A.1. TEST YEAR

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

The Generation and Transmission charges shall reflect the charges of NPC-SPUG 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 (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 upward adjustment made by the Commission to Purchased Power of PhP 34,940,192 consisted of the following:

Adjustment to Purchased Power Cost	PhP	38,286,080
Less : Adjustment to System Loss		3,345,888
Total Adjustments	PhP	34,940,192

The adjustment to Purchased Power Cost of PhP 38,286,080 pertains to the difference between the proposed Purchased Power of OMECO amounting to PhP 84,920,766 and the Generation and Transmission Charges based on the new rates of NPC-SPUG amounting to PhP 123,206,846.

Records show that OMECO's actual system loss for the test year 2000 was 17.84%. The Commission allowed a system loss of 14% in the calculation of OMECO'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 3,345,888 to exclude the excess of actual system loss over the allowable recoverable cap of PhP 17,868,919.

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.

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

Generation Charge	PhP	99,847,276
Transmission Charge		2,144,763
Recoverable System Loss		17,868,919
Total	PhP	119,860,958

OMECO's approved generation charge shall remain fixed until changes in NPC-SPUG's generation rate are approved and authorized by the Commission pursuant to its Order dated February 24, 2003, Case No. 2003-44 [In the Matter of the Adoption of the Generation Rate Adjustment Mechanism (GRAM) and Incremental Currency Exchange Recovery Adjustment (ICERA)]. In which case, OMECO shall bill its end-users the new generation rate charged by NPC-SPUG. In the meantime, OMECO shall discontinue charging the Purchased Power Adjustment (PPA) upon effectivity of the unbundled rates.

II.A.3. PAYROLL

The Commission made an upward adjustment on the payroll account by PhP 3,587,122 to update it to the current salary level of PhP 20,786,350.

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 an electric distribution utility, are recurring, and should redound to the service or benefit of end-users.

The Commission enjoins OMECO 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” can be said to be 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 OMECO 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.

OMECO'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 OMECO's viability. To this end, OMECO should view a petition for an increase in rates to be the last recourse. In future filings, OMECO 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 5,578,491 which consist of Christmas greetings & advertisements, per diems given to National Electrification Administration (NEA) personnel, lodging and meals for visitors, wreath, and other miscellaneous expenses found to have gone beyond the need by which these expenses were meant for. Further, the Commission limits the expenses pertaining to the contribution required to provide pension benefit to an amount equivalent to one month's basic salary of OMECO's employees; the excess amount was disallowed as a recoverable expense.

The disallowed expenses were excluded for revenue requirement determination. These expenses translate to PhP 0.1961/kWh which the Commission considers material.

For future rate cases, OMECO 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. OMECO 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 as revenues earned (net of other expenses) by the electric utilities from activities other than sale of electricity.

The Commission encourages OMECO to improve its financial condition through the development of other related sources of revenue. However, in order to balance the interests of OMECO and its end-users and in recognition of the fact that some of the costs incurred in providing certain services classified under Other Revenue Items (ORI) has 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 2,020,074 as shown below:

Other Revenue Items	Amount (PhP)
Other Revenues	
Rent from Electric Property	
Pole Rental	67,858
Transformer Rental	1,065,183
Other Electric Service Revenues	
Surcharge for Late Payment of Power Bill	1,783,002
Reconnection Fee	260,289
Penalty Apprehension of Illegal Connection	203,071
Labor Cost Const. of Line (Private Line)	83,896
Relocation, Transfer & Calibration of Meters	77,305
Labor for Installation of Transformer	1,770
REC's ID Cards	92,579
Gain from Sales of Materials	314,373
Others	26,104
Non-Operating Revenue	
Revenue from Merchandising, Jobbing & Contract Work	39,118
Rental Income	25,600
Total Other Revenue Items	4,040,148
50% of Total Other Revenue Items	2,020,074

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

II.A.6. DEBT SERVICE

The Commission made a downward adjustment of PhP 2,070,006 to assure that the debt service included in OMECO's revenue requirement is consistent with NEA's records. The Commission disallowed the interest cost associated with cash working capital as calculated by OMECO due to lack of justification. The details of the adjustment are shown below:

