

**RULES FOR
SETTING THE
ELECTRIC
COOPERATIVES'
WHEELING RATES
(RSEC-WR)**

**Republic of the Philippines
Energy Regulatory Commission
San Miguel Avenue, Pasig City**

B A C K G R O U N D

At present, Electric Cooperatives (ECs) operate under a cash flow regulatory regime. This allows the ECs to generate revenues sufficient to cover payroll, operations and maintenance outlays, debt service including interest and allowance strictly for reinvestment purposes.

In this regard, the Energy Regulatory Commission (ERC) is authorized under Section 43 (f) of Republic Act No. 9136, otherwise known as the "*Electric Power Industry Reform Act of 2001*" (EPIRA) and Section 5 (a), Rule 15 of its Implementing Rules and Regulations (IRR) to establish a methodology for setting distribution wheeling rates. Further, Section 35 of the EPIRA provides that the Commission shall have sole jurisdiction in fixing the retail rates.

On the other hand, under Section 4 (o), Rule 3 of the EPIRA IRR, the Commission may issue such rules that are essential in the discharge of its functions as an independent quasi-judicial body. Under Section 1, Rule 21 (Rule-Making) of the Commission's *Rules of Practice and Procedure*, the process of adopting a new rule may be initiated by the Commission or interested persons.

By virtue of the above stated authorities, as early as 2006 the Commission embarked on a process to establish a new rate setting methodology for determining electric cooperatives' rates. From year 2006 to 2009, the Commission conducted several public consultations (expository and discussion of comments) with industry stakeholders on the details thereof.

The regulatory framework as embodied in these Rules seeks to develop a regulatory regime that encourages efficiency in the operations of the ECs and provides incentives for their good performance. From a regulatory perspective, the framework seeks to develop a regulatory regime that eases regulatory burden and can easily be implemented and monitored.

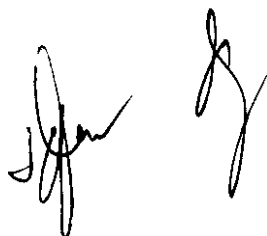
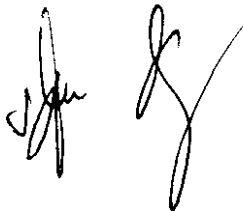


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ARTICLE 1

GENERAL PROVISIONS

1.1 Purpose

These Rules for Setting the Electric Cooperatives' Wheeling Rates (RSEC-WR) embody the new regulatory framework for the on-grid ECs. Said regulatory framework is designed to achieve the following:

- a. Develop a tariff setting methodology that would be more responsive to the needs of the ECs given the objectives of the EPIRA;
- b. Encourage reforms in the structure and operations of the ECs for greater efficiency and lower costs;
- c. Introduce incentives in the framework that will allow efficiency gains to be shared between the EC and the end-users; and
- d. Develop a regulatory framework that will ease regulatory burden and cut down regulatory lag for implementation.

1.2 Scope

These Rules shall apply to all on-grid ECs.

1.3 Construction of the Rules

These Rules shall be construed to promote the objective of securing a just, speedy and inexpensive disposition of the proceedings for setting the ECs' distribution wheeling rates.

1.4 Provision of Information

The results herein presented utilized information that was provided by the ECs. Additional information, calculations, and other data may be required by the Commission for purposes of these Rules.

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1.5 Regulatory Framework

The new regulatory framework for the on-grid ECs is envisioned as follows:

- a. The ECs shall be classified into groups;
- b. An Initial Tariff and a Tariff Glide Path shall be developed for each EC group for a Regulatory Period;
- c. The Initial Tariff and the Tariff Glide Path shall be the rate caps;
- d. The basic structure of Tariff Glide Path shall consist of an index, minus an efficiency factor, X, plus performance incentives;
- e. There shall be a transition from the current tariff to a rate up to the Initial Tariff which shall be proposed by each EC;
- f. Before the end of the Regulatory Period, the EC groupings and the Initial Tariff shall be reset for the next Regulatory Period; and
- g. All of the above shall be accomplished through public consultation and compliance with due process.

ARTICLE 2

CLASSIFICATION OF ELECTRIC COOPERATIVES

2.1 Guiding Principles

For purposes of these Rules, the classification of electric cooperatives is guided by the following principles:

- a. Rationality – as the classification will be used in setting the rates for ECs, it must be based on criteria that have demonstrable consequences on the costs (and consequently, the revenue requirements) of the ECs;
- b. Regulatory efficiency – the classification of the ECs is intended to reduce the time and effort required in regulating the sector. Thus, the classification is aimed at setting an “optimal” number of EC grouping from a regulatory perspective; and
- c. Simplicity – the classification scheme must be simple to understand and implement.

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2.2 Steps in Classifying the ECs

Three (3) main activities are undertaken to classify the ECs, to wit:

- a. Identification of the characteristics that impact on the operating distribution costs of an EC (as shown in Table 1 and 2 below);
- b. Classification of the ECs based on the significant characteristics using one-way and two-way tabulations; and
- c. Refinement of EC classifications to ensure independence of the groups formed, including combining sub-groupings if five (5) or less ECs comprise the sub-group.

TABLE 1. Significant Determinants of EC's Total Operating Distribution Cost

Variable	Definition	Direction of Relationship
Size	Sales volume in MWH	+
	Line length in circuit kilometer	+
	Number of customers	+
Customer density	Sales in MWH per circuit km of line	+
Customer consumption	MWH sales per customer	-
Customer structure	Percentage of Residential and BAPA sales in MWH to total sales in MWH	-

TABLE 2. Significant Determinants of EC's Operating Distribution Cost per kWh

Variable	Definition	Direction of Relationship
Size	Sales volume in MWH	-
	Line length in circuit kilometer	-
	Number of customers	-
Customer consumption	MWH sales per customer	-
Customer structure	Percentage of Residential and BAPA sales in MWH to total sales in MWH	-



2.3 Variables Used in Classifying the ECs

Among the determinants considered by the Commission, the variables with the most impact on the EC's total operating distribution cost and operating distribution cost per kWh, as shown in Table 3 and 4 below, are a) **SIZE** (defined as number of customers); b) **CONSUMPTION** (defined as MWH sales per customer).

