

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. 2001-950

IN THE MATTER OF THE
APPLICATION FOR AUTHORITY TO
INCREASE RATES BY PHP 0.5445
WITH PROVISIONAL AUTHORITY

**ERC CASE NO. 2001-486
(ERB CASE NO. 98-79)**

NEGROS ORIENTAL I ELECTRIC
COOPERATIVE, INC. (NORECO I),

Applicant.

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D E C I S I O N

Before this Commission for resolution are the consolidated applications filed by applicant Negros Oriental I Electric Cooperative, Inc. (NORECO I) for: (a) authority to increase its rates by PhP 0.5445/kWh with prayer for provisional authority filed on October 29, 1998 and docketed as ERC Case No. 2001-486 (ERB Case No. 98-79); and (b) approval of its unbundled rates pursuant to the provision of Republic Act No. 9136 filed on December 26, 2001 and docketed as ERC Case No. 2001-950.

ERC Case No. 2001-486:

On October 29, 1998, NORECO I filed an application for authority to increase its electric rates by PhP 0.5445/kWh with prayer for provisional authority.

Having found said application sufficient in form and in substance with the required fees having been paid, an Order and a Notice of Public Hearing, both dated November 9, 1998, were issued setting the application for hearing on December 14 and 15, 1998.

In the same Order, NORECO I was directed to cause the publication of the Notice of Public Hearing, at its own expense, twice (2x) in two (2) newspapers of general circulation in the Philippines, which should include one (1) newspaper of local circulation within NORECO I's franchise area, the last day of publication to be made not later than two (2) weeks before the date of the 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 application, the Order and the Notice of Public Hearing and were requested to have their respective duly authorized representatives present at the aforesaid initial hearing.

Likewise, the Mayors of the Cities of Canlaon and Bais, Municipal Mayors of Ayungon, Bindoy, Guihulngan, Jimalalud, La Libertad, Mabinay, Manjuyod, Tayasan and Vallehermoso within NORECO I's franchise area

were furnished with copies of the Order and the Notice of Public Hearing for the appropriate posting thereof on their respective bulletin boards.

Several hearings were conducted whereby NORECO I was able to present its evidence, both testimonial and documentary, while the other parties, including the oppositors, were allowed to actively participate.

On February 21, 2000, applicant filed an "Urgent Motion for Issuance of Provisional Authority".

On March 23, 2000, NORECO I filed its "Formal Offer of Evidence".

On June 16, 2000, applicant filed a "Second Urgent Motion for the Issuance of Provisional Authority".

On July 24, 2000, the then Energy Regulatory Board (ERB) issued an Order provisionally authorizing NORECO I to increase its rate by PhP 0.5025/kWh applicable to all types of customers on staggered basis to be implemented in two (2) phases: First Phase: Fifty percent (50%) of the increase or PhP 0.2500/kWh to be effective on the billing cycle following the date of the Order; and Second Phase: the remaining Fifty percent (50%) of the increase or PhP 0.2525/kWh to be implemented six (6) months thereafter. The decrease of PhP 0.0661/kWh to be implemented in April 2002 due to a portion of the loans expected to be fully paid on the said period.

ERC Case No. 2001-950:

On December 26, 2001, NORECO I filed an application for approval of its unbundled rates pursuant to the provisions of Republic Act No. 9136.

Having found said application sufficient in form and in substance with the required fees having been paid, an Order and a Notice of Public Hearing, both dated June 4, 2002, were issued setting the application for hearing on July 22, 2002.

In the same Order, NORECO I was directed to cause the publication of the Notice of Public Hearing, at its own expense, at least twice (2x) for two (2) successive weeks in two (2) newspapers of nationwide 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, NORECO I published the Notice of Public Hearing in "*Taliba*" and "*Balita*" on June 25 and July 1, 2002 and June 26 and July 3, 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 application, the Order and the Notice of Public Hearing and were requested to have their respective duly authorized representatives present at the aforesaid initial hearing.

Likewise, the Mayors of the Cities/Municipalities within NORECO I's franchise area were furnished with copies of the Order and the Notice of Public Hearing for the appropriate posting thereof on their respective bulletin boards.

Upon evaluation of the records of the two (2) applications, it was found that the rates being prayed for by NORECO I in its application for rate

increase (ERC Case No. 2001-486) were included in its application for approval of its unbundled rates (ERC Case No. 2001-950).

Thus, on September 4, 2002, an Order was issued by the Commission consolidating ERC Case No. 2001-486 with ERC Case No. 2001-950.

At the initial hearing on July 22, 2002, NORECO I was present. No oppositor appeared nor was there any opposition registered.

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

The second witness, Mr. Victorino B. Arbon, NORECO I's Technical Services Manager, testified on the various technical aspects of the application including its proposed program for the development and improvement of its services. After the termination of the direct examination, the Commission again propounded clarificatory questions on the same witness.

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

On July 26, 2002, the Commission issued an Order directing NORECO I to submit the aforementioned documents.

On August 30, 2002, NORECO I submitted its "Post Hearing Compliance".

On May 21, 2003, NORECO I filed its "Formal Offer of Evidence" which was admitted by the Commission, for the purposes for which they were being offered.

I. SUMMARY OF NORECO I's APPLICATION

I.A. REVENUE REQUIREMENT

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

| ACCOUNT NAME | TEST YEAR |
|--|-----------------------|
| kWh Sales | 21,560,781 |
| Purchased Power | PhP 89,420,636 |
| Payroll | 9,248,688 |
| Operation & Maintenance (less Purchased Power & Payroll) | 9,517,936 |
| Debt Service Plus Cash Working Capital | 16,317,063 |
| Revenue Requirement | 124,504,323 |
| Less: Other Revenue Items | 0 |
| Reinvestment Fund (3%) * | 5,726,216 |
| TOTAL REVENUE REQUIREMENT | 130,230,539 |
| EXISTING REVENUE | 106,082,673 |
| Required Increase | PhP 24,147,866 |

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

Witness Callet, in her testimony on July 22, 2002, (Transcript of Stenographic Notes (TSN), July 22, 2002, pages 14-25) stated the following bases of the cost components of the revenue requirement of NORECO I:

- For historical costs by function (Schedule A), the data was based on the Trial Balance for December 31, 2000, Monthly Financial and Statistical Reports for the Year 2000 and the Schedule of NEA Loan Amortization as of December 31, 2000.

