

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. 2001-1001

**MISAMIS ORIENTAL II ELECTRIC
COOPERATIVE, INC. (MORESCO II),**
Applicant.

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DECISION

Before this Commission for resolution is the application filed on December 26, 2001 by applicant Misamis Oriental II Electric Cooperative, Inc. (MORESCO II) for approval of its unbundled rates pursuant to the provision of Republic Act No. 9136 (RA 9136).

Having found said application sufficient in form and substance with the required fees having been paid, an Order and a Notice of Public Hearing, both dated August 19, 2002, were issued setting the case for initial hearing on September 23, 2002.

MORESCO II was directed to cause the publication of the Notice of Public Hearing, at its own expense, twice (2x) for two (2) successive weeks in two (2) newspapers of general circulation in the country, the last date of publication to be made not later than two (2) weeks before the scheduled date of initial hearing. In compliance with the said directive, MORESCO II published the Notice of Public Hearing in the "*Manila Times*" and "*Mindanao Gold Star Daily*" both on September 4 and 9, 2002.

The Office of the Solicitor General (OSG), the Commission on Audit (COA) and the Committees on Energy of both Houses of Congress were furnished with copies of the Order and the Notice of Public Hearing and were requested to have their respective duly authorized representatives present at the aforesaid initial hearing.

Likewise, copies of the said Order and the Notice of Public Hearing were furnished the Municipal Mayors of Claveria, Jasaan, Balingasag, Lagonglong, Salay, Binuangan, Sugbongcogon, Kinogitan, Balinguan, Talisayan, Medina, Magsaysay and the City Mayor of Gingoog , all in the Province of Misamis Oriental, for appropriate posting thereof on their respective bulletin boards.

On February 11, 2002, the Commission issued an Order directing MORESCO II to submit the required documents in order to facilitate the evaluation of the instant application.

On February 26, 2002, MORESCO II submitted its "Supplemental Compliance with Change of Area Coverage" attaching therewith additional documents and stating that it is reserving its right to submit other documents either in the course of the hearing or as may be required by the Commission and praying that the aforesaid additional compliance be admitted and approved together with the proposed rate requirement as a result of the unbundled rates which reflects its true cost of service per Schedule K thereof.

On September 20, 2002, MORESCO II submitted additional documents in support of its application.

During the hearing on September 23, 2002, MORESCO II and intervenor Mr. Amado Pacpaco appeared.

At the said hearing, MORESCO II submitted proofs of compliance with the Commission's publication and posting of notice requirements which were duly marked as Exhibits "A" to "C-12", inclusive. Thereafter, MORESCO II presented its two (2) witnesses. The first witness, Ms. Agnes Padilla, MORESCO II's Accountant, testified in support of the application and identified several documents which were accordingly marked as Exhibits "D" to "Y", inclusive. Mr. Pacpaco then conducted his cross-examination on the same witness and requested for copies of the application and other documents submitted. The Commission propounded clarificatory questions on the said

witness. In the course thereof, MORESCO II was directed to submit additional documents.

The second witness, Mr. Joseph Legaspi, MORESCO II's Engineering Services Department Manager, testified on the various technical aspects of the application. The Commission again propounded clarificatory questions on the said witness. In the course thereof, MORESCO II was directed to submit its list of power outages along with the required documents. MORESCO II manifested that it would submit said data/documents within one (1) month from said date of hearing.

On October 21, 2002, MORESCO II submitted various documents in compliance with the Commission's directive in its Order dated September 23, 2002.

On December 5, 2002, MORESCO II submitted the additional documents in support of its application.

On February 20, 2003, MORESCO II's submitted "Formal Offer of Evidence" was admitted by the Commission for the purposes for which they were being offered. With the applicant having rested its case with the filing of said formal offer and having submitted all the additional documents required by the Commission, this case is now ripe for resolution.