TABLE 3. Comparison of cost drivers on EC's Operating Distribution Cost

	Cost per kWh	Total Cost
number of customers	0.29	0.89
sales volume in MWH	0.62	0.85
distribution line length in ckm	0.09	0.48
structure density	0.32	0.14
consumption	0.54	0.37
	0.77	0.40

TABLE 4. Summary of Characteristics of Groupings

GROUP	No of ECs	Group Characteristics		mean kWh consumption per customers	mean number of customers
		Customer consumption (MWH per year)	No of customers		
A	11	<1	10 to 25 k	0.90	28,973.00
B	16	<1	25 to 50 k	0.63	61,025.67
C	5	<1	50 to 100 k	1.56	32,063.67
D	17	1 to 2	10 to 50 k	1.43	37,506.50
E	28	1 to 2	50 to 100 k	1.37	68,218.63
F	15	1 to 3	20 to 150 k	1.88	88,981.75
G	6	3 to 5	30 to 150 k	3.58	81,909.02

2.4 Data Set Used in the Classification of ECs

For classification purposes, the Commission considered the operating distribution costs (operations & maintenance expenses, customer expenses and general & administrative expenses) for the period covering the years 2001 to 2006. The average adjusted (for reinvestment fund and debt service) unbundled rates of the ECs were also utilized in the analysis.

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2.5 Final Electric Cooperatives' (EC) Classification

Using the above set variables, the ECs are classified into seven (7) groups as follows:

UTILITY
GROUP A
AURORA (AURELCO)
BILIRAN (BILECO)
CAMIGUIN (CAMELCO)
GUIMARAS (GUIMELCO)
IFUGAO (IFELCO)
KALINGA-APAYAO (KAELCO)
LEYTE III (LEYECO III)
MT. PROVINCE (MOPRECO)
QUEZON II (QUEZELCO II)
QUIRINO (QUIRELCO)
SIARGAO (SIARELCO)
GROUP B
ABRA (ABRECO)
ANTIQUE (ANTECO)
CAMARINES SUR I (CASURECO I)
CAMARINES SUR IV (CASURECO IV)
LANAO DEL NORTE (LANECO)
LEYTE I (LEYECO I/DORELCO)
LEYTE IV (LEYECO IV)
MISAMIS OCCIDENTAL I (MOELCI I)
EASTERN SAMAR (ESAMELCO)
NORTHERN SAMAR (NORSAMELCO)
SAMAR I (SAMELCO I)
SAMAR II (SAMELCO II)
SORSOGON I (SORECO I)
SOUTHERN LEYTE (SOLECO)
SURIGAO DEL SUR I (SURSECO I)
SURIGAO DEL SUR II (SURSECO II)





UTILITY
GROUP C
BOHOL II (BOHECO II)
CAGAYAN II (CAGELCO II)
CAMARINES SUR III (CASURECO III)
ISABELA II (ISELCO II)
SORSOGON II (SORECO II)
GROUP D
AGUSAN DEL SUR (ASELCO)
BUKIDNON II (BUSECO)
CEBU III (CEBECO III)
DAVAO ORIENTAL (DORECO)
FIRST LAGUNA (FLECO)
ILOILO III (ILECO III)
MAGUINDANAO (MAGELCO)
MISAMIS OCCIDENTAL II (MOELCI II)
MISAMIS ORIENTAL II (MORESCO II)
NEGROS ORIENTAL I (NORECO I)
NUEVA VIZCAYA (NUVELCO)
PAMPANGA RURAL (PRESCO)
PANGASINAN I (PANELCO I)
SULTAN KUDARAT (SUKELCO)
SURIGAO DEL NORTE (SURNECO)
ZAMBALES I (ZAMECO I)
ZAMBALES II (ZAMECO II)

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UTILITY
GROUP I
AKLAN (AKELCO)
BOHOL I (BOHECO I)
BUKIDNON I (FIBECO)
CAGAYAN I (CAGELCO I)
CAMARINES NORTE (CANORECO)
CAPIZ (CAPELCO)
CEBU I (CEBECO I)
CEBU II (CEBECO II)
DAVAO DEL SUR (DASURECO)
ILOILO I (ILECO I)
ILOILO II (ILECO II)
LA UNION (LUELCO)
LEYTE V (LEYECO V)
NEGROS OCCIDENTAL (NOCECO)
NEGROS ORIENTAL II (NORECO II)
NORTH COTABATO (COTELCO)
NUEVA ECIJA I (NEECO I)
NUEVA ECIJA II (NEECO II) Area I
NUEVA ECIJA II (NEECO II) Area II
PAMPANGA I (PELCO I)
PANGASINAN III (PANELCO III)
QUEZON I (QUEZELCO I)
TARLAC I (TARELCO I)
TARLAC II (TARELCO II)
V-M-C RURAL ELECTRIC SERVICE (VRESCO)
ZAMBOANGA DEL NORTE (ZANECO)
ZAMBOANGA DEL SUR I (ZAMSURECO I)
ZAMBOANGA DEL SUR II (ZAMSURECO II)