LOANS	LOAN PROFILE		DIFFERENCE (PhP)
	PER NEA (PhP)	PER OMECO (PhP)	
Rural Electrification:			
LOAN A	327,091	327,091	0
LOAN B1	158,118	158,118	0
LOAN B2	456,275	456,275	0
LOAN C1	114,888	114,888	0
LOAN C2	358,387	358,387	0
LOAN D	343,951	343,951	0
LOAN E	1,070,196	1,070,196	0
LOAN F	602,472	602,472	0
LOAN H	1,208,192	1,208,192	0
OEFC-LOGISTICAL	442,124	442,124	0
OEFC- RE	3,183,340	3,743,772	(560,432)
SOLAR ENERGY		24,692	(24,692)
Interest Cost on CWC		1,484,882	(1,484,882)
TOTAL	8,265,034	10,335,040	(2,070,006)

Pursuant to Section 60 of R.A. 9136 and E.O. 119, savings realized by electric cooperatives (ECs) due to the assumption of certain loans by the Power Sector Assets and Liabilities Management Corporation (PSALM Corp.) shall be passed on to the ECs' end-users. OMECO 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 will resolve this matter in a separate Decision.

The Commission, in its Order dated June 4, 2003, granted OMECO a Provisional Authority to reduce its rates by PhP 0.1382/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

OMECO made a proposal for the provision for reinvestment fund in its unbundling of rates application in the amount of PhP 5,724,692.

The Commission permits a reinvestment fund equivalent to 5% of a cooperative's Gross Revenue to finance expansion and rehabilitation/upgrading of its existing electric power system in accordance with the submitted System Rehabilitation/Upgrading and/or System Loss Reduction Plan. This resulted in an upward adjustment of PhP 2,820,589 in the reinvestment fund account.

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

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

- d) OMECO shall submit a new System Rehabilitation/Upgrading and/or System Loss Reduction Plan covering the period 2004 to 2008, one (1) year after the date of this Decision using the format to be prescribed by the Commission.

II.A.8. REVENUE REQUIREMENT SUMMARY

The table provided below is a comparison of approved revenue requirement with that proposed by OMECO:

	OMEKO Proposal	Adjustments	ERC Approval
Purchased Power PhP	84,920,766	34,940,192	119,860,958
Payroll	17,199,228	3,587,122	20,786,350
O & M (less PP & Payroll)	21,046,559	(5,578,491)	15,468,068
Debt Service (plus Interest Cost of Cash Working Capital)	10,335,040	(2,070,006)	8,265,034
Reinvestment Fund ³	5,724,692	2,820,589	8,545,281
Other Revenue Items	0	(2,020,074)	(2,020,074)
Total Revenue Requirement PhP	139,226,285	31,679,332	170,905,617

OMEKO proposed an OATA of PhP 0.0951/kWh using rates of year 2000 (as discussed in Section I.A. of this Decision). The OATA is a measurement tool based on the formula: [(Total Revenue Requirement less Existing Revenue) divided by kWh sales]. This measurement is not meant to refer to any specific customer class.

The Commission, after considering adjustments of PhP 31,679,332 approves a Total Revenue Requirement of PhP 170,905,617 equivalent to an OATA⁴ of PhP (0.3458)/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.

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 May 2003.

II.B. RATE STRUCTURE/DESIGN DETERMINATION

II.B.1 FUNCTIONALIZATION, CLASSIFICATION and ALLOCATION

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

Third, since the Commission is now including Other Revenue Items (ORI) not included by OMECO in the calculation of its revenue requirement, 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	0.5945	0.1146	0.2909

OMECO submitted allocation of distribution costs into demand and customer-related cost using the *Minimum Plant Method*. This method resulted in a 23% - 77% allocation on the average.

II.B.2. DESIGN and CALCULATION OF CHARGES

II.B.2.a. BAPA

The Commission, in the design and calculation of charges, takes note of the existence of the Barangay Power Associations (BAPAs) that were conceptualized by the National Electrification Administration (NEA) for the purpose of strengthening member awareness and involvement in efforts towards the reduction of system loss, improvement of collection efficiency and fortification of the institutional consciousness in the grassroots level. The creation of BAPAs was also necessitated by the growing number of

cooperatives' membership which made it impossible for the cooperatives to physically reach out to all end-users.