I. SUMMARY OF MORESCO II's APPLICATION

I.A. REVENUE REQUIREMENT

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

ACCOUNT NAME	TEST YEAR
Purchased Power	PhP 91,657,287
Payroll	14,872,000
Operation & Maintenance (less Purchased Power & Payroll)	16,952,410
Debt Service	9,914,592
Revenue Requirement	133,396,289
Other Revenue Items	(123,153)
Reinvestment Fund (8%) ¹	10,649,260
TOTAL REVENUE REQUIREMENT	PhP 143,922,396

Based on MORESCO II's Schedule A of the UFR

MORESCO II's proposed revenue requirement was PhP 143,922,396 based on historical costs for the year 2000. The Overall Average Tariff Adjustment (OATA) published was PhP 0.1444/kWh. However, the submitted UFR yielded an OATA of PhP 0.1384/kWh.

MORESCO II also submitted Audited Financial Statements for the year 2000.

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

I.B. RATE STRUCTURE/DESIGN

The unbundled rates proposed by MORESCO II were as follows:

Customer Class	Rates	
Residential		
Retail	PhP	14.4800 /customer/mo.
Metering		26.4100 /customer/mo.
Energy		2.2591 /kWh
Distribution System Charge		1.3617 /kWh
Commercial		
Retail		27.9800 /customer/mo.
Metering		54.2700 /customer/mo.
Energy		2.2589 /kWh
Distribution System Charge		0.4738 /kWh
Industrial		
Retail		11.9500 /customer/mo.
Metering		38.0500 /customer/mo.
Energy		2.2591 /kWh
Demand		39.3000 /kW
Distribution System Charge		0.3336 /kWh
FBI		
Retail		2.1000 /customer/mo.
Metering		22.9000 /customer/mo.
Energy		2.2591 /kWh
Demand		33.3000 /kW
Distribution System Charge		0.3314 /kWh
APTPCO		
Retail		2.0800 /customer/mo.
Metering		22.9200 /customer/mo.
Energy		2.2591 /kWh
Demand		39.5000 /kW
Distribution System Charge		0.3052 /kWh
Public Buildings		
Retail		14.7500 /customer/mo.
Metering		26.1383 /customer/mo.
Energy		2.2591 /kWh
Distribution System Charge		0.7122 /kWh
Street Lights		
Distribution System Charge		40.89 /lamp
Energy		2.2591 /kWh

Based on MORESCO II's Schedule K of the submitted UFR

I.B.1. FUNCTIONALIZATION, CLASSIFICATION and ALLOCATION

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

I.B.2. SYSTEM LOSS

Witness Legaspi, in his testimony, stated that the system loss used in preparing MORESCO II's unbundled rate application was 8.5%, which is the system loss for the year 2000 (September 23, 2002, TSN, page 83).

I.B.3. INTER-CLASS CROSS SUBSIDY

MORESCO II provided the amounts of cross subsidies for each customer type including a program for the removal thereof.

CUSTOMER TYPE	ADJUSTED EXISTING (PhP)	PROPOSED (PhP)	INTER-CLASS CROSS SUBSIDIES (PhP)
Residential	64,846,506	84,656,192	19,809,686
Commercial	10,892,856	10,120,848	(772,008)
Industrial	21,112,535	13,199,943	(7,912,592)
FBI	16,239,120	11,574,853	(4,664,267)
APTPCO	23,191,913	16,516,954	(6,674,959)
Public Buildings	1,975,842	2,408,499	432,657
Street Lights	5,908,338	5,689,820	(218,518)
TOTAL	144,167,110	144,167,110	0

Based on MORESCO II's Sub-Schedule H-1 of the submitted UFR.

I.B.4. LIFELINE RATE and LEVEL

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

	Option 1 (At Existing Rates)	Option 2 (At Proposed Customer Charges)
Level	8 kWh	8 kWh
Rate	PhP 3.2632/kWh	PhP 40.89/customer/month

Based on MORESCO II's Sub-schedule H-3 of the submitted UFR.