UTILITY
GROUP II
AGUSAN DEL NORTE (ANEKO)
ALBAY (ALECO)
BATANGAS I (BATELEC I)
BENGUET (BENECO)
CAMARINES SUR II (CASURECO II)
CENTRAL PANGASINAN (CENPELCO)
DAVAO DEL NORTE (DANEKO)
ILOCOS NORTE (INEC)
ILOCOS SUR (ISECO)
ISABELA I (ISELCO I)
MISAMIS ORIENTAL I (MORESCO I)
PAMPANGA II (PELCO II)
PENINSULA (PENELCO)
SAN JOSE CITY (SAJELCO)
SO. COTABATO I (SOCOTECO I)
GROUP III
BATANGAS II (BATELEC II)
CENTRAL NEGROS (CENECO)
LEYTE II (LEYECO II)
PAMPANGA III (PELCO III)
SO. COTABATO II (SOCOTECO II)
ZAMBOANGA CITY (ZAMCELCO)



ARTICLE 3

DEVELOPMENT OF THE INITIAL TARIFF CAP

3.1 Structure

The ECs' current tariff structure is composed of Distribution, Supply, and Metering Charges, which were determined by using its operation and maintenance expenses, capital expenditures and debt service. In the development of the Initial Tariff, the operating and the capital costs shall be unbundled. Thus, the Distribution, Supply and Metering Charges shall represent only operating costs. A separate charge, Members' Contribution for Capital Expenditures shall represent the EC's debt service as well as the capital expenditure requirements.

Current Tariff Structure	Revenue Requirements	Proposed Tariff Structure
Distribution Charge Supply Charge Metering Charge	Operations & Maintenance Expenses	Distribution Charge
		Supply Charge
	Capital Expenditures	Metering Charge
	Debt Service	Members' Contribution for Capital Expenditures

The Initial Tariff shall be the rate caps for all ECs in a group.

The Initial Tariff determined under Articles 4, 5 and 6 is summarized below:

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Table 5. Summary of Initial Tariff per EC Group

GROUP A

PARTICULARS	Units	DISTRIBUTION	SUPPLY	METERING	CONTRIBUTION	TOTAL	
Residential	PhP/kWh	1.0557	1.0282	0.5792	0.5324	3.1955	
	PhP/cust/mo			5.00		5.0000	
Low Voltage	PhP/kWh	1.1577	42.82	29.12	0.5324	1.6901	
	PhP/cust/mo						71.9436
Higher Voltage	PhP/kW	302.51	42.82	29.12	0.5324	302.5110	
	PhP/kWh						0.5324
	PhP/cust/mo						71.9436

GROUP B

PARTICULARS	Units	DISTRIBUTION	SUPPLY	METERING	CONTRIBUTION	TOTAL	
Residential	PhP/kWh	0.8449	0.7732	0.4569	0.4004	2.4755	
	PhP/cust/mo			5.00		5.0000	
Low Voltage	PhP/kWh	0.9259	40.15	28.72	0.4004	1.3263	
	PhP/cust/mo						68.8723
Higher Voltage	PhP/kW	267.90	40.15	28.72	0.4004	267.9036	
	PhP/kWh						0.4004
	PhP/cust/mo						68.8723

GROUP C

PARTICULARS	Units	DISTRIBUTION	SUPPLY	METERING	CONTRIBUTION	TOTAL	
Residential	PhP/kWh	0.7004	0.7156	0.5236	0.3696	2.3091	
	PhP/cust/mo			5.00		5.0000	
Low Voltage	PhP/kWh	0.7493	34.05	29.91	0.3696	1.1189	
	PhP/cust/mo						63.9570
Higher Voltage	PhP/kW	213.96	34.05	29.91	0.3696	213.9604	
	PhP/kWh						0.3696
	PhP/cust/mo						63.9570

GROUP D

PARTICULARS	Units	DISTRIBUTION	SUPPLY	METERING	CONTRIBUTION	TOTAL	
Residential	PhP/kWh	0.5143	0.5828	0.3669	0.2508	1.7149	
	PhP/cust/mo			5.00		5.0000	
Low Voltage	PhP/kWh	0.5134	41.61	31.19	0.2508	0.7642	
	PhP/cust/mo						72.8030
Higher Voltage	PhP/kW	190.03	41.61	31.19	0.2508	190.0268	
	PhP/kWh						0.2508
	PhP/cust/mo						72.8030

GROUP E

PARTICULARS	Units	DISTRIBUTION	SUPPLY	METERING	CONTRIBUTION	TOTAL	
Residential	PhP/kWh	0.5782	0.6001	0.4326	0.2904	1.9013	
	PhP/cust/mo			5.00		5.0000	
Low Voltage	PhP/kWh	0.7595	42.92	35.94	0.2904	1.0499	
	PhP/cust/mo						78.8634
Higher Voltage	PhP/kW	219.68	42.92	35.94	0.2904	219.6807	
	PhP/kWh						0.2904
	PhP/cust/mo						78.8634

GROUP F

PARTICULARS	Units	DISTRIBUTION	SUPPLY	METERING	CONTRIBUTION	TOTAL	
Residential	PhP/kWh	0.4613	0.5376	0.3205	0.2178	1.5371	
	PhP/cust/mo			5.00		5.0000	
Low Voltage	PhP/kWh	0.4441	46.60	32.78	0.2178	0.6619	
	PhP/cust/mo						79.3865
Higher Voltage	PhP/kW	167.56	46.60	32.78	0.2178	167.5632	
	PhP/kWh						0.2178
	PhP/cust/mo						79.3865

GROUP G

PARTICULARS	Units	DISTRIBUTION	SUPPLY	METERING	CONTRIBUTION	TOTAL	
Residential	PhP/kWh	0.2748	0.4140	0.3460	0.1518	1.1865	
	PhP/cust/mo			5.00		5.0000	
Low Voltage	PhP/kWh	0.3748	59.73	54.92	0.1518	0.5266	
	PhP/cust/mo						114.6571
Higher Voltage	PhP/kW	118.55	59.73	54.92	0.1518	118.5538	
	PhP/kWh						0.1518
	PhP/cust/mo						114.6571

3.2 Lifeline Level and Discount

Pursuant to Section 73 of the EPIRA and Rule 20 of its IRR, the Commission shall set a socialized pricing mechanism called a Lifeline Rate for the Marginalized End-Users. For purposes of these Rules, the Commission hereby authorizes the continuous implementation of the previously determined lifeline structure of each electric cooperative per its last approved rate adjustment application.