NORECO I's proposed revised revenue requirement is PhP 130,230,539 based on Trial Balance for Historical year 2000 as evidenced by its submitted Overall Average Tariff Adjustment (OATA) of PhP 1.12/kWh.

NORECO I also submitted Audited Financial Statements for the year 2000.

I.B. RATE STRUCTURE/DESIGN

The unbundled rates proposed by NORECO I were as follows:

| | | | |
|------------------------|-----|--------|-----------------|
| Residential | | | |
| Energy Charge | PhP | 5.6030 | /kWh |
| Retail Customer Charge | | 20.48 | /customer/month |
| Metering Charge | | 24.52 | /customer/month |
| Commercial | | | |
| Energy Charge | | 5.3712 | /kWh |
| Retail Customer Charge | | 8.54 | /customer/month |
| Metering Charge | | 11.46 | /customer/month |
| Industrial | | | |
| Demand Charge | | 139.79 | /NCP kW |
| Energy Charge | | 4.5877 | /kWh |
| Retail Customer Charge | | 6.54 | /customer/month |
| Metering Charge | | 13.46 | /customer/month |

| | | | | |
|-------------------------|-----|--------|-----------------|--|
| Public Buildings | | | | |
| Energy Charge | PhP | 5.2338 | /kWh | |
| Retail Customer Charge | | 7.91 | /customer/month | |
| Metering Charge | | 12.09 | /customer/month | |
| Street Lights | | | | |
| Energy Charge | | 5.2088 | /kWh | |
| Distribution Facilities | | 10.00 | /customer/month | |
| Sale for Resale | | | | |
| Energy Charge | | 5.1642 | /kWh | |
| Distribution Facilities | | 20.00 | /customer/month | |
| BAPA | | | | |
| Energy Charge | | 6.3815 | /kWh | |
| Distribution Facilities | | 45.00 | /customer/month | |

The wheeling charges proposed by NORECO I were as follows:

| | | | | |
|----------------------------|-----|--------|-----------------|--|
| Residential | | | | |
| Distribution System Charge | PhP | 1.4557 | /kWh | |
| Metering Charge | | 24.52 | /customer/month | |
| Commercial | | | | |
| Distribution System Charge | | 1.2239 | /kWh | |
| Metering Charge | | 11.46 | /customer/month | |
| Industrial | | | | |
| Distribution System Charge | | 139.00 | /NPC kW | |
| Metering Charge | | 13.46 | /customer/month | |
| Public Buildings | | | | |
| Distribution System Charge | | 1.0864 | /kWh | |
| Metering Charge | | 12.09 | /customer/month | |

I.B.1. FUNCTIONALIZATION, CLASSIFICATION and ALLOCATION

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

I.B.2. SYSTEM LOSS

The actual system loss for the year 2000 was 17.82%. NORECO I adopted the actual purchased power cost net of Primary Voltage and Power Factor Discounts.

Witness Arbon cited that the reason for NORECO I's increasing system loss for 2000 and onwards compared with the 1999 system loss (which was much better on both technical and non-technical) was due to the energization project for far flung barangays within its franchise area. To reduce the system loss to a minimum, NORECO I has programmed for the succeeding years to install additional substations to shorten its over extended lines which will likewise improve the voltage level and unload the distribution line. (TSN, July 22, 2002, pages 66-75).

I.B.3. INTER-CLASS CROSS SUBSIDY

NORECO I provided the amounts of cross subsidies for each customer type but did not include a program for the removal thereof.

| CUSTOMER TYPES | ADJUSTED EXISTING (PhP) | PROPOSED (PhP) | INTER-CLASS CROSS SUBSIDIES (PhP) |
|-----------------------|--------------------------------|-----------------------|--|
| Residential | 73,231,906 | 78,119,993 | 4,888,087 |
| Commercial | 13,873,037 | 12,563,712 | (1,309,325) |
| Industrial | 16,362,717 | 14,220,221 | (2,142,496) |
| Street Lights | 4,403,413 | 3,810,339 | (593,074) |
| Public Buildings | 16,117,387 | 14,185,432 | (1,931,955) |
| Sale for Resale | 4,146,410 | 5,533,704 | 1,387,294 |
| BAPA | 2,095,668 | 1,797,137 | (298,531) |
| TOTAL | 130,230,538 | 130,230,538 | 0 |

I.B.4. LIFELINE RATE AND LEVEL

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

| | Option 1 (At Existing Rates) | Option 2 (At Proposed Customer Charges) |
|-------|---|--|
| Level | 12 kWh | 12 kWh |
| Rate | PhP 5.6182/kWh | PhP 45.00/customer/month |

I.C. OTHER CHARGES

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

| <u>PARTICULARS</u> | <u>AMOUNT</u> |
|---|---------------|
| 1. Account Initiation Charge: | |
| A. Within normal business hours (8:00 a.m. – 5:00 p.m., Monday through Friday, except holidays): | |
| Charge will be applied when meter installation is not required at an existing location. | PhP 100.00 |
| Charge will apply when meter installation is required at a new location. | 150.00 |
| B. Outside normal business hours (8:00 a.m. – 5:00 p.m., Monday through Friday, except holidays): | |
| Actual costs shall include direct labor costs and overtime expenses for making the connection of service and related indirect costs | Actual Costs |
| 2. Service Call Charge: | |
| During Business Hours | 100.00 |
| Outside Business Hours: | 150.00 |
| Installation of test equipment requested by REP | Calculated |
| If the service call is cancelled prior to the employee being dispatched, the charge is at half the normal rate. | |
| 3. Disconnect/Reconnection Charge: | |
| Disconnect/Reconnect - During Business Hours | |
| At Meter | 50.00 |
| At Pole, Weatherhead or Secondary Box | 100.00 |

