

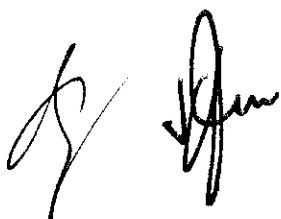
Considering the foregoing, the Commission disallowed the proposed CWC of Twelve Million One Thousand Nine Hundred Thirty-Eight Pesos (PhP12,001,938.00) as part of NORECO I's revenue requirement.

3.1.4 REINVESTMENT FUND

In the application, NORECO I proposed a reinvestment fund of PhP17,995,378.00. It averred that the provision for reinvestment will be used to implement its proposed projects for the years 2007, 2008 and 2009. NORECO I seeks not only the recovery of its estimated project cost but likewise the anticipated imposition of a Permit Fee.

In the unbundling of the rates of the ECs, the Commission allowed a reinvestment fund equivalent to 5% of the Gross Revenue. The reinvestment fund was provided as a component of the revenue requirement to finance the expansion, rehabilitation or upgrading of the existing electric power system of the ECs in accordance with their submitted System Rehabilitation/Upgrading and/or System Loss Reduction Plan.

In the same vein, the Commission shall provide a reinvestment fund equivalent to 5% of NORECO I's gross revenue for 2007 to finance its Commission-approved capital expenditures. While the test year for this application is 2005, the Commission has used 2007 to update the reinvestment fund to reflect the most current power cost.







In view of the foregoing, the Commission grants NORECO I a Reinvestment Fund of Ten Million Nine Hundred Twelve Thousand One Hundred Forty-Four Pesos (PhP10,912,144.00).

The Commission reiterates that the reinvestment fund is intended not to cover 100% of the cost of the capital expenditures. It is envisaged by the Commission that capital expenditures can be prudently financed through long-term debt the amortization of which shall be funded by the reinvestment fund.

The Reinvestment Fund shall be subject to the following conditions:

- a) It shall not be used, even temporarily, for any purpose other than for capital expenditure or any other projects approved by the Commission;
- b) The amounts collected for the reinvestment fund shall be recognized as contribution from member-consumers;
- c) The amounts collected for the reinvestment fund, including interest income, shall be placed in a separate account and shall be disbursed solely for the aforesaid purpose; and
- d) An annual report of the collections and disbursements of the reinvestment fund shall be submitted using the format prescribed by the Commission.



3.1.5 OTHER REVENUE ITEMS (ORI)

The amount of other revenue items that was proposed to be deducted from NORECO I's revenue requirement was PhP5,082,165.00 representing 100% of the revenue earned from the use of asset-related properties of the electric cooperative.

During the unbundling process, the Commission only considered as other revenue income what is known as asset-based items or revenues pertaining to non-electric other revenues and are not regulated by the ERC. The 50% of the income from these asset-based items will still be considered as part of the ORI to be deducted from the total revenue requirement, consistent with the law mandating the 50-50 sharing of other income between the distribution utility (DU) and the consumers.

In addition, there is other revenue income earned by the DU using resources of its regulated business or those known as regulated items. The Commission maintains that this should be 100% deductible from DU's revenue requirement. Regulated items may include revenues arising from regular functions of the DU and performed by the DU's own personnel like reconnection, disconnection, relocation and installation. The cost of said activity, such as salaries, supplies and other miscellaneous expenses, are already considered in the revenue requirements in either the payroll or operation and maintenance expenses or both. Thus, any income derived by the DU from said activities should be deducted from its revenue requirement, otherwise, the DU would be doubly compensated for such activities.



The Commission has verified the total amount of Three Million Four Hundred Thirty-Three Thousand Thirty-Seven Pesos (PhP3,433,037.00) as other revenues to be deducted from NORECO I's revenue requirements, as follows:

TABLE 5. OTHER REVENUE ITEMS

OTHER REVENUE ITEMS	Amount (PhP)	Amount (PhP)
Regulated Items		
Revenue from Merchandising, Jobbing – Net	469,324	
Disconnection/Reconnection Fees	120,425	
Labor Cost (Advance payment from consumers)	170,754	
Account Initiation Charge (Initial payment)	306,000	
Meter Testing Fee	26,821	
Meter Installation Fee	622,752	
Meter accessories	50,365	
Relocation of Service Drop	19,300	
Transformer Testing	13,500	
@ 100%	1,799,241	1,799,241
Asset-based Items		
Penalties/Surcharges	3,262,493	
Chairs/Space Rental	5,100	
@ 50%	3,267,593	1,633,796
TOTAL ORI		3,433,037

3.2 FUNCTIONALIZATION, CLASSIFICATION AND CUSTOMER ALLOCATION

3.2.1 FUNCTIONALIZATION AND ALLOCATION FACTORS

The functionalization and allocation factors used by NORECO I were the default factors provided for in the Uniform Filing Requirements (UFR) issued by the Commission on October 30, 2001 as amended in its unbundling decision.