I.C. OTHER CHARGES

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

PARTICULARS	RATES
1. Membership Fee	PhP 5.00
2. Notarial Fees	10.00
3. Reconnection Fees:	
Residential, Public Buildings	35.00
Commercial	70.00
Industrial	300.00
4. Inspection fee is 10% of labor cost on house wiring electrical installation.	
5. Penalty of 1.6% for late payment of power bills	

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 MORESCO II's proposal to use the test year 2000 in its revised 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 statements figures for historical test year 2000.

II.A.2. GENERATION and TRANSMISSION COSTS

At present, MORESCO II is buying power only from the National Power Corporation (NPC).

The Generation and Transmission charges shall reflect the generation charges of the NPC as approved in the Commission's Orders dated February 24, 2003 and January 26, 2004, Case Nos. 2003-44 [In the Matter of the Adoption of the Generation Rate Adjustment Mechanism (GRAM) and Incremental Currency Exchange Recovery Adjustment (ICERA)] and 2003-574 [In the Matter of the Application for the Recovery of Fuel and Independent Power Producer Costs Under the Generation Rate Adjustment Mechanism (GRAM)], respectively; and 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]. The ICERA component of the NPC's Generation Rate used is PhP 0.2207 per kWh. 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*² of the billing determinants was applied.

The adjustment made by the Commission to Purchased Power Cost of PhP 3,602,600 pertains to the difference between the proposed purchased power of MORESCO II amounting to PhP 91,657,287 and the purchased power cost based on the new of NPC and TRANSCO amounting to PhP 95,259,887.

² *The annualization of kWh sales is calculated by multiplying the average kWh consumption of a specific customer class by their respective year-end number of customers.*

Records show that MORESCO II's average system loss (excluding cooperative's own use) for the years 2000, 2001 and 2002 was 6.23%. The Commission allowed the pertained system loss in the calculation of MORESCO II's revenue requirement, as discussed in Section II.B.2.c. of this Decision.

Based on the new NPC generation charges and transmission charges, as well as the allowable system loss, the Commission sets MORESCO II's unbundled Generation, Transmission and Recoverable System Losses as follows:

Generation Charge	PhP 53,888,755
Transmission Charge	33,919,078
Recoverable System Losses	7,452,054
Total	PhP 95,259,887

MORESCO II's approved generation charge shall remain fixed until changes in NPC generation rate are approved and authorized by the Commission pursuant to its Orders dated February 24, 2003 and January 26, 2004, Case Nos. 2003-44 [In the Matter of the Adoption of the Generation Rate Adjustment Mechanism (GRAM) and Incremental Currency Exchange Recovery Adjustment (ICERA)] and 2003-574 [In the Matter of the Application for the Recovery of Fuel and Independent Power Producer Costs under the Generation Rate Adjustment Mechanism (GRAM)]. In which case, MORESCO II shall bill its end-users the new generation rate

charged by NPC. In the meantime, MORESCO II 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 2,351,917 to the payroll account resulting to an adjusted amount of PhP 17,223,917 to update the payroll to the year 2002 salary level.

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 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 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 MORESCO II 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 or and in their behalf.

“Reasonable costs” may be defined as the cost of those goods and services which, while may not be the lowest in price, need to be incurred with consideration of quality, efficiency, reliability and security, which are characteristics of the service that should be delivered by the distribution utility. “Prudent costs” demand that the utility ensures that its purchases of goods and services are at their minimum, without sacrificing the foregoing characteristics.

When making a purchase or executing a contract, it cannot simply rely on its right to pass on its costs to its end-users.

As such, the Commission, in fulfillment of the policy of R.A. 9136 to establish a regime of free and fair competition and full public accountability to achieve greater operational and economic efficiency, enjoins MORESCO II to institute and report to the Commission its policies and procedures for cost-cutting and for the transparent and competitive procurement of goods and services.