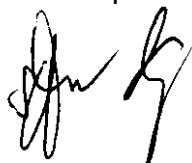
ARTICLE 4

DEVELOPMENT OF THE INITIAL DISTRIBUTION, SUPPLY AND METERING RATE CAPS

4.1 Determine the Operating Revenue Requirement for the EC Groups

To determine the appropriate level of operating revenue requirement for the EC Groups, the following steps were undertaken:

- a) The operating costs per kWh for distribution, supply and metering of each of the ECs in 2000 as determined in their ERC unbundling decision were adjusted using an appropriate index to account for the passage of time.
- b) The indices considered were the consumer price index (CPI), the wholesale price index (WPI) and the producers' price index (PPI). A wage index was also calculated based on data on movements in minimum daily wages in the regions other than the National Capital Region. The latter was eventually used since distribution supply and metering (DSM) cost is 70% labor. The calculated wage index is 5.12% per annum.
- c) The EC's operating costs per kWh as of 2000 were price adjusted to 2008 using the average rate of increase in minimum wages during the period 2001 to 2008 of 5.12%.
- d) The calculated per kWh operating costs were then reduced by 5% to account for Other Revenue Income (ORI) and thereafter simulated at 2006 Median, 2006 70th percentile and 2008 median.
- e) The 2008 Median for the EC's operating costs was determined.
- f) The Operating Revenue Requirement per kWh was set at the 2008 Median of the EC's operating costs as follows:



GROUP	2008 MEDIAN
A	2.420000
B	1.820000
C	1.680000
D	1.140000
E	1.320000
F	0.990000
G	0.690000

- g) To calculate the required Average Revenue Requirement of each group, the results of f) above were multiplied by the average kWh sales of each group for the year 2007. The said revenue requirement was the basis for the calculation of the rate caps per customer class.

4.2 Functionalize the Operating Revenue Requirement into Distribution, Supply and Metering functions

Functionalization is the process of assigning the revenue requirements to the distribution, supply and metering functions of the electric cooperative using a factor.

The EC Groups Revenue Requirement was functionalized using the ratio of each group's distribution, supply and metering costs to the total costs as determined in their ERC unbundling decision as these represent the most recently verified figures by the Commission.

4.3 Allocate the Functionalized Operating Revenue Requirements into Customer Classes

Allocation is the distribution of the functionalized Revenue Requirement into Customer Classes using a factor based on the causation principle.

The allocation factors utilized were the EC Groups' Non-Coincident Peak (NCP) Demand Ratio for Distribution and average number of customers ratio for Supply and Metering.

The Customer Classes were standardized, as explained in Article 6, into: Residential Customers; Low Voltage Customers; and Higher Voltage Customers.

4.4 Determine the EC Groups' DSM Rate Caps

The allocated functionalized revenue requirements of each customer class were translated into rate caps as follows:

a. Distribution Rate Cap

The Rate Design for distribution rate cap shall be PhP/kWh for Residential and Low Voltage customer classes and PhP/kW for Higher Voltage customer class.

Distribution revenues for Residential and Low Voltage customer classes were converted into rate caps by dividing them by the average kWh sales to obtain the corresponding PhP/kWh distribution rate cap. Distribution revenues for Higher Voltage consumers were converted into rates by dividing them by the average kW sales to obtain the equivalent PhP/kW distribution rate cap.

b. Supply Rate cap

The Rate Design for supply rate cap shall be PhP/kWh for Residential customers and Per Customer/Per Month for the Low Voltage and Higher Voltage customer classes.

Supply revenues for Residential customers were converted into rates by dividing them by the average kWh sales to obtain the PhP/kWh supply rate cap. Supply revenues for Low Voltage and Higher Voltage customer classes were converted into rates by dividing them by the average number of customers of the group to determine the corresponding fixed PhP/customer/month supply rate cap.

c. Metering Rate cap

The Rate Design for metering rate cap shall be: two-tiered for Residential Customers composed of a combination of PhP/kWh and a fixed PhP5.00 per meter per month; and a fixed PhP/meter/month for the Low Voltage and Higher Voltage customer classes.

In determining the metering rate caps for Residential customers, revenues from the fixed PhP5.00/meter/month is calculated first, and the remainder is then converted into PhP/kWh metering rate cap by dividing it by the average kWh sales. On the other hand, metering revenues for Low Voltage and Higher Voltage customer classes were converted into rates by dividing them by the average number of customers of the group to determine the corresponding fixed PhP/meter/month metering rate cap.