The cooperatives are responsible for the energization of the BAPAs while the latter are responsible for the maintenance of the electric lines and other installed equipment, and the reading and billing of respective member end-users. The cooperatives, in this regard, are mandated to grant various incentives to BAPAs, such as three percent (3%) prompt payment discount, rebates on kWh sold, system loss allowance, honorarium for working BAPA officers, or annual cash rewards for outstanding BAPAs and livelihood projects.

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

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

II.B.2.b. GENERATION CHARGE

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 Adjustment (FOREX). The NPC'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 eliminates the need for future Purchased Power Adjustment (PPA).

II.B.2.c. TRANSMISSION CHARGE

The Commission's Order in ERC Case No. 2002-01 dated December 20, 2002 set the transmission charges for the NPC-SPUG without automatic adjustments. Since the transmission rates to be paid by OMECO 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 OMECO have been calculated based on the approved transmission rates for NPC-SPUG.

Transmission Charges		Residential / BAPA	Commercial	Industrial	Large Load	Public Buildings	Street Lights
Demand Charge	PhP/kW						
Transmission System Charge	PhP/kWh	0.0935	0.0707	0.0428	0.0184	0.0238	0.2024

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 OMECO.

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 shall recover from the end-users all generation and transmission costs. Thus, system loss in excess of the allowable cap shall not be recovered from the end-users as calculated in Section II.A.2. of this Decision.

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

The Commission believes that the present cap on Technical and Non-Technical System Loss of 14% should continue to be used. This would, however, be subject to change upon the approval of a new policy by the Commission. The average Technical and Non-Technical System Loss or cap of 14% plus 1% cooperative own use (which should not include personal consumption of OMECO'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 OMECO's 2000-2002 average system loss was 16.31% which is higher than the aforementioned cap of 14%. Hence, the Commission used the system loss cap of 14%.

II.B.2.e. DISTRIBUTION CHARGE

The distribution charge shall be billed on a fixed rate per kilowatt-hour for all end-users. For OMECO's large load end-users, the distribution charge

shall be billed using a combination of a fixed rate per kilowatt (kW) and fixed rate per kilowatt-hour (kWh).

OMECO did not propose for distribution wheeling rates. The Commission however believes that wheeling rates are parallel to the cost of service functionalized under Distribution. Thus, the Commission orders that the Distribution Charge provided on Rate Schedules be likewise utilized as Distribution Wheeling Charges available to the future contestable market. Other distribution utilities requesting to wheel power across OMECO's facilities shall pay wheeling charges equivalent to Distribution Wheeling Charges for industrial customers.

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

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

The Commission acknowledges that cost-causation rate design principle suggests the recovery of customer-related costs associated with the metering and supply functions through fixed monthly charges. Along with this cost of service principle, however, the Commission also considers rate design impacts across the spectrum of customers within each rate class. Although R.A. 9136 requires the removal of inter-class cross subsidies, the law does not require removal of revenue flows that may be characterized as intra-class cross subsidies. The Commission has the flexibility to consider other factors in determining rate design for a particular class of end-users. Therefore, to mitigate the impact on below-average consumption of residential end-users, the Commission orders OMECO to use a combination of PhP 5.00 per meter per month and a PhP 0.6340 per kWh rate for the metering function. On the other hand, the Commission orders OMECO to use a PhP per kWh rate for the supply function. For Commercial, Industrial, Large Load, Public Buildings and Street Lights end-users, metering charge shall be billed 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 residential end-users will be charged with rates used for the Residential Class. OMECO 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	Industrial	Large Load	Public Buildings	Street Lights
New Cost-Based Revenue Requirement PhP	170,905,617	112,484,513	28,997,828	4,743,278	16,108,017	6,996,715	1,575,266
Existing Rates Revenue PhP	180,741,608	107,778,463	33,800,272	6,284,723	22,820,038	8,737,951	1,320,161
Total Change in Revenue PhP	(9,835,991)	4,706,050	(4,802,444)	(1,541,445)	(6,712,021)	(1,741,236)	255,105
Percentage Change in Revenue	(5.44%)						
Normalized Existing Revenue PhP	170,905,617	101,913,139	31,960,855	5,942,707	21,578,168	8,262,431	1,248,317
Inter-Class Cross - Subsidy Amounts PhP	0	(10,571,374)	2,963,027	1,199,429	5,470,151	1,265,716	(326,949)
Class Billing Determinants in kWh	28,441,656	16,960,112	5,318,840	988,969	3,590,981	1,375,012	207,742
Inter-Class Cross Subsidy Rates PhP / kWh		(0.6233)	0.5571	1.2128	1.5233	0.9205	(1.5738)

II.B.3.b. CROSS SUBSIDY REMOVAL

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

In the instant case, the Commission will order the cross subsidy removal process at a later date following the establishment of the Universal Charge. Until such time, OMECO will continue to charge the inter-class cross subsidy rates set forth in Section II.B.3.a. above.