MORESCO II'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 MORESCO II's viability. To this end, MORESCO II should view a petition for an increase in rates to be the last recourse. In future filings, MORESCO II 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 7,458,071 on MORESCO II's Operation and Maintenance (O & M) expenses to peg its revenue requirement to the submitted Overall Average Tariff Adjustment (OATA) of PhP 0.1384.

For future rate cases, MORESCO II will continually be required to make full disclosure of all its O & M Expenses for the Commission to determine the prudence of its expenditures. MORESCO II should ensure that procedures are put in place so that all expenditures that are included in the determination of revenue requirements are adequately documented and that such documentation is reasonably accessible to 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 MORESCO II to improve its financial operation through the development of other related sources of revenue. However, in order to balance the interests of MORESCO II and its end-users and in recognition of the fact that 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 was not deducted from the revenue requirement amounted to PhP 1,424,491.

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

Prompt Payment Discount	PhP 2,738,698
Electric Pole Rental	<u>123,154</u>
TOTAL	<u>2,861,852</u>
50% of the Above	PhP <u>1,430,926</u>

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

II.A.6. DEBT SERVICE

The Commission made a downward adjustment of PhP 1,417,942 to assure that the debt service included in MORESCO II's revenue requirement is consistent with NEA's records. The details of the adjustment are shown below.

LOAN PROFILE	
Per NEA:	Amount (PhP)
A	943,662
B1	331,924
B2	486,680
C	438,184
D	88,456
E	3,402,144
WB Construction	
WB – RERP RE	893,084
COMPAC 1	
Brazil	90,328
Korea	90,948
Local	11,596
USA A	1,057,368
USA B	662,276
TOTAL	8,496,650
Per MORESCO II: Debt Service	9,914,592
NET ADJUSTMENT	(1,417,942)

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) shall be passed on to the ECs' end-users. MORESCO II 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 April 1, 2003, granted MORESCO II a Provisional Authority to reduce its rate by PhP 0.3300/kWh effective on the 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

MORESCO II made a proposal for the provision for reinvestment fund in its unbundling of rates application in the amount of PhP 10,649,260.

The Commission permits a reinvestment fund equivalent to 5% of cooperative's Gross Revenue to finance expansion and rehabilitation/upgrading of its existing electric power system in accordance with the submitted System Rehabilitation/Upgrading and/or System Loss Reduction Plan. This resulted in a downward adjustment of PhP 3,857,477 on the reinvestment fund account to bring it to the 5% allowed by the Commission.

One of the main purposes of providing the 5% Reinvestment is for the end-users of MORESCO II to shoulder part of their increasing capitalization requirements, as outside sources of funding are getting scarce.

The Reinvestment Fund is authorized subject to the following conditions:

- a. This reinvestment fund shall not be used, even temporarily, for any purpose other than for those projects specified in the submitted plan;

- b. The amounts collected for the reinvestment fund, including interest income (as discussed in Section II.A.5.), shall be placed in a separate account and shall be disbursed in accordance with the plan submitted by MORESCO II;

- c. MORESCO II 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 MORESCO II to appear and show cause why it should continue collection of the reinvestment fund; and

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

II.A.8. REVENUE REQUIREMENT SUMMARY

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

ACCOUNT NAME		MORESCO II PROPOSAL	ADJUSTMENTS	ERC APPROVAL
Purchased Power	PhP	91,657,287	3,602,600	95,259,887
Payroll		14,872,000	2,351,917	17,223,917
O & M (less PP & Payroll)		16,952,410	(7,458,071)	9,494,339
Debt Service		9,914,592	(1,417,942)	8,496,650
Other Revenue Items		(123,153)	(1,307,773)	(1,430,926)
Reinvestment Fund		10,649,260	(3,857,477)	6,791,783
TOTAL REVENUE REQUIREMENT	PhP	143,922,396	(8,086,746)	135,835,650

MORESCO II published an OATA of PhP 0.1444/kWh but submission using rates of year 2000 yielded an OATA of PhP 0.1384/kWh. The OATA is a measurement tool based on the formula: [(Total Revenue Requirement less Existing Revenue) divided by kWh sales]. This measurement is not meant to refer to any specific customer class.