4.5 Initial DSM Rate Caps

Using the foregoing methodology, the initial DSM rate caps calculated per group are as follows:

Table 6. Initial DSM Rate Caps Per EC Group

GROUP		Residential		Non-Residential		Total	
		PHP/kWh	PHP/meter/mo	PHP/kWh	PHP/Gas/Mo		
A	Distribution	1.0557		1.1577		302.51	
	Supply	1.0282			42.82		42.82
	Metering	0.5792	5.0000		29.12		29.12
B	Distribution	0.8449		0.9259		267.90	
	Supply	0.7732			40.15		40.15
	Metering	0.4569	5.0000		28.72		28.72
C	Distribution	0.7004		0.7493		213.96	
	Supply	0.7156			34.05		34.05
	Metering	0.5236	5.0000		29.91		29.91
D	Distribution	0.5143		0.5134		190.03	
	Supply	0.5828			41.61		41.61
	Metering	0.3669	5.0000		31.19		31.19
E	Distribution	0.5782		0.7595		219.68	
	Supply	0.6001			42.92		42.92
	Metering	0.4326	5.0000		35.94		35.94
F	Distribution	0.4613		0.4441		167.56	
	Supply	0.5376			46.60		46.60
	Metering	0.3205	5.0000		32.78		32.78
G	Distribution	0.2748		0.3748		118.55	
	Supply	0.4140			59.73		59.73
	Metering	0.3460	5.0000		54.92		54.92

4.6 Provision for Real Property Tax

4.6.1 Current Real Property Tax

Current Real Property Taxes that are paid by the ECs are deemed part of their operating costs and allowed by ERC for recovery from all member-consumers. However, while real property tax is a common expenditure for ECs, they vary in amount depending on the Local Government Unit. As such, the same was not considered in the initial DSM rate caps and provisions for its payment may be sourced from additional contribution from member-consumers. Said additional contribution shall be reflected as a separate line item in the bill.

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Real Property Taxes (RPT) to be recovered from all member-consumers of the EC shall be limited to the immediately prior year tax in accordance with:

1. the local tax ordinance;
2. the tax assessment;
3. the official receipt of payment; and
4. Projected kilowatt-hours sales for the particular proposed recovery period.

RPT shall be calculated using the following formula:

$$\text{RPT} = \frac{\text{Pt}}{\text{S}}$$

Where:

RPT = Property Tax Charge in PhP/kWh representing real property taxes that ECs have paid to the LGUs.

Pt = Total Real Property Taxes paid (excluding penalties and surcharges) to all LGUs imposing the tax within the franchise area.

S = Projected kWh Sales of the EC for the proposed recovery period.

The EC shall be authorized to collect the determined RPT from its member-consumers, as a separate line item in its bill, only until the tax payments shall have been fully recovered. A report on the said recovery shall be made to the Commission, complete with supporting documents regarding its implementation, within fifteen (15) days from the last billing cycle in which the RPT was collected and may be subject to audit upon the discretion of the Commission.



- d. If the member-consumer terminates its contract with the EC, the said contribution shall not be withdrawn, instead the same shall be treated as Contribution in Aid of Construction (CIAC).

In the case of ECs registered under the CDA, the said member-contribution shall be converted into member's share capital.

5.3 Members' Contribution for Capital Expenditure Rate Cap Per Group

The EC's current tariff includes a reinvestment fund provision calculated at five percent (5%) of its unbundled retail rate (inclusive of generation, transmission, and distribution charges) as part of its Rate Unbundling Decision. This translates to an average of 22% of the 98 ECs' distribution charges (inclusive of distribution, supply and metering charges). The Members' Contribution for Capital Expenditure Rate Cap was determined by applying the 22% to the respective group's 2008 median operating costs per kWh which was the basis for the ECs' operating revenue requirements.

The result of the afore-mentioned calculation is presented in Table 7 hereunder:

TABLE 7. Members' Contribution for Capital Expenditure Rate Cap per Group

Group	2008 level (median)	Members' contribution to CAPEX @ 22%
A	2.420000	0.5324
B	1.820000	0.4004
C	1.680000	0.3696
D	1.140000	0.2508
E	1.320000	0.2904
F	0.990000	0.2178
G	0.690000	0.1518

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4.6.2 Real Property Tax Arrears

Real Property Taxes, corresponding to previous years' arrearages, that are paid by the ECs shall be allowed by Commission for recovery only after securing the consent of the concerned EC's member-consumers through existing legal procedures.

The EC shall be authorized to collect the determined RPT from its member-consumers, as another separate line item in its bill, only until the tax payments shall have been fully recovered. A report on the said recovery shall be made to the Commission, complete with supporting documents regarding its implementation, within fifteen (15) days from the last billing cycle in which the RPT was collected and may be subject to audit upon the discretion of the Commission.

ARTICLE 5

MEMBERS' CONTRIBUTION FOR CAPITAL EXPENDITURES

5.1 Function of Members' Contribution for Capital Expenditures

The Members' Contribution for Capital Expenditures is envisioned to fund the amortization or debt service of its indebtedness associated with the expansion, rehabilitation or upgrading of the existing electric power system of the ECs in accordance with their ERC-approved Capital Expenditure Plan.

5.2. Utilization of Members' Contribution for Capital Expenditures

Utilization of the Members' Contribution fund shall be subject to the following conditions:

- a. It shall be used solely for capital expenditure or any other projects approved by the Commission and not for any other purpose, even on a temporary basis;
- b. The amounts collected for Members' Contribution fund shall be recognized as contribution from member-consumers;
- c. The amounts collected for Members' Contribution, including interest income, shall be placed in a separate account; and



5.4 Additional Members' Contribution For Capital Expenditure

The actual capital expenditures may vary among ECs. In the event that the members' contribution for capital expenditures rate caps herein authorized are insufficient for its purpose, the EC may collect such additional Members' Contribution for Capital Expenditures by securing the consent of its member-consumers for such collection through existing legal procedures, provided the expenditure was approved by the Commission as part of such EC's Capital Expenditure Plan. Provided further that the additional member contribution is obtained prior to the incurrence of the indebtedness provided finally that the collection of said additional contribution shall be subject to the principles of fairness and equity, in accordance with the objective of the EPIRA for the elimination of cross-subsidy.