| | |
|--|---|
| Disconnect/Reconnect - Outside Business Hours: | |
| At Meter | PhP 100.00 |
| At Pole, Weatherhead or Secondary Box | 200.00 |
| 4. Requested Service Interruption Charge: | Actual Cost |
| 5. Facilities Relocation/Removal Charge: | |
| Actual costs shall include direct labor costs associated with relocating or removal of Company facilities and related indirect costs. | Actual Cost |
| 6. Facilities Location Charge: | |
| During Business Hours | 250.00 per hour |
| Outside Business Hours: | 500.00 per hour |
| 7. Advance Metering Interval Load Data Equipment Maintenance Charge: | actual cost to maintain the equipment |
| Fee for monthly maintenance and telephone support for "Standard Advanced Metering Equipment" if not provided for by the SUPPLIER. | |
| 8. Requested Meter Test Charges: | |
| At Field testing | 35.00 |
| Single-Phase for second Connection | 70.00 |
| Three Phase Self-Contained (Field Calibration) | 100.00 |
| Three Phase Instrument Rated | 200.00 |
| 9. Broken Meter Seal | 10.00 |
| 10. Transformer Rental per month: | |
| 1 - 5 KVA | 200.00 |
| 1 - 10 KVA | 250.00 |
| 1 - 15 KVA | 300.00 |
| 1 - 25 KVA | 450.00 |
| 1 - 50 KVA | 900.00 |
| 1 - 75 KVA | 1,048.00 |
| 1 - 100 KVA | 1,398.00 |
| 11. Penalty on Delinquent Consumers | 18% per annum but not less than 10.00 per bill |
| 12. Change of Name of Consumer | 5.00 |
| 13. Service Connection Fee | 5.00 |
| 14. Inspection Fee | 5.00 |
| 15. Tampering Charge | |
| 25% surcharge on unaccounted kWh plus penalty of PhP 10,000 to PhP 20,000 | 10.00 |
| 16. Metering Charges | |
| Off-Site Meter Reading (OMR) Equipment Installed Charge: | |
| Fee for installation of Company's "Standard Advanced Metering Equipment" designed to transmit information via radio to a hand held meter-reading device carried by the meter reader. | Equipment installed and labor and associated overheads. |
| Automated Meter Reading (AMR) Equipment Installation Charge: | |
| Fee for installation of Company's "Standard Advanced Metering Equipment" designed to transmit information via telephone to a central location. The fee will be calculated based on the equipment installed and labor and associated overheads. | Equipment installed and labor and associated overheads. |

Advanced Metering Interval Load Data Equipment Installation Charge:

Fee for specific requests by SUPPLIER for installation of Company's "Standard Advanced Metering Equipment" designed to access interval load data via telephone. To include Pulse Meter Reading.

Equipment installed and labor and associated overheads.

Off-Cycle Meter Reading Charge:

A charge for meter reading when a SUPPLIER requests that a meter be re-read to verify the accuracy of the Company's routine meter reading, or requests that a special reading be taken between normal meter reading cycles. The fee for this service is P per re-read. Special Meter readings are performed only during normal business hours, Monday through Friday, (excluding holidays). The Off-cycle Meter Reading Charge will not be charged for a re-read if the new reading indicates that the original reading was in error.

PhP 100.00 per re-read

Automated Meter Reading (AMR) Charge:

Fee for monthly-automated meter reading (AMR). The fee will be calculated based on the equipment installed and labor and associated overheads.

AMR – Cycle Meter Read

Calculated

AMR – Specific Date Meter Read

Calculated

Maintenance of electrical pulse devices

Calculated

Temporary Facilities Charge:

A fee charged to a SUPPLIER when any construction is required to make the electric service connection to provide temporary service. If no facilities are required to be installed and/or removed in providing this service, then only the appropriate Account Initiation Charge will be charged. The fee schedule is as follows:

- | | |
|--|------------|
| A. Connect or disconnect service and read a meter already installed (includes Account Initiation Charge) | 100.00 |
| B. Install or remove single phase service and read a meter already installed (includes Account Initiation Charge) | 100.00 |
| C. Install and remove single phase service wires, meter and transformers (up to 50 kVA) on existing pole and read a meter (includes Account Initiation Charge) | Calculated |
| D. Underground Cable By-Pass Charge applied to any SUPPLIER requesting it install temporary above ground by-pass cable in order to continue service while underground facilities are being either repaired or replaced. | Calculated |
| E. All other temporary facilities – installation and removal | Calculated |

II. COMMISSION DISCUSSIONS AND CONCLUSIONS

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

II.A. DETERMINATION OF TOTAL REVENUE REQUIREMENT

II.A.1. TEST YEAR

The Commission finds NORECO I'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 the historical test year 2000.

II.A.2 GENERATION and TRANSMISSION COSTS

At present, NORECO I is buying power from two (2) sources, namely: National Power Corporation (NPC), and Negros Occidental Electric Cooperative, Inc. (NOCECO). The Commission notes that the contractual arrangement between NORECO I and NOCECO had no prior approval from the then Energy Regulatory Board (ERB). The Commission further notes that the power purchased from NOCECO are not on regular monthly basis and the rates charged by NOCECO is higher than that of NPC. The Commission limited the purchased power rates of NOCECO to that not exceeding the NPC rate.

The generation charges shall reflect the generation charge as provisionally authorized by the Commission in the joint filing of the National Power Corporation (NPC) and the Power Sector Assets and Liabilities Management Corporation (PSALM) in its Order dated September 29, 2003, Case No. 2003-291 [In the Matter of the Approval of the Revised Unbundled

Generation Tariffs] and the revised methodology designated as the “Long-Run Avoidable Cost” (LRAC) methodology in lieu of the “Return on Rate Base” (RORB) methodology for the determination of the NPC’s and PSALM’s generation rates.