II.B.4. LIFELINE RATE and LEVEL

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

In determining the minimum lifeline level of consumption to be provided to the marginalized end-users, the Commission calculated the probable load requirement of typical low-income end-users by considering two (2) lighting facilities at 20 watts each and a 50-watt radio that are being used for a reasonable number of hours. In setting the maximum level of lifeline consumption, the Commission may adjust the minimum level of consumption and/or 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 OMECO. 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 OMECO. 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	-	50%
16 kWh	-	40%
17 kWh	-	30%
18 kWh	-	20%
19 kWh	-	10%
20 kWh	-	5%

OMECO 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 OMECO, the lifeline discounts result in a Lifeline Rate Subsidy by other end-users equal to PhP 0.0704/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 OMECO's proposal to integrate the household connections of BAPAs into the Residential customer class.

OMECO 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

OMECO's additional submission to this Commission of its existing Other Charges as previously presented were considered in the determination of its revenue requirement. Fifty percent (50%) of the revenues derived from these charges were appropriately deducted from the determination of the revenue requirement allowed to OMECO. 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 OMECO are hereby pegged at their existing levels until such time that the Commission sets new rates on the same. Further, OMECO 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 justifications for the rates, including but not limited to the amount of actual time and wages of employees performing each task encompassed by each type of Other Charges.

II.B.6. ESTIMATED IMPACT ON 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 71 kWh a month using rates based on OMECO's actual existing rates as of May 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	4.3623	309.72	Generation Charge	3.5106	249.25
PPA	2.0246	143.75	Transmission Charge	0.0935	6.64
WAC	0.1085	7.70	Distribution Charge	1.4691	104.31
PAR	(0.3000)	(21.30)	System Loss Charge	0.6283	44.61
Univ. Charge			Supply Charge	0.2807	19.93
Missionary	0.0168	1.19	Metering Charges:		
Environmental	0.0025	0.18	Per Meter Per Month		5.00
			Per kWh	0.6340	45.01
			Inter-Class Cross Subsidy	(0.6233)	(44.25)
			Universal Charge		
			Missionary Electrification Charge *	0.0168	1.19
			Environmental Share	0.0025	0.18
			Lifeline Rate[(Discount)/Subsidy]	0.0704	5.00
			Power Act Reduction	(0.3000)	(21.30)
TOTAL BILL		441.24	TOTAL BILL		415.57
PhP/kWh **		6.2146	PhP/kWh **		5.8531

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

** No effect of rate reduction due to Loan Condonation yet (as discussed in Section II.A.6. of this Decision).

DISPOSITION

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

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

		Residential	Commercial	Industrial	Large Load	Public Buildings	Street Lights
Generation Charge	PhP/kWh	3.5106	3.5106	3.5106	3.5106	3.5106	3.5106
Transmission Charges:							
Demand Charge	PhP/kWh						
Transmission System Charge	PhP/kWh	0.0935	0.0707	0.0428	0.0184	0.0238	0.2024
System Loss Charge	PhP/kWh	0.6283	0.6283	0.6283	0.6283	0.6283	0.6283
Distribution Charges:							
Demand Charge	PhP/kWh				17.60		
Distribution System Charge	PhP/kWh	1.4691	0.5755	0.4906	0.2466	0.6743	3.1511
Supply Charges:							
Retail Customer Charge	PhP/Customer/ Mo.		17.13	22.59	149.06	17.21	17.15
Supply System Charge	PhP/kWh	0.2807					
Metering Charges:							
Retail Customer Charge	PhP/Meter/ Mo.	5.0000	126.15	194.60	195.84	42.34	42.34
Metering System Charge	PhP/kWh	0.6340					
Inter-Class Cross Subsidy Charge	PhP/kWh	(0.6233)	0.5571	1.2128	1.5233	0.9205	(1.5738)
Universal Charge:							
Missionary Electrification Charge	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
Lifeline Rate (Discount)/Subsidy	PhP/kWh	0.0704	0.0704	0.0704	0.0704	0.0704	0.0704
Power Act Reduction	PhP/kWh	(0.3000)					
Rate Reduction due to Condonation of Loan	PhP/kWh	(0.1382)	(0.1382)	(0.1382)	(0.1382)	(0.1382)	(0.1382)
Missionary Electrification Charge will change from PhP 0.0168/kWh to PhP 0.0373/kWh pursuant to the final authority granted by ERC in its Decision dated June 26, 2003 on ERC Case No. 2002-165							
Lifeline Rate (Discount)/Subsidy To be used on residential rate in a graduated scale as provided in Section II.B.4 of this Decision.							
Rate Reduction due to Loan Condonation per ERC Order dated June 4, 2003.							