Collections made pursuant to this provisions may be subject to the audit of the Commission at its discretion.

ARTICLE 6

DEVELOPMENT OF NEW CUSTOMER CLASSES

6.1 Current Customer Classes

The existing customer classes of the ECs are varied and include the following: Residential, Commercial, Industrial, Street Lights and Public Buildings.

6.2 Basis of the New Customer Classes

The new customer classes are based on the power service delivery voltage used in serving the EC's customers. This approach is deemed by the Commission as fair and reasonable as it allows a justifiable allocation of costs and is consistent with cost of service principle.

6.3 Other Considerations in Determining Customer Classes

The determination of the customer classes poses certain issues, such as treatment of special customer classes and/or large loads, among others. Hence, in the process of determining how the EC customers would be classified, the following were considered:

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**Rules for Setting the
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- a) Residential customers are treated differently from the other customers because of certain statutory benefits only they are entitled;
- b) most of the Commercial, Irrigation/Communal Water System, Public Buildings & Streetlight Customers are connected to Low Voltage customer segments;
- c) the Low Voltage customer segments were initially merged in the absence of pertinent data to further classify them;
- d) some industrial customers are connected to low voltage; and
- e) all customers connected to Higher voltage should have demand meters.

6.4 New Customer Classes

For purposes of these Rules, the new customer classes for EC shall be as follows:

- a. Residential customers;
- b. Low Voltage customers – those end-users that are non-residential and connected to Low Voltage or LV (not exceeding 1 kV); and
- c. Higher Voltage customers – those end-users that are non-residential and connected to Medium Voltage or MV (a voltage level exceeding 1 kV up to 34.5 kV) or High Voltage of HV (a voltage level exceeding 34.5 kV).

TABLE 8. New customer segmentation as compared to the Existing customer segments

EXISTING CUSTOMERS	NEW CUSTOMER SEGMENTATION
Residential	Residential Customers
BAPA	
Sale for Resale	
Small Commercial	Low Voltage Customers
Industrial	
Public Building	
Street Lights	
Irrigation/CWS	
Large Commercial	Higher Voltage Customers
Industrial	

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6.5 Policies on the Sale for Resale Customers

In consonance with the provisions of the "Rules for the Recovery of Costs Associated with the 'Sale for Resale Agreements' by, between or among Distribution Utilities", the following policies shall be observed in the implementation of these Rules:

- a) The rates applicable for the Sale for Resale customers shall be equivalent to the rates for the Residential Customers, unless the selling EC and the buying EC propose otherwise. In such as a case, both parties must be able to identify the assets and costs exclusively dedicated for the operation of the specific sale for resale customer(s), as well as the end-user customers;
- b) The rate applicable for the end-users in the area(s) served under the "sale for resale agreement" shall be the "purchased power cost" of buying EC including its corresponding retail rates;
- c) Universal Charges and Lifeline Rates shall not be included in the selling rates to be imposed by the selling EC, as the same shall be chargeable to the end-customers of the buying EC, as applicable; and
- d) For purposes of complying with the Commission's reportorial requirements, data/information pertaining to the Sale for Resale customers shall be separately presented to properly monitor transactions relative thereto.

ARTICLE 7

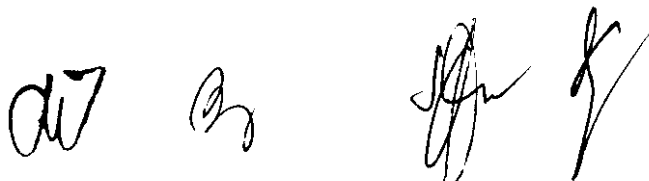
TARIFF GLIDE PATH

During the Regulatory Period, the rate of the EC per group shall be adjusted using the following formula:

$$\text{Tariff} \times (1 + \text{Index "I"} - \text{Efficiency Factor "X"}) + \text{Performance Incentive "S"}$$

The Index, "I", shall be an escalation factor to be used in adjusting the rates to reflect current costs. There shall be an efficiency factor, "X", to provide for the sharing of the EC's efficiency with the member-consumers. There shall be a performance incentive, "S", which shall reward or punish the EC for above and below average performance, respectively.

It is intended that the Tariff Glide Path is a cap and the EC may move up to the cap, if it is a positive adjustment. If the cap is lower than the current average tariff, a reduction must be implemented.



The Tariff Glide Path shall be covered by separate rules to be promulgated by the Commission prior to the start of the Regulatory Period.

ARTICLE 8

TRANSITION AND REGULATORY PERIOD

8.1 Commencement and Duration

For purposes of these Rules, the transition period shall commence at the effectivity thereof and shall end two (2) years thereafter, which shall, in turn, be the start of the Regulatory Period. The Regulatory Period shall be four (4) years.

8.2 Movement from Current Rates to Initial Tariff

During the Transition Period, each EC shall be allowed to move up to the Initial Tariff. The rate adjustment shall be implemented in accordance with the Order to be issued by the Commission.

8.3 ECs with Initial Tariffs lower than their Current Rates

An EC whose Initial Tariff Cap as determined under these Rules is lower than its existing rate shall implement the Initial Tariff cap by proposing an amount that shall be added to its Members' Contribution to offset the difference to be calculated by comparing its existing revenue with its revenue requirement using the applicable initial tariff cap; then compute for its rate during the Transition Period.

8.4 Realignment of Customer Classes

Regardless of whether or not ECs will move up to the Initial Tariff, they are required to align their customer classes with the new customer classification. The EC will calculate a revenue neutral scenario; then compute for its rate during the Transition Period.