In this regard, the Commission is amenable to adopt the same. The Commission, at present, sees no cogent reason for it to deviate from the existing functionalization and allocation factors as contained in the UFR.

3.2.2 SUMMARY OF RESULTING REVENUES PER FUNCTION AND PER CLASS

Based on the functionalization, classification and allocation of the approved revenue requirement for NORECO I, Table 6 below provides the allocated revenue by function and customer category:

TABLE 6. REVENUE REQUIREMENT BY FUNCTION AND BY CUSTOMER CLASS

CUSTOMER CLASS	TOTAL REVENUE (PhP)	DISTRIBUTION RELATED REVENUE (PhP)	SUPPLY RELATED REVENUE (PhP)	METERING RELATED REVENUE (PhP)
Residential	38,939,011	24,933,823	6,761,424	7,243,764
Commercial	4,020,822	3,299,842	348,075	372,905
Industrial	3,990,819	3,815,704	84,542	90,573
Public Building	1,334,829	879,854	219,653	235,322
Street Lights	1,893,918	1,767,028	61,260	65,630
Sale for Resale	297,648	296,441	583	624
TOTAL	50,477,047	34,992,692	7,475,537	8,008,818

3.3 RATE DESIGN

The above functionalization, classification and customer allocation resulted to the following rate design:

TABLE 7. COMMISSION DETERMINED RATE SCHEDULE

Customer Type	Unit	Residential	Commercial	Industrial	Public Building	Street Lights	Sale for Resale
Distribution Charges:							
Demand Charge	PhP/KW			19.80			
Distribution System Charge	PhP/kWh	1.3389	0.9125	0.8182	0.2450	1.7350	0.3453
Supply Charges:							
Retail Customer Charge	PhP/cust/mo		25.33	25.33	25.33	25.33	25.33
Supply System Charge	PhP/kWh	0.3631					
Metering Charges:							
Retail Customer Charge	PhP/Meter/mo	5.00	27.14	27.14	27.14	27.14	27.14
Metering System Charge	PhP/kWh	0.3173					

3.3.1 DISTRIBUTION CHARGE

NORECO I proposed to bill its distribution charge on a fixed rate per kiloWatt-hour for Residential, Commercial, Public Building, Street Lights and Sale for Resale. For its Industrial customers, NORECO I proposed to bill its

distribution charge using a combination of fixed rate per kiloWatt (kW) and fixed rate per kiloWatt-hour (kWh).

NORECO I sells power to the end-users in Barangay Quezon and Barangay Codcod, municipalities within the franchise area of V-M-C Rural Electric Service Cooperative, Inc. (VRESCO). VRESCO buys electric power from NORECO I to serve barangays Quezon and Codcod. Thus, VRESCO is a Sale for Resale customer of NORECO I.

The Commission adopted said rate design considering it to be consistent with its approved unbundling of rates for NORECO I.

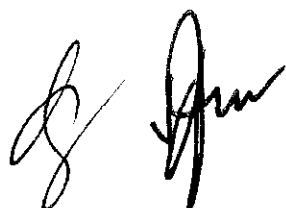
3.3.2 SUPPLY CHARGE

NORECO I proposed to bill its supply charge on a fixed rate per kiloWatt-hour for Residential customers. All other end-users shall be billed a fixed monthly customer charge for the supply function.

The Commission adopted said rate design since it is consistent with its approved unbundling of rates for NORECO I.

3.3.3 METERING CHARGE

NORECO I proposed to bill its metering charge using a combination of a fixed monthly rate of PhP5.00 per customer per month and a per kWh rate for its Residential customers. All other end-users shall be billed a fixed monthly charge for the meter function.



The Commission adopted said rate design since it is consistent with its approved unbundling of rates for NORECO I.

3.4 ESTIMATED IMPACT ON AVERAGE RESIDENTIAL CUSTOMER

Shown below is the estimated impact between NORECO I's actual existing rates as of December 2007 and the rates determined by the Commission on the monthly bill of a residential end-user with an average consumption of 69 kWh:

TABLE 8. ESTIMATED IMPACT ON AVERAGE CONSUMPTION OF RESIDENTIAL CUSTOMER

Basic Charges	Based on Actual Existing Rates		Based on Commission Approved Rates		VARIANCE Increase/ (Decrease) PhP/kWh
	PhP/kWh	Amount (PhP)	PhP/kWh	Amount (PhP)	
Distribution System Charge	1.4459	99.77	1.3389	92.38	(0.1070)
Supply Charge	0.3466	23.92	0.3631	25.05	0.0165
Maintaining Charges:					
Retail Metered Charge		5.00		5.00	
Metering System Charge	0.1726	11.91	0.3173	21.89	0.1447
Universal Charge:					
Missionary Electrification	0.0373	2.57	0.0373	2.57	
Environmental Charge	0.0025	0.17	0.0025	0.17	
Loan Condonation	(0.7204)	(49.71)	0.00	0.00	0.7204
TOTAL		93.63		147.06	53.43
Effective PhP/kWh		1.3570		2.1313	0.7743

Note: Exclusive of VAT

3.5 REMOVAL OF INTER-CLASS CROSS SUBSIDY

The Commission has determined that NORECO I has completely removed its inter-class cross subsidy as of October 2007.