The Commission, after considering adjustments of PhP 8,086,746 approves a total revenue requirement of PhP 135,835,650 based on the year 2000, equivalent to an OATA of PhP 0.1384/kWh for MORESCO II. There is a difference in the computation of the OATA published by the cooperative and the OATA approved by the Commission. The published OATA pertains to the difference between MORESCO II's proposed revenues and the actual revenues (consisting of the approved power cost component plus the average Purchased Power Adjustment (PPA) for the year 2000 and the approved distribution costs). On the other hand, the OATA approved by the Commission pertains to the difference between the approved revenue

requirement and the calculated actual revenues, both computed at current purchased power costs level. Hence, the resulting OATA accounts only for the distribution component from which MORESCO II directly benefits.

The actual impact to end-users will depend on the level of rates currently being charged. This impact (as illustrated in Section II.B.6. of this Decision) appears to be higher than the approved OATA because it includes the impact on the power cost which is merely a pass through cost by the cooperative.

II.B. RATE STRUCTURE/DESIGN DETERMINATION

II.B.1. FUNCTIONALIZATION, CLASSIFICATION and ALLOCATION

The functionalization and allocation factors used by MORESCO II were the default factors provided for in the UFR issued by the Commission on October 30, 2001. In the case of MORESCO II, a number of the default factors were found not to represent the best alternative among possible factors. Thus, the following two (2) default factors used by MORESCO II 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.

II.B.2. DESIGN AND CALCULATION OF CHARGES

II.B.2.a. GENERATION CHARGE

Consistent with the Decision in ERC Case No. 2001-901, In the Matter of the Application for Approval of the Revised Unbundled Power Rates, National Power Corporation- Applicant, dated June 26, 2002, and the Commission's Order dated May 15, 2003, the generation charge to be billed to end-users shall be the approved rate per kilowatthour including Franchise and Benefits to Host Communities Charge and Incremental Currency Exchange Rate Adjustment (ICERA). The ICERA component of NPC's Generation Rate is PhP 0.2207 per kWh. This allows MORESCO II's Generation Charge to remain fixed until such time that NPC's approved rate is adjusted. This eliminates the need for future Purchased Power Adjustment (PPA).

II.B.2.b. 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 TRANSCO without automatic adjustments. Since the transmission rates to be paid by MORESCO II 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 MORESCO II have been calculated based on the approved TRANSCO rates which include cross subsidy elements to be phased out over a three-year period.

Transmission Charges	Residential	Commercial	Medium FBI	APTPCO	Industrial	Public Bldgs.	Street Lights
October 2003 – September 2004							
Demand Charge PhP/kW			26.40	26.40	26.40		
Transmission System Charge PhP/kWh	0.8070	0.8033	0.6333	0.8314	0.7640	0.9976	0.7120
October 2004 – September 2005							
Demand Charge PhP/kW			26.40	26.40	26.40		
Transmission System Charge PhP/kWh	0.8298	0.8260	0.6559	0.8571	0.7879	1.0257	0.7321
October 2005 – September 2006							
Demand Charge PhP/kW			26.40	26.40	26.40		
Transmission System Charge PhP/kWh	0.8526	0.8487	0.6785	0.8830	0.8119	1.0540	0.7523

II.B.2.c. SYSTEM LOSS CHARGE

The Commission defines system loss for utilities to include technical loss, non-technical loss, and administrative loss or the utility's use of power for its own operations.

The Commission approves the recovery of allowed system loss through the establishment of a separate System Loss Charge in the bill to end-users. The System Loss Charge shall vary from one customer class to another depending on their respective contributions to the system loss. However, due to limited information, the Commission is constrained to adopt a uniform allowable system loss charge for all end-users of MORESCO II.