For the Visayas and Panay/Bohol Grids, the LRAC shall be applied on a staggered basis in order to mitigate the impact of the increase in generation rates on the part of the consumers (please refer to Section II.B.2.b. for details). The implementation of NPC’s Generation Rate Adjustment Mechanism (GRAM) and FOREX in the Luzon, Visayas and Panay/Bohol is terminated upon the effectivity of the approved rates based on the LRAC Methodology [LEYECO II shall be guided by the LRAC average rates for Visayas].

The transmission charges shall reflect the transmission charges of the National Transmission Corporation (TRANSCO) as approved in ERC Orders dated September 6 and 20, 2002, Case No. 2001-901 [In the Matter of the Application for the Approval of the Revised Unbundled Power Rates, National Power Corporation (NPC)–Applicant]. A separate charge to account for the allowable system losses shall likewise be provided (please refer to Section II.B.2.d. for details). Hence, a distribution utility with a system loss that is within the allowable cap can recover from its end-users the total cost of the generation and transmission. *Annualization*¹ of the billing determinants was applied.

¹ *Annualization of kWh sales is calculated by multiplying the average kWh consumption of a specific customer class by their respective year-end number of customers*

The upward adjustment of PhP 3,393,595 made by the Commission to Purchased Power consisted of the following:

| | | |
|------------------------------------|------------|------------------|
| Adjustment to Purchased Power Cost | PhP | 5,452,901 |
| Adjustment to System Loss | | (2,059,306) |
| Net Adjustments | PhP | 3,393,595 |

The adjustment to Purchased Power Cost of PhP 5,452,901 pertains to the difference between the proposed Purchased Power of NORECO I amounting to PhP 89,420,636 and the Generation and Transmission charges based on the new rates of NPC and TRANSCO amounting to PhP 94,873,537.

Records show that NORECO I's average system loss (excluding cooperative own use) for the years 2000, 2001 and 2002 was 15.81%. The Commission allowed a system loss of 14% in the calculation of NORECO I'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 2,059,306 to exclude the excess of actual system loss over the allowable recoverable cap of PhP 13,697,493.

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

| | | |
|-------------------------|------------|-------------------|
| Generation Charge | PhP | 57,907,368 |
| Transmission Charge | | 21,209,370 |
| Recoverable System Loss | | 13,697,493 |
| Total | PhP | 92,814,231 |

NORECO I's approved generation charge shall remain fixed until changes in NPC's generation rate are approved and authorized by the Commission pursuant to its Order dated September 29, 2003, ERC Case No. 2003-91 [In the Matter of the Application for the Approval of the Revised Unbundled Generation Tariffs, National Power Corporation (NPC) and Power Sector Assets and Liabilities Management Corporation (PSALM) – Applicant]. In which case, NORECO I shall bill its end-users the new generation rate charged by NPC. In the meantime, NORECO I shall discontinue charging the Purchased Power Adjustment (PPA) upon effectivity of the unbundled rates.

II.A.3. PAYROLL

The Commission made an upward adjustment of PhP 1,090,309 on the payroll account resulting to an adjusted amount of PhP 10,338,997. The adjustments were due to the updating of salaries to current level with corresponding incremental adjustments to SSS, Philhealth, and HDMF contributions.

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 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 are 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 NORECO I to incur only “prudent and reasonable costs” for inclusion in the determination of retail rates. While a distribution utility is allowed to pass through its costs of purchased power and other reasonable costs to end-users, it is obligated as a public utility to ensure that its costs of operations including payroll are kept at a minimum. The distribution utility must bear in mind that its very nature is that of a service company for its end-users, with a mandate to advocate and transact judiciously for and in their behalf.

“Reasonable costs” may be defined as the cost of 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 NORECO I 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.

NORECO I’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 NORECO I’s viability. To this end, NORECO I should view a petition for an increase in rates to be the last recourse. In future filings, NORECO I should be reminded that it has the burden of proving that all reasonable and appropriate cost-cutting measures have been taken before resorting to a petition to increase rates.

The Commission made a downward adjustment of PhP 1,677,267 on NORECO I’s Operation and Maintenance (O & M) Expenses consisting of the following:

Excluded Expenses:

| | | |
|--|------------|-------------------------|
| Medical, uniform, rice & other employees' benefits allowances & incentives in excess and/or outside of what are allowable under NEA and Commission's policies. | PhP | 1,503,233 |
| Representation, per diem, rice, uniform, medical & other remunerations, allowances, benefits, & incentives of officers and members of the Board of Directors in excess and/or outside of what are allowable under NEA Guidelines and Commissions policies. | | <u>108,132</u> |
| Total | | 1,611,365 |
| Other Adjustments: | | |
| Consumer Prompt Payment Discount reclassified to Other Revenue Items | | 108,589 |
| Erroneous posting from Sch. 4 to Sch. 3 of the UFR | | <u>(42,687)</u> |
| NET DOWNWARD ADJUSTMENT | PhP | <u>1,677,267</u> |

The Commission rules that the reductions and exclusions in O & M expenses do not fall under the qualifications heretofore cited, hence, are not allowed for revenue requirement determination. These expenses translate to PhP 0.0735/kWh which the Commission considers material.

For future rate cases, NORECO I will continually be required to make full disclosure of all its O & M expenses for the Commission to determine the prudence of its expenditures. NORECO I should ensure that the procedures are put in place so that all expenditures that are included in the determination of revenue requirement are adequately documented and that such documentation is reasonably accessible to the ERC.

II.A.5 OTHER REVENUE ITEMS

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

The Commission encourages NORECO I to improve its financial operation through the development of other related sources of revenue. However, in order to balance the interests of NORECO I and its end-users and in recognition of the fact that some of the costs incurred in providing certain services classified under ORI had already been included in the revenue requirement, the Commission has adopted the following. The ORI that arises from activities not related to the business of the cooperative nor involves the use of its assets will not be deducted from the revenue requirement of the cooperative. The ORI that arises out of related business activities or is asset based will be shared by the cooperative and the end-users by including 50% in the revenue requirement.