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ARTICLE 9

REPORTORIAL REQUIREMENTS

The EC shall commence to develop a comprehensive database that will allow for a meaningful analysis of its performance under the new regulatory framework.

Annex B of these Rules is an excel-based template that provides in detail the following reportorial requirements:

A. Operational and Financial Information

1. kWh/kW data for each function for each customer class
2. Revenue generated for each function for each customer class
3. Number of customers for each customer class
4. Members' contribution
 - a. Capital Expenditures
 - b. Real Property Taxes
 - c. Others
5. System loss per customer class

B. Mandatory Reports

1. The EC should file a report on each increase in members' contribution to capital expenditures supported by the minutes of the relevant general assembly. The report should describe in detail the total amount raised, the resulting increases in rates, and the reason for the increased members' contribution (real property tax/capital expenditures) and how the funds were utilized.
2. The EC should file quarterly and annual report on the collections and disbursements in members' contribution to capital expenditures using the format prescribed by the Commission (Annex C).

ARTICLE 10

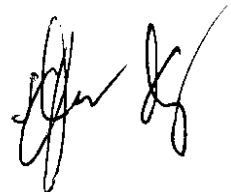
FILING REQUIREMENTS

All the on-grid Electric Cooperatives shall file their respective or individual rate applications under these Rules (RSEC-WR) which will be governed by Rule 3, Section 4 (e) of the Implementing Rules and Regulations (IRR) of Republic Act No. 9136, as amended, and the Commission's Rules of Practice and Procedure. In the

Rules for Setting the Electric Cooperatives' Wheeling Rates

absence of any applicable provision in the Commission's Rules of Practice and Procedure, the pertinent provisions of the Supreme Court of the Philippines' Rules of Court may, in the interest of expeditious disposition of the cases pending before the Commission and whenever practicable and convenient, be applied suppletorily or by analogy. All the applications must comply with the following requirements:

1. The applicant must cause the publication of the entire application, excluding its annexes, and not a mere notice of filing or notice of application, in a newspaper of general circulation within its franchise area or area where it principally operates.
2. The applicant must furnish the Local Government Unit (LGU) Legislative Body (and not the Office of the Mayor) of the city or municipality where it principally operates, a copy of the application, and not a mere notice of application, with all its annexes and accompanying documents. If such principal place of operation is a component city or municipality, the applicant shall likewise furnish the LGU Legislative Body of the province of which such component city or municipality is part.
3. The applicant shall attach to its application a certification issued by the Presiding Officer, Secretary of the LGU Legislative Body concerned, or their duly authorized representatives, attesting to the fact that such LGU Legislative Body was served a copy of the application, with all its annexes and accompanying documents, and the date of such service. In the absence of such certification, the applicant shall prove compliance by attaching the affidavit of the person that served the application on the LGU Legislative Body, attesting to such fact and the date of such service. The affiant shall also attach to the affidavit a copy of the page of the application bearing the stamp "received" or acknowledgment of receipt by the LGU Legislative Body.
4. The applicant shall also attach to the application an affidavit of publication executed by the editor-in-chief or other responsible officer of the newspaper of general circulation wherein the application was published, together with a copy of the newspaper issue containing the published application. The affidavit of publication shall also contain information on the area or areas where the newspaper is being circulated.
5. The application must be verified and accompanied with the proofs of compliance with the pre-filing requirements prescribed by the Commission prior to its filing with the Commission's Docket Section.
6. From receipt of the application, the Commission shall, within a reasonable time, issue an Order and a Notice of Public Hearing setting the application for hearing. In the said Order, the applicant shall be directed to cause the



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publication of the attached Notice of Public Hearing, at its own expense, twice (2x) for two (2) successive weeks in two (2) newspapers of general circulation in the Philippines, with the date of the last publication to be made not later than ten (10) days from the date of the scheduled hearing. It shall also be directed to inform the consumers within its franchise area, by any other means available and appropriate, of the filing of the application, its reasons therefor, and of the scheduled hearing thereon.

7. In the said Order, the applicant shall also be directed to furnish copies of the application, the Order and the Notice of Public Hearing to the Office of the Solicitor General (OSG), the Commission on Audit (COA) and the Committees on Energy of both Houses of Congress.
8. The applicant shall likewise furnish the Offices of the City and Municipal Mayors within its franchise areas with copies of the RSEC-WR, Order and Notice of Public Hearing, for appropriate posting thereof on their respective bulletin boards.
9. All interested persons making requests for copies of the Rules, application and its attachments, Order and Notice of Public Hearing shall be furnished with the same by the applicant, subject to reimbursement of reasonable photocopying costs.
10. The applicant and all other interested parties shall be directed to submit, at least five (5) days before the date of the initial hearing and pre-trial conference, their respective Pre-trial Briefs containing, among others:
 - (a) a summary of admitted facts and proposed stipulations of facts;
 - (b) the issues to be tried or resolved;
 - (c) the documents or exhibits to be presented, stating the purposes thereof and the proposed markings therefor; and
 - (d) the number and names of the witnesses, with their written testimonies in an individual affidavit form, to be attached to the Pre-trial Brief.
11. Failure to file the pre-trial brief shall have the same effect as failure to appear at the pre-trial conference. Likewise, failure of the applicant to submit the required pre-trial brief and judicial affidavits of its witnesses within the prescribed period shall be a ground for cancellation of the scheduled hearing and the resetting of which shall be not earlier than six (6) months from said date of cancellation.

**Rules for Setting the
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12. All persons who have an interest in the subject matter of the proceeding may become a party by filing, at least five (5) days prior to the initial hearing and subject to the requirements in the Commission's Rules of Practice and Procedure, a verified petition with the Commission giving the docket number and the title of the proceeding and stating: (1) the petitioner's name and address; (2) the nature of petitioner's interest in the subject matter of the proceeding, and the way and manner in which such interest is affected by the issues involved in the proceeding; and (3) a statement of the relief desired.