The allowed system loss is equal to the average system loss (excluding cooperative's own use) for the years 2000, 2001 and 2002 of 6.23% 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 MORESCO II's 2000 to 2002 average system loss (exclusive of cooperative's own use) was 6.23% which is lower than the aforementioned cap of 14%. Hence, the Commission considered the pertained system loss of 6.23% in the calculation of MORESCO II's revenue requirement. 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's own use (which should not include personal consumption of MORESCO II'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.d. DISTRIBUTION CHARGE

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

MORESCO II did not propose for distribution wheeling rates. 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 MORESCO II's facilities shall pay wheeling charges equivalent to Distribution Wheeling Charges for Industrial customers.

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

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

The Commission acknowledges that cost-causation rate design principle suggests the recovery of customer-related costs associated with the metering and supply functions through fixed monthly charges. Along with this cost of service principle, however, the Commission also considers rate design impacts across the spectrum of end-users within each rate class. Although R.A. 9136 requires the removal of inter-class cross subsidies, the law does not require removal of revenue flows that may be characterized as intra-class cross

subsidies. The Commission has the flexibility to consider other factors in determining rate design for a particular class of end-users. Therefore, to mitigate the impact on below-average consumption of residential end-users, the Commission orders MORESCO II to use a PhP 5.00 per meter per month and PhP 0.4965 per kWh rate for the metering function and orders MORESCO II to use a PhP per kWh rate for the supply function. Street light end-users without meter shall be billed with a fixed monthly customer charge for the supply function and no charge for the metering function. All other end-users shall be billed fixed monthly customer and meter charges for supply and metering functions, respectively.

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	Medium FBI	APTPCO	Industrial	Public Bldgs.	Street Lights
New Cost-Based Revenue Requirement (PhP)	135,835,650	75,837,205	10,302,336	11,527,151	17,350,711	14,019,294	4,297,770	2,501,183
Existing Rates Revenue (PhP)	130,193,989	67,116,487	10,871,557	11,876,419	17,164,950	16,395,906	4,678,067	2,090,603
Total Change in Revenue (PhP)	5,641,661	8,720,718	(569,221)	(349,268)	185,761	(2,376,612)	(380,297)	410,580
Percentage Change in Revenue	4.33%							
Normalized Existing Revenue (PhP)	135,835,650	70,024,828	11,342,651	12,391,056	17,908,754	17,106,385	4,880,780	2,181,196
Inter-Class Cross Subsidy Amounts (PhP)		(5,812,377)	1,040,315	863,905	558,043	3,087,091	583,010	(319,987)
Class Billing Determinants (kWh)	40,766,136	20,087,543	3,224,833	4,315,560	6,237,265	4,869,445	1,400,116	631,374
Inter-Class Cross Subsidy Rates (PhP/kWh)		(0.2894)	0.3226	0.2002	0.0895	0.6340	0.4164	(0.5068)

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 MORESCO II'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, MORESCO II 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-users by considering two (2) lighting facilities at 20 watts each and a 50-watt Radio that are being used for a reasonable number of hours. In setting the maximum level of lifeline consumption, the Commission may adjust the minimum level of consumption and/or 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 MORESCO II. 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 MORESCO II. 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%

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

The cost of subsidy to lifeline end-users shall be passed on to all non-lifeline end-users. For MORESCO II, the lifeline discounts result in a Lifeline Rate Subsidy by other end-users equal to PhP 0.0542/kWh.

II.B.5. OTHER CHARGES

MORESCO II's additional submissions 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 MORESCO II. In future cases filed after Other Charges have been established based on cost, the appropriate level of deduction of the revenue derived from these charges may be revisited.