The total non-asset based ORI which were not deducted from the revenue requirement amounts to PhP 1,843,953.

The ORI subjected to the 50% rule was computed as follows:

Other Revenue Items

Prompt Payment Discount-NPC, net of Prompt

| | |
|-------------------------------------|----------------------|
| Payment Discount given to customers | PhP <u>1,039,517</u> |
|-------------------------------------|----------------------|

50% of the above

| |
|---------------------------|
| PhP <u>519,759</u> |
|---------------------------|

The Commission also rules that any interest/dividend income earned will be retained 100% by NORECO I. However, such income should form

part of the reinvestment fund and will be used solely for rehabilitation/expansion programs of NORECO I.

II.A.6. DEBT SERVICE

The Commission made a downward adjustment of PhP 2,259,197 to assure that the debt service included in NORECO I's revenue requirement is consistent with NEA's records. The details of the adjustment are shown below.

| LOANS | LOAN PROFILE | | DIFFERENCE (PhP) |
|----------------------------------|------------------------|-------------------|---------------------|
| | PER NORECO I (PhP) | PER NEA (PhP) | |
| Rural Electrification: | | | |
| A | 1,553,524 | 1,553,524 | |
| B | 188,090 | 188,090 | |
| C | 507,624 | 507,624 | |
| D | 184,668 | 184,668 | |
| E | 379,324 | 379,324 | |
| F | 4,747,604 | 4,950,544 | 202,940 |
| Restructured B | 1,211,900 | 1,211,900 | |
| Emergency Loan – Ruping | 1,371,016 | 1,371,016 | |
| OECE – RE | 3,274,256 | 3,711,176 | 436,920 |
| OECE – Logistics* | 90,488 | | (90,488) |
| Add: | | | |
| Other Bank Loan – Metrobank | 500,000 | | (500,000) |
| Interest on Cash Working Capital | 2,308,569 | | (2,308,569) |
| TOTAL | 16,317,063 | 14,057,866 | (2,259,197) |

* Fully Paid as of June 2002.

The Commission disallowed the interest cost associated with cash working capital as calculated by NORECO I, due to lack of justification. The loan from Metrobank was excluded from the debt service because the same was already fully paid by NORECO I. Thus, the total allowable amount for debt service in the determination of the revenue requirement should be PhP 14,057,866.

Pursuant to Section 60 of R.A. 9136 and E.O. 119, savings realized by electric cooperatives (ECs) due to the assumption of certain loans by the Power Sector Assets and Liabilities Management Corporation (PSALM Corp.) shall be passed on to ECs' end-users. NORECO I applied for a rate reduction under the Guidelines for the Implementation of the Reduction in Rates of the Electric Cooperatives Due to Condonation of Debts issued by the Commission on October 21, 2002, as amended on November 15, 2002. The Commission, in its Order on this matter dated June 9, 2003, granted NORECO I a Provisional Authority to reduce its rates by PhP 0.5056/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

NORECO I made a proposal for a provision for reinvestment fund in its unbundling of rates application in the amount of PhP 5,726,216.

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. The adjustments made on NORECO I's revenue requirement subsequently resulted in an upward adjustment of PhP 828,100 on its proposed reinvestment fund for a total adjusted amount of PhP 6,554,316 representing the 5% allowable limit.

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

- (d) NORECO I shall submit a new System Rehabilitation/Upgrading and/or System Loss Reduction Plan covering the period 2004-2008, no later than one (1) year after the date of this Decision using the format to be prescribed by the Commission.

II.A.8. REVENUE REQUIREMENT SUMMARY

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

| ACCOUNT NAME | | NORECO I PROPOSAL | ADJUSTMENT | ERC APPROVAL |
|--|------------|----------------------|----------------|--------------------|
| Purchased Power | PhP | 89,420,636 | 3,393,595 | 92,814,231 |
| Payroll | | 9,248,688 | 1,090,309 | 10,338,997 |
| Operating & Maintenance (less of PP & Payroll) | | 9,517,936 | (1,677,267) | 7,840,669 |
| Debt Service Cost | | 16,317,063 | (2,259,197) | 14,057,866 |
| Reinvestment Fund | | 5,726,216 | 828,100 | 6,554,316 |
| Other Revenues Items | | 0 | (519,759) | (519,759) |
| Total Revenue Requirement | PhP | 130,230,539 | 855,781 | 131,086,320 |

NORECO I proposed an OATA of PhP 1.1200/kWh using rates of year 2000. The OATA is a measurement tool based on the formula: [(Total Revenue Requirement less Existing Revenue) divided by kWh sales]. This measurement is not meant to refer to any specific customer class.

The Commission, after considering adjustments of PhP 855,781, approves a total revenue requirement of PhP 131,086,320 based on the year 2000, equivalent to an OATA² of PhP 0.1562/kWh. The Commission takes

² The OATA was computed using existing approved distribution rates (inclusive of current WAC, if any) & unbundled power cost as of October 2003.

into consideration, for the OATA calculation purposes, the provisional net increase of PhP 0.4364/kWh (PhP 0.5025 – PhP 0.0661) granted by the then ERB in July 2000 which was implemented on a staggered basis in the years 2000, 2001 and 2002. The adoption of the same was the primary reason for the large difference between the OATA per NORECO I's proposal vis-a-vis ERC's approval.

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.

II.B. RATE STRUCTURE/DESIGN DETERMINATION

II.B.1. FUNCTIONALIZATION, CLASSIFICATION and ALLOCATION

The functionalization and allocation factors used by NORECO I were the default factors provided for in the UFR issued by the Commission on October 30, 2001. In the case of NORECO I, the default factors were found not to represent the best alternative among possible factors. Thus, the following three (3) default factors used by NORECO I for functionalization and allocation were modified, to wit:

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

Second, the factor “Total Operation and Maintenance, Net of Fuel and Purchased Power” (TOMXFP), which was used as a default factor to functionalize costs under outside services, was replaced with the factor “Total Payroll Excluding Administrative and General Payroll” (PAYXAG) in order to remove the possibility of allocating a portion of outside services costs to the transmission function.