3.6 LIFELINE RATE DISCOUNT AND SUBSIDY

NORECO I proposed to maintain the lifeline rate discount levels in its approved rate unbundling. Thus, it proposed a subsidy from non-lifeline customers in the amount of PhP0.0719 per kWh.

Further, NORECO I claimed that the number of end-users that will benefit from the Lifeline Rate Discount represents thirty four percent (34%) of the total number of residential consumers.

The Commission realized that a one kWh difference in consumption between consumers is not a relevant indication of any difference in their capacity to pay their electric bill and is not compelling justification for the difference in discount level.

Finally, the Commission modified NORECO I's proposal by lowering the discount level of its lifeline customers under 0-19 kWh consumption level in order to be consistent with the Commission's policy that the subsidy charge should be between PhP0.05-PhP0.10 per kWh.

In view of the foregoing, the Commission has revised the Lifeline Rate Discount and Subsidy for NORECO I as shown in the following table:

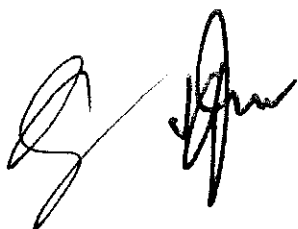


TABLE 9. LIFELINE RATE DISCOUNT AND SUBSIDY

kWh Consumption	Level of Discount		
	Per Approved Unbundled Rates	Proposed in this Rate Application	Commission Approved Lifeline Discount Level
0 -15	50%	50%	30%
16	40%	40%	5%
17	30%	30%	5%
18	20%	20%	5%
19	10%	10%	5%
20	5%	5%	5%
Subsidy charge to Non-lifeline	PhP0.0798/kWh	PhP0.0719/kWh	PhP0.0787/kWh

Said consumption threshold and discounts will benefit 8,683 customers which represent thirty-nine percent (39%) of the total number of residential consumers. The resulting lifeline subsidy charge to be shouldered by the non-lifeline customers shall be PhP0.0787/kWh which is a negligible increase from the current level of PhP0.0798/kWh.

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 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 the lifeline rate discount for the said period.

The lifeline rate subsidy shall be shouldered by all non-lifeline end-users except for VRESCO since it is not an end-use customer but a Sale for Resale customer of NORECO I.


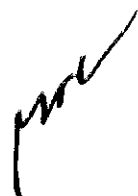
WHEREFORE, the foregoing premises considered, the application for approval of its rate adjustment in accordance with the provisions of Republic Act No. 9136, with prayer for provisional authority filed by NORECO I is hereby approved with modification.

NORECO I is hereby granted a Total Revenue Requirement of Fifty Million Four Hundred Seventy-Seven Thousand Forty-Seven Pesos (PhP50,477,047.00) equivalent to an overall average rate adjustment of PhP0.4862/kWh on its total Distribution, Supply, and Metering Charges. The corresponding Rate Schedule is shown below:

TABLE 10. RATE SCHEDULE

Basic Charges	Unit	Residential	Commercial	Industrial	Public Building	Street Lights	Sale for Resale
Distribution Charges:							
Demand Charge	PhP/KW			19.80			
Distribution System Charge	PhP/kWh	1.3389	0.9125	0.8182	0.2450	1.7350	0.3453
Supply Charges:							
Retail Customer Charge	PhP/cust/mo		25.33	25.33	25.33	25.33	25.33
Supply System Charge	PhP/kWh	0.3631					
Metering Charges:							
Retail Customer Charge	PhP/Meter/mo	5.00	27.14	27.14	27.14	27.14	27.14
Metering System Charge	PhP/kWh	0.3173					

Residential customers with consumption of 15 kWh and below shall be given a Lifeline Rate Discount of 30% while those consuming 16 kWh to 20 kWh shall be extended a Lifeline Rate Discount of 5%. All customers, except VRESCO, that are not eligible for Lifeline Rate Discount shall bear the Lifeline Rate Subsidy of PhP0.0787/kWh.

Finally, the reinvestment fund of PhP0.3419/kWh, for all intents and purposes, shall be part of the contribution from the member-consumers.

SO ORDERED.

Pasig City, April 3, 2008.


RODOLFO B. ALBANO, JR.
Chairman


RAUF A. TAN
Commissioner


ALEJANDRO Z. BARIN
Commissioner


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