The Other Charges of MORESCO II are hereby pegged at their existing levels until such time that the Commission sets new rates on the same. Further,

MORESCO II 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 approval of Other Charges shall include rates that are cost-based, as well as all supporting cost justifications for the rates, including but shall not be 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 CONSUMER

A comparison of the estimated impact of all adjustments to the revenue requirement on the monthly bill of an average residential end-user consuming 59 kWh a month, using rates based on MORESCO II's actual existing rates as of January 2004 against the unbundled rates approved by the Commission, is shown below:

BASED ON ACTUAL EXISTING RATES			BASED ON ERC APPROVED UNBUNDLED RATES		
	PhP/kWh	Amount (PhP)		PhP/kWh	Amount PhP
Basic Rate	2.7092	159.84	Generation Charges:		
			Generation System Charge	1.0730	63.31
WAC	0.0025	0.15	Benefits to Host Comm. Charge	0.0282	1.66
			ICERA	0.2207	13.02
PPA	0.6789	40.06	Transmission System Charge	0.8070	47.61
			System Loss Charge	0.1828	10.79
Power Act Rate Reduction	(0.3000)	(17.70)	Distribution Charge	0.6016	35.49
			Supply Charge	0.2813	16.60
Universal Charge:			Metering Charges:		
Missionary Elect. Charge	0.0373	2.20	Retail Customer Charge/Month		5.00
Environmental Charge	0.0025	0.15	Metering System Charge	0.4965	29.29
			Universal Charges:		
Loan Condonation	(0.3300)	(19.47)	Missionary Electrification Charge	0.0373	2.20
			Environmental Change	0.0025	0.15
			Inter-class Cross Subsidy Charge	(0.2894)	(17.07)
			Lifeline Rate (Discount)/Charge	0.0542	3.20
			Power Act Rate Reduction	(0.3000)	(17.70)
			Loan Condonation	(0.3300)	(19.47)
TOTAL BILL		165.23	TOTAL BILL		174.08
PhP/kWh		2.8005	PhP/kWh		2.9505

DISPOSITION

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

- To approve the unbundled schedule of rates of MORESCO II to be effective on the first billing cycle thirty (30) days after receipt of this Decision:

		Res.	Comm'l.	Medium FBI	APTPCO	Ind'l.	Public Bldgs.	Street Lights
Generation Charges:								
Generation System Charge	PhP/kWh	1.0730	1.0730	1.0730	1.0730	1.0730	1.0730	1.0730
Benefits to Host Comm. Charge	PhP/kWh	0.0282	0.0282	0.0282	0.0282	0.0282	0.0282	0.0282
ICERA	PhP/kWh	0.2207	0.2207	0.2207	0.2207	0.2207	0.2207	0.2207
Transmission Charges:								
Demand Charge	PhP/kW			26.40	26.40	26.40		
Trans. System Charge	PhP/kWh	0.8070	0.8033	0.6333	0.8314	0.7640	0.9976	0.7120
System Loss Charge	PhP/kWh	0.1828	0.1828	0.1828	0.1828	0.1828	0.1828	0.1828
Distribution Charges:								
Demand Charge	PhP/kW			26.40	26.40	26.40		
Dist. System Charge	PhP/kWh	0.6016	0.4370	0.1932	0.2808	0.2884	0.4146	1.4141
Supply Charges:								
Retail Customer Charge	PhP/Cust./Mo.		16.71	16.71	16.71	16.71	16.71	16.71
Supply System Charge	PhP/kWh	0.2813						
Metering Charges:								
Retail Customer Charge	PhP/Meter/Mo.	5.00	68.99	1,847.94	1,847.94	279.45	34.49	68.99
Metering System Charge	PhP/kWh	0.4965						
Inter-class Cross Subsidy Charge:	PhP/kWh	(0.2894)	0.3226	0.2002	0.0895	0.6340	0.4164	(0.5068)
Universal Charge:								
Mission. Elect. Charge	PhP/kWh	0.0373	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	0.0025
Lifeline Rate (Discount)/Charge	PhP/kWh	0.0542	0.0542	0.0542	0.0542	0.0542	0.0542	0.0542
Loan Condonation*	PhP/kWh	(0.3300)	(0.3300)	(0.3300)	(0.3300)	(0.3300)	(0.3300)	(0.3300)
Power Act Rate Reduction	PhP/kWh	(0.3000)						
Lifeline Rate (Discount)/ Subsidy shall 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 as per ERC Order dated April 1, 2003 on Case No. 2003 – 111.								