13. All other persons who may want their views known to the Commission with respect to the subject matter of the proceeding may file their opposition to the application or comment thereon at any stage of the proceeding before the applicant concludes the presentation of its evidence. No particular form of opposition or comment is required, but the document, letter or writing should contain the name and address of such person and a concise statement of the opposition or comment and the grounds relied upon.

14. The Commission shall conduct a formal hearing on the application, giving proper notices to all parties concerned, with at least one (1) public hearing in the affected locality.
 - 14.1 On the date of the initial hearing, the applicant must submit to the Commission its written Compliance with the jurisdictional requirements attaching therewith, methodically arranged and duly marked, the evidences on the actual posting and publication of the Notice of Public Hearing consisting of certifications issued to that effect, signed by the aforementioned Mayors or their duly authorized representatives, bearing the seals of their offices and the affidavits of the Editors or Business Managers of the newspapers where the said Notice of Public Hearing were published together with the complete issues of the said newspapers and such other proofs of compliance with the requirements of the Commission.
 - 14.2 After the applicant has submitted its compliance with the jurisdictional requirements, the applicant must conduct an expository presentation of its application, aided by whatever communication medium that it may deem appropriate for the purpose, in order to put in plain words and explain, for the benefit of the consumers and other concerned parties, what the application is all about and the reasons and justifications being cited in support of the rate adjustments prayed for. The applicant must submit to the Commission both the hard and soft copies of its expository presentation.

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**Rules for Setting the
Electric Cooperatives' Wheeling Rates**

- 14.3 After the conduct of the expository presentation, a pre-trial conference may proceed and be held with the parties for the purpose of formulating and simplifying the issues in the proceeding or addressing other matters that may expedite orderly conduct and disposition of the proceeding.
- 14.4 The Commission will then recognize or acknowledge the interveners and oppositors having an interest in the subject matter of the application pending before the Commission who have filed their respective Petitions to Intervene and Oppositions, as the case may be.
- 14.5 The applicant shall present its evidence by offering the affidavits and supporting documents of its witnesses and such other evidences in support of its application.
- 14.6 The witnesses shall be cross-examined by the interveners.
- 14.7 The applicant may, if it deems necessary, conduct re-direct examination on matters covered during the cross-examination of its witness. The intervenor shall thereafter be allowed to conduct re-cross-examination on matters covered by the re-direct examination of the witness.
- 14.8 After presentation of its witnesses, the applicant shall formally offer its exhibits and rest its case.
- 14.9 The intervenor shall then present his evidence in the same manner.
- 14.10 Presentation of rebuttal or sur-rebuttal evidence may be allowed subject to the discretion of the Commission.
- 14.11 The application shall then be deemed submitted for resolution.
15. After the application shall have been submitted for resolution, the Commission shall render its decision on the said application.
16. Any party adversely affected by the decision of the Commission rendered in an adjudicative proceeding may, within fifteen (15) days from receipt of a copy thereof, file a motion for reconsideration.

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17. Any party to the proceeding may object to a motion for reconsideration by filing an opposition thereto within ten (10) days from receipt thereof.
18. The Decision shall become final and inappealable upon the lapse of fifteen (15) days from notice thereof to all parties.
19. The filing of the motion for reconsideration shall stop the running of the fifteen-day period for filing such motion and prevent the decision from becoming final and inappealable. However, unless otherwise ordered by the Commission, such filing shall not prevent the decision from becoming effective.
20. The appeal from the decision of the Commission shall be taken within fifteen (15) days from notice thereof or of the denial of the appellant's motion for reconsideration duly filed in accordance with Rule 23 of the Commission's Rules of Practice and Procedure.
21. Any appeal shall not stay the implementation of the assailed Decision unless the Appellate Court shall direct otherwise.

ARTICLE 11

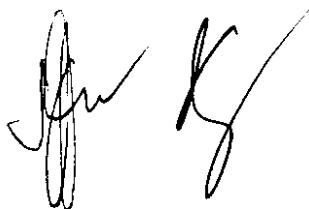
FINAL PROVISIONS

11.1 Exception From the Provisions of the Rules

Where good cause appears, the Commission may allow an exception from any provision of these Rules, if such exception is found to be in the public interest and is not contrary to any law, rules and regulations.

11.2 Costs of Suit

All ECs shall bear the regulatory implementation costs or costs associated with the implementation of these Rules, including but not limited to, costs attendant to the public hearings in the ECs' localities.



11.3 Effect of the Rates Determined Under these Rules on the ECs' Existing Rates

The rates determined under these Rules shall supersede the existing approved rates of the ECs and mandatorily bind them to adopt these new rates, except as otherwise provided herein.

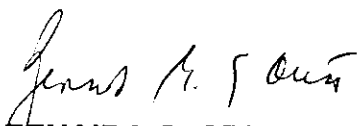
11.4 Repealing/Separability Clause

If any provision or part of a provision of these Rules is declared invalid or unconstitutional by a court of competent jurisdiction, those provisions which are not affected thereby shall continue to be in full force and effect.

11.5 Effectivity

These Rules shall take effect fifteen (15) days following its complete publication in a newspaper of general circulation.

Pasig City, Philippines, SEP 23 2009


ZENAIDA G. CRUZ-DUCUT
Chairperson *quie*


RAUF A. TAN
Commissioner


ALEJANDRO Z. BARIN
Commissioner


MARIA TERESA A.R. CASTAÑEDA
Commissioner


JOSE C. REYES
Commissioner


GCA/MVAJMO//FGB