Third, since the Commission is now including Other Revenue Items (ORI) not included by NORECO I in the calculation of its revenue requirement, it was necessary to functionalize and allocate these amounts. The functionalization factors for the (ORI), which were determined based on direct assignment, were as follows:

| Factor Name | Functionalization Factor Description | Total Check | Generation | Transmission | Distribution | Supply | Metering |
|-------------|--------------------------------------|-------------|------------|--------------|--------------|--------|----------|
| ORI | Other Revenue Items | 1.0000 | 0.0000 | 0.0000 | 0.2117 | 0.5766 | 0.2117 |

NORECO I submitted its classification of distribution cost into demand- and customer-related cost using the Minimum Plant Method. This method resulted in a 65%-35% 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 of meters 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 awards 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 Commission's Order dated September 29, 2003, Case No. 2003-291 [In the Matter of the Application for Grids, the LRAC rates

for the Approval of the Revised Unbundled Generation Tariffs], the revised generation charge to be billed to end-users shall be the approved rate per kilowatt-hour including Benefits to Host Communities.

For the Visayas Grid, the LRAC rates for the following billing cycle are as follows:

| Billing Cycle | Visayas (PhP/kWh) | Franchise & Benefits to Host Communities (PhP/kWh) | FPCA (PhP/kWh) |
|---------------------------------|------------------------------|---|---------------------------|
| Sept. 26, 2003 to Dec. 25, 2003 | 2.5752 | 0.0177 | 0.0500 |
| Dec. 26, 2003 to Mar. 25, 2004 | 2.6587 | 0.0177 | 0.0500 |
| March 26, 2004 to June 25, 2004 | 2.7421 | 0.0177 | 0.0500 |
| June 26, 2004 to Sept. 25, 2004 | 2.8255 | 0.0177 | 0.0500 |

The implementation of NPC's Generation Rate Adjustment Mechanism (GRAM) and FOREX in the Luzon, Visayas and Panay/Bohol is terminated upon the effectivity of the approved rates based on the LRAC Methodology, as discussed in Section II.A.2 of this Decision. The NPC's approved generation rate will remain fixed until changes are authorized by the Commission pursuant to the afore-stated Order dated September 29, 2003. This allows NORECO I's Generation Charge to remain fixed until such time that NPC's approved rates are adjusted. This eliminates the need for future Purchased Power Adjustment (PPA).

II.B.2.c. TRANSMISSION CHARGE

The Commission's Decision in ERC Case No. 2001-901 dated June 26, 2002 and Order dated September 20, 2002 set the transmission charges for the National Transmission Corporation (TRANSCO) without automatic

adjustments. Since the transmission rates to be paid by NORECO I 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 NORECO I have been calculated based on the approved TRANSCO rates, which include cross subsidy elements to be phased out over the three-year period.

| | Residential | Commercial | Industrial | Street Lights | Public Buildings | Sale for Resale |
|--|-------------|------------|------------|---------------|------------------|-----------------|
| <i>October 2003 to September 2004</i> | | | | | | |
| Demand Charge (PhP/kW) | | | 14.52 | | | |
| Transmission System Charge (PhP/kWh) | 0.9697 | 1.0054 | 0.8970 | 0.9669 | 0.9292 | 0.9736 |
| <i>October 2004 to September 2005</i> | | | | | | |
| Demand Charge (PhP/kW) | | | 14.52 | | | |
| Transmission System Charge (PhP/kWh) | 1.0154 | 1.0527 | 0.9426 | 1.0124 | 0.9729 | 1.0194 |
| <i>October 2005 to September 2006</i> | | | | | | |
| Demand Charge (PhP/kW) | | | 14.52 | | | |
| Transmission System Charge (PhP/kWh) | 1.0609 | 1.0999 | 0.9881 | 1.0578 | 1.0165 | 1.0652 |

The Commission utilized the Coincident Peak (CP) Allocation Method on the transmission costs, considering that it yielded the most reasonable results for NORECO I's end-users.

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 of PhP 0.6252/kWh for all end-users of NORECO I.

The allowed system loss is equal to the average system loss (excluding cooperative own use) for the years 2000, 2001 and 2002 of 15.81% or the system loss cap, whichever is lower. In arriving at this decision, the Commission recognizes that the distribution utility faces some risks of over- or under-recovery in the event its load characteristics change through time. The system loss not only results in additional unbundled generation costs 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 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 found that NORECO I's 2000-2002 average system loss was 15.85% which is higher than the aforementioned cap of 14%. 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 NORECO I'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.

II.B.2.e. DISTRIBUTION CHARGE

The distribution charge shall be billed on a fixed rate per kilowatt-hour for all end-users. For end-users with demand meters, the distribution charge shall be billed using a combination of fixed rate per kilowatt (kW) and fixed rate per kilowatt-hour (kWh).

For distribution wheeling charges, NORECO I has proposed to include the metering charge and a portion of energy charges. However, the Commission believes that wheeling rates are parallel to the cost of service functionalized under Distribution. Thus, the Commission orders that the Distribution Charge provided on Rate Schedules be likewise utilized as Distribution Wheeling Charges available to the future contestable market. Other distribution utilities requesting to wheel power across NORECO I's facilities shall pay wheeling charges equivalent to Distribution Wheeling Charges for Industrial end-users.