2. To direct MORESCO II to comply with the following:
 - a. Discontinue charging the PPA upon effectivity of the approved unbundled rates; MORESCO II 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 Availment from the Universal Charge the Share for Missionary Electrification, NPC, Applicant);
- d. Bill PhP 0.0025/kWh representing the environmental portion of the Universal Charge in accordance with the Decision of the Commission in ERC Case No. 2002-194 (In the Matter of the Petition for the Availment from the Universal Charge the Environmental Share/Charge for the Rehabilitation and Management of Watershed Areas, NPC, Applicant);
- e. Bill its respective end-users using a billing format which contains at least the rate elements provided in Annex A of this Decision upon effectivity of the approved unbundled rates. The rate elements provided in Annex A should appear on the end-user's 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 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 the 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, March 10, 2004.

RODOLFO B. ALBANO, JR.
Chairman

OLIVER B. BUTALID
Commissioner

CARLOS R. ALINDADA
Commissioner

LETICIA V. IBAY
Commissioner

JESUS N. ALCORDO
Commissioner

Copy furnished:

- 1. Atty. Zenon S. Suarez**
Counsel for Applicant
4/F Casman Building
1198 Quezon Avenue, Quezon City 1100
- 2. Office of the Solicitor General**
134 Amorsolo Street, Legaspi Village
City of Makati 1229
- 3. Commission on Audit**
Commonwealth Avenue
Quezon City 0880
- 4. Senate Committee on Energy**
GSIS Building, Roxas Boulevard
Pasay City 1307
- 5. House Committee on Energy**
Batasan Hills, Quezon City 1126
- 6. Mr. Amado B. Kee**
General Manager
Misamis Oriental II Electric Cooperative, Inc.
Medina, Misamis Oriental 9013
- 7. Misamis Oriental II Electric Cooperative, Inc.
(MORESCO II)**
Medina, Misamis Oriental 9013
- 8. The Municipal Mayor**
Jasaan, Misamis Oriental 9003
- 9. The Municipal Mayor**
Claveria, Misamis Oriental 9004
- 10. The Municipal Mayor**
Balingasag, Misamis Oriental 9005
- 11. The Municipal Mayor**
Lagonglong, Misamis Oriental 9006
- 12. The Municipal Mayor**
Salay, Misamis Oriental 9007
- 13. The Municipal Mayor**
Binuangan, Misamis Oriental 9008

- 14. The Municipal Mayor**
Sugbongcogon, Misamis Oriental 9009
- 15. The Municipal Mayor**
Kinogitan, Misamis Oriental 9010
- 16. The Municipal Mayor**
Balinguan, Misamis Oriental 9011
- 17. The Municipal Mayor**
Talisayan, Misamis Oriental 9012
- 18. The Municipal Mayor**
Medina, Misamis Oriental 9013
- 19. The City Mayor**
Gingog City, Misamis Oriental 9014
- 20. The Municipal Mayor**
Magsaysay, Misamis Oriental 9015
- 21. Fr. Francisco G. Silva**
Administrator
National Electrification Administration
1128 NIA Road, Diliman, Quezon City
- 22. Congressman Ernesto C. Pablo**
House of Representatives
Batasan Hills, Diliman, Quezon City 1126
- 23. Mr. Raphael PM. Lotilla**
President and CEO
Power Sector Assets & Liabilities Management
Corporation (PSALM)
2/F SGVII Building, Ayala Ave.
1200 Makati City