2. To direct OMECO to comply with the following:

- a) Discontinue charging the PPA upon effectivity of the approved unbundled rates; OMECO shall automatically bill its end-users the new Generation Rate Charged by NPC-SPUG as approved and authorized by the Commission;
- b) Bill PhP 0.0373/kWh representing the missionary electrification portion of the Universal Charge in accordance with the Decision of the Commission in ERC Case No. 2002-165 (In the Matter of the Petition for the Availment

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

- c) Bill PhP 0.0025/kWh representing the environmental portion of the Universal Charge in accordance with the Decision of the Commission in ERC Case No. 2002-194 (In the Matter of the Petition for the Availment from the Universal Charge the Environmental Share/Charge for the Rehabilitation and Management of Watershed Areas, NPC, Applicant);
- d) Bill its respective end-users using a billing format, which contains at least the rate elements, provided in Annex A of the 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 rate of zero or have not yet been determined by the Commission.
- e) Discontinue the application of the Wage Adjustment Clause (WAC) formula upon effectivity of the approved unbundled rates;
- 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 date of this Decision using a format to be prescribed by the Commission;

- j) File a progress report on the reinvestment fund one (1) year after the date of this Decision and every year thereafter, using the prescribed formats provided in Annexes B & 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, 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 10, 2003.

MANUEL R. SANCHEZ
Chairman

OLIVER B. BUTALID
Commissioner

MARY ANNE B. COLAYCO
Commissioner

CARLOS R. ALINDADA
Commissioner

LETICIA V. IBAY
Commissioner

Copy furnished:

1. Atty. Zenon Suarez
Counsel for Applicant
4/F Casman Bldg.,
1198 Quezon Avenue, Quezon City
2. Occidental Mindoro Electric Cooperative, Inc.
San Jose, Occidental Mindoro 5100
3. Mr. Alex C. Labrador
General Manager
Occidental Mindoro Electric Cooperative, Inc.
San Jose, Occidental Mindoro 5100
4. Office of the Solicitor General
134 Amorsolo Street, Legaspi Village
City of Makati – 1229
5. Commission on Audit
Commonwealth Avenue
Quezon City – 1121
6. Senate Committee on Energy
GSIS Building, Roxas Boulevard
Pasay City – 1300
7. House Committee on Energy
Batasan Hills, Quezon City –1126
8. HON. ERNESTO C. PABLO
Representative – Party List
APEC
Room 604, North Wing Building
House of Representative
Batasan Hills, Quezon City - 1126
9. Power Sector Assets and Liabilities Management Corp. (PSALM)
2nd Flr. SGV II Building, Ayala Avenue
1200 Makati City
10. FR. FRANCISCO G. SILVA
Administrator
National Electrification Administration (NEA)
NIA Road, Diliman, Quezon City

11. The Municipal Mayor
Abra de Ilog, Occidental Mindoro 5108
12. The Municipal Mayor
Calintaan, Occidental Mindoro 5102
13. The Municipal Mayor
Magsaysay, Occidental Mindoro 5101
14. The Municipal Mayor
Mamburao, Occidental Mindoro 5106
15. The Municipal Mayor
Paluan, Occidental Mindoro 5107
16. The Municipal Mayor
Rizal, Occidental Mindoro 5103
17. The Municipal Mayor
Sablayan, Occidental Mindoro 5104
18. The Municipal Mayor
San Jose, Occidental Mindoro 5100
19. The Municipal Mayor
Sta. Cruz, Occidental Mindoro 5105