The Commission's decision to allow a distribution utility to avail of the Distribution Wheeling Charges of another distribution utility is based on the

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

NORECO I also sells power to the end-users in the following Barangays: Dawis (B), Kalumbuyan, Tabuan, Gamao, Bisan and Alisis, all in the municipality of Bayawan within the franchise area of Negros Oriental II Electric Cooperative, Inc. (NORECO II) and Barangay Quezon and Codcod in San Carlos City within the franchise area of V-M-C Rural Electric Service Cooperative (VRESCO). At present, NORECO II and VRESCO's distribution networks do not extend to the aforementioned barangays even though these are within their respective franchise areas. Hence, NORECO II and VRESCO are constrained to buy electric power from NORECO I to serve such barangays. In view of this, NORECO II and VRESCO are Sale for Resale customers of NORECO I.

The Commission notes that NORECO I sells power to NORECO II and VRESCO and allows NORECO I to bill NORECO II and VRESCO the approved unbundled rates for Sale for Resale customer as set forth in the Disposition portion of this Decision. However, in the event the Sale for Resale consumers of NORECO I, for instance, opt to enter into contract with TRANSCO, NPC and other sources of power, these consumers shall only pay the distribution services rendered by NORECO I.

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 end-users within each rate class. Although R.A. 9136 requires the removal of inter-class cross subsidies, the law does not require removal revenue flows that may be characterized as intra-class cross subsidies. The Commission has the flexibility to consider other factors in determining rate design for a particular class of end-users. Therefore, to mitigate the impact on below-average consumption of residential end-users (including those connected to BAPAs), the Commission orders NORECO I to use PhP 0.3260 per kWh rate for the supply function and a combination of PhP 5.00 per meter per month and PhP 0.1655 per kWh rate for the metering function. Street light end-users shall be billed with a fixed monthly customer charge for the supply function and shall have no metering charge. All other end-users shall be billed fixed monthly customer and meter charges for supply and metering functions, respectively.

All BAPA residential end-users will be charged with rates used for Residential Class. The revenue that will be generated from the Supply and Metering Charges for BAPA end-users will comprise the fund from which NORECO I will draw various incentives it provides the same.

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 | Street Lights | Public Buildings | Sale for Resale |
|---|-------------|-------------|------------|------------|---------------|------------------|-----------------|
| New Cost-Based Rev. Requirement (PhP) | 131,086,320 | 81,583,617 | 12,798,182 | 14,907,362 | 4,137,883 | 15,813,488 | 1,845,789 |
| Existing Rates Revenue (PhP) | 127,663,406 | 75,813,393 | 13,175,859 | 15,742,489 | 4,328,937 | 16,577,400 | 2,025,328 |
| Total Change in Revenue (PhP) | 3,422,914 | 5,770,224 | (377,677) | (835,127) | (191,054) | (763,912) | (179,539) |
| Percentage Change In Revenue | 2.68% | | | | | | |
| Normalized Existing Revenue (PhP) | 131,086,320 | 77,846,103 | 13,529,130 | 16,164,577 | 4,445,005 | 17,021,874 | 2,079,631 |
| Inter-Class Cross Subsidy Amts. (PhP) | | (3,737,513) | 730,948 | 1,257,215 | 307,121 | 1,208,386 | 233,843 |
| Class Billing Determinants (in kWh) | 21,910,541 | 13,023,103 | 2,244,054 | 2,704,219 | 743,618 | 2,847,639 | 347,908 |
| Inter-Class Cross Subsidy Rates (PhP/kWh) | | (0.2870) | 0.3257 | 0.4649 | 0.4130 | 0.4243 | 0.6721 |

II.B.3.b. CROSS SUBSIDY REMOVAL

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

The Commission approved the cross subsidy removal scheme for the TRANSCO in its Decision dated June 26, 2002, Case No. 2001-901, which impacts the unbundled transmission rates for NORECO I's end-users. This impact is reflected in the three-year schedule for unbundled transmission charges provided in Section II.B.2.c. above.

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

II.B.4. LIFELINE RATE and LEVEL

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

In determining the minimum lifeline level of consumption to be provided to the marginalized end-users, the Commission calculated the probable load requirement of typical low-income end-user by considering two (2) lighting facilities at 20 watts each and a 50-watt radio that are being used for a reasonable number of hours. In setting the maximum level of lifeline consumption, the Commission may adjust the minimum level of consumption and/or level of the lifeline discount so as to maximize the benefit to low-income end-users while keeping the costs associated with such subsidy between PhP 0.05 and PhP 0.10 per kWh. Thus, the Commission sets the lifeline consumption maximum level of 20 kWh for NORECO I. 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 NORECO I. 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% |

NORECO I 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 Commission believes that BAPA marginalized residential end-users should likewise enjoy the benefit of lifeline rates. For this purpose, the composition of NORECO I's BAPA end-users are identified and appropriately integrated into the residential class in which they belong.

NORECO I 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.

The cost of subsidy to lifeline end-users shall be passed on to all non-lifeline end-users. For NORECO I, the lifeline discounts result in a Lifeline Rate Subsidy to other end-user of PhP 0.0798/kWh.

II.B.5. OTHER CHARGES

NORECO I'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 NORECO I. In future cases filed after Other Charges have been established based on cost, the appropriate level of deduction of the revenue derived from these charges maybe revisited.

The Other Charges of NORECO I are hereby pegged at their existing levels until such time that the Commission sets new rates on the same. Further, NORECO I 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 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 84 kWh a month using rates based on NORECO I's actual existing rates as of October 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 | PhP | | PhP/kWh | PhP |
| Basic Rate | 3.9318 | 331.13 | Generation Charges: | | |
| (FPCA/FOREX) PPA* | 1.5971 | 134.50 | Generation System Charge | 2.5752 | 216.88 |
| WAC | 0.0545 | 4.59 | Franchise & Benefits to Host Communities Charge | 0.0177 | 1.49 |
| Universal Charges: | | | FPCA Charge | 0.0500 | 4.21 |
| Missionary Electrification | 0.0373 | 3.14 | Transmission System Charge | 0.9697 | 81.67 |
| Environmental | 0.0025 | 0.21 | System Loss Charge | 0.6252 | 52.65 |
| Power Act Rate | | | Distribution Charge | 1.4404 | 121.31 |
| Reduction | (0.3000) | (25.27) | Supply Charge | 0.3260 | 27.46 |
| Loan Condonation | (0.5056) | (42.58) | Metering Charges: | | |
| | | | Retail Customer Charge/Month | | 5.00 |
| | | | Metering System Charge | 0.1655 | 13.94 |
| | | | Inter-class Cross Subsidy Charge | (0.2870) | (24.17) |
| | | | Universal Charges: | | |
| | | | Missionary Electrification Charge | 0.0373 | 3.14 |
| | | | Environmental Charge | 0.0025 | 0.21 |
| | | | Lifeline Rate(Discount)/Subsidy | 0.0798 | 6.72 |
| | | | Loan Condonation | (0.5056) | (42.58) |
| | | | Power Act Rate Reduction | (0.3000) | (25.27) |
| TOTAL BILL | | <u>405.73</u> | TOTAL BILL | | <u>442.66</u> |
| PhP/kWh | | <u>4.8176</u> | PhP/kWh | | <u>5.2561</u> |

*PPA computation made by NORECO I was based on previous month's (October 2003) purchased power cost pursuant to the approved PPA formula by the then ERB.

DISPOSITION

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

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

| | Residential | Commercial | Industrial | Street Lights | Public Buildings | Sale for Resale |
|--|-------------|------------|------------|---------------|------------------|-----------------|
| Generation Charges: | | | | | | |
| Generation System Charge (PhP/kWh) | 2.5752 | 2.5752 | 2.5752 | 2.5752 | 2.5752 | 2.5752 |
| Franchise & Benefits to Host Communities Charge (PhP/kWh) | 0.0177 | 0.0177 | 0.0177 | 0.0177 | 0.0177 | 0.0177 |
| FPCA Charge (PhP/kWh) | 0.0500 | 0.0500 | 0.0500 | 0.0500 | 0.0500 | 0.0500 |
| Transmission Charges: | | | | | | |
| Demand Charge (PhP/kWh) | | | 14.52 | | | |
| Transmission System Charge (PhP/kWh) | 0.9697 | 1.0054 | 0.8970 | 0.9669 | 0.9292 | 0.9736 |
| System Loss Charge (PhP/kWh) | 0.6252 | 0.6252 | 0.6252 | 0.6252 | 0.6252 | 0.6252 |
| Distribution Charges: | | | | | | |
| Demand Charge (PhP/kWh) | | | 14.52 | | | |
| Distribution System Charge (PhP/kWh) | 1.4404 | 1.2116 | 1.1195 | 1.2390 | 1.0265 | 1.0601 |
| Supply Charge: | | | | | | |
| Retail Customer Charge (PhP/Cust./Mo.) | | 18.77 | 18.60 | 26.33 | 17.94 | 18.81 |
| Supply System Charge (PhP/kWh) | 0.3260 | | | | | |
| Metering Charges: | | | | | | |
| Retail Customer Charge (PhP/Meter/Month) | 5.00 | 19.38 | 57.84 | | 92.62 | 33.17 |
| Metering System Charge (PhP/kWh) | 0.1655 | | | | | |
| Inter-Class Cross Subsidy Charge (PhP/kWh) | (0.2870) | 0.3257 | 0.4649 | 0.4130 | 0.4243 | 0.6721 |
| Universal Charges: | | | | | | |
| Missionary Electrification Charge (PhP/kWh) | 0.0373 | 0.0373 | 0.0373 | 0.0373 | 0.0373 | 0.0373 |
| Environmental Charge (PhP/kWh) | 0.0025 | 0.0025 | 0.0025 | 0.0025 | 0.0025 | 0.0025 |
| Lifeline Rate (Discount)/Subsidy (PhP/kWh) | 0.0798 | 0.0798 | 0.0798 | 0.0798 | 0.0798 | 0.0798 |
| Power Act Rate Reduction (PhP/kWh) | (0.3000) | | | | | |
| Loan Condonation (PhP/kWh) | (0.5056) | (0.5056) | (0.5056) | (0.5056) | (0.5056) | (0.5056) |
| Lifeline Rate (Discount)/Subsidy : To be based on Residential rate in a graduated scale as provided in Sec. II. B.4. of this Decision | | | | | | |
| Rate Reduction due to Loan Condonation per ERC Order dated June 9, 2003 in ERC Case No. 2003-116. | | | | | | |

2. To direct NORECO I to comply with the following:
- a. Discontinue charging the PPA upon effectivity of the approved unbundled rates; NORECO I shall automatically bill its end-users the new Generation Rate charged by NPC as approved and authorized by the Commission;

- b. Discontinue the application of the WAC formula and its implementation upon effectivity of this Decision;
- 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 Availments 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 Matter of the Petition for the Availment from the Universal Charge the Environmental Share/Charge for the Rehabilitation and Management of Watershed Areas, NPC, Applicant);
- e. Bill its respective end-users using a billing format which contains at least the rate elements provided in Annex A of this Decision upon the effectivity of the approved unbundled rates. The rate elements provided in Annex A should appear on the end-users bill even if the rate elements currently have a value of zero or have not yet been determined by the Commission;
- f. Inform the end-users within its franchise area of the said approved unbundled rates not later than thirty (30) days after receipt of this Decision;

- g. Submit for verification and confirmation purposes on or before the twentieth (20th) day of the month following the effectivity of the approved unbundled rates and every month thereafter: a) five (5) sample bills for each end-user class; b) copy of the bills from the generation and transmission companies; and c) Monthly Financial 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 and C of this Decision. The report shall include detailed accounting of actual collections and deposits (including interest/dividend income), specific transactions and withdrawals for all disbursements, and actual current system losses;

- k. 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 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, February 4, 2004

MANUEL R. SANCHEZ
Chairman

OLIVER B. BUTALID
Commissioner

CARLOS R. ALINDADA
Commissioner

LETICIA V. IBAY
Commissioner

JESUS N. ALCORDO
Commissioner

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