

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. 2001-947

LUBANG ISLAND ELECTRIC COOPERATIVE,
INC. (LUBELCO),

Applicant.

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DECISION

Before this Commission for resolution is the application filed on December 26, 2001 by applicant Lubang Island Electric Cooperative, Inc. (LUBELCO) for approval of its unbundled rates pursuant to the provisions of Republic Act No. 9136.

Having found said application sufficient in form and substance with the required fees having been paid, an Order and a Notice of Public Hearing, both dated April 22, 2002, were issued setting the same for hearing on June 14, 2002.

LUBELCO 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, LUBELCO had the Notice of Public Hearing published in *Malaya* and *Balita* on May 16 and 22, 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, the Office of the Municipal Mayors of Looc and Lubang, both in the Island of Lubang, Province of Occidental Mindoro, were furnished with copies of the Order and the Notice of Public Hearing for the appropriate posting thereof on their respective bulletin boards.

On June 10, 2002, LUBELCO filed its "Manifestation with Revised Overall Average Tariff Adjustments" submitting therewith schedules to conform to the Commission's Uniform Rate Filing Requirement (UFR).

At the initial hearing on June 14, 2002, only LUBELCO appeared. The Honorable Mayor Juan M. Sanchez of the Municipality of Lubang, likewise, appeared as intervenor.

In the said hearing, LUBELCO presented proofs of its compliance with the Commission's publication and posting of notice requirements which were duly marked as Exhibits "A" to "C-1", inclusive. Thereafter, LUBELCO presented Mr. Carlos Cajayon as witness. However, the Commission noted that the submissions of LUBELCO were not based on Audited Financial Statement (AFS). Thus, LUBELCO was directed to file the revised schedules and submissions based on Audited Financial Statement. Relative thereto, the Commission suspended the proceedings pending submission by LUBELCO of the required schedules.

On September 23, 2002, LUBELCO filed "Revised Petition and Compliance" proposing a revised Overall Tariff Adjustment as a result of the reformatting of its rate structure pursuant to the Commission's directive.

The Commission, thus, issued another Order and Notice of Public Hearing both dated September 25, 2002, setting the application for hearing on November 12, 2002.

LUBELCO was again 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, LUBELCO had the Notice of Public Hearing published in *Manila Times* and *Kabayan* on October 10 and 17, 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 again requested to have their respective duly authorized representatives present at the aforesaid initial hearing.

The Offices of the Municipal Mayors of Looc and Lubang, both in the Island of Lubang, Province of Occidental Mindoro, were again furnished with copies of the Order and the Notice of Public Hearing for the appropriate posting thereof on their respective bulletin boards.

During the hearing on November 12, 2002, LUBELCO appeared. On the other hand, Mr. Ivan Vergara manifested his intention to participate actively in the proceedings as intervenor. The Commission noted that Mr. Vergara filed on November 11, 2002 a letter requesting that he be given copies of the application and the corresponding attachments. Relative, thereto, LUBELCO was directed to furnish Mr. Vergara with copies of the application and all the documents submitted to the Commission in support thereof. In the meantime, LUBELCO was allowed to present its witnesses subject to Mr. Vergara's reservation that he be allowed to cross-examine said witnesses at a later date as he needed time to study the application and its supporting documents. LUBELCO submitted its revised proofs of compliance with the Commission's posting and publication of notice requirements which were marked as Exhibits "A-2" to A-3", "B-10" to "B-19" and "C-2" to "C-3", inclusive.

LUBELCO then presented Ms. Precilla Balibay, its Bookkeeper, as its first witness who testified in support of the application. Thereafter, the Commission propounded clarificatory questions, in the course of which, LUBELCO was directed to submit, within fifteen (15) days from November 12, 2002, the following: (a) a program to improve its performance; (b) explanation on the O & M figures for supply and distribution, particularly, as to why the figures for supply was higher than the figures for distribution; (c) explanation on the figures for metering charge, particularly, as to why the metering charge for residential consumers was equal to the metering charge for industrial consumers and higher than the metering charge to commercial consumers, (d) explanation why it had not indicated any figures/entries under "Other Revenues"; and (e) documents on its specific projects funded by the Department of Energy (DOE). The next hearing was set on February 3, 2003.

At the hearing on February 3, 2003, Mr. Vergara and another intervenor, Ms. Blansilyn S. Villarosa cross-examined Ms. Balibay. Thereafter, LUBELCO presented Engr. Celso Garcia, as its second witness who testified on the technical aspect of the application. After his direct examination, Engr. Garcia was cross-examined by the intervenors and was asked clarificatory questions by the Commission. LUBELCO did not present other witnesses and rested its case.

On August 12, 2003, LUBELCO filed its "Formal Offer of Evidence", which was admitted by the Commission for the purpose for which they were being offered. In connection therewith, the Commission, in its Order dated August 18, 2002, acknowledge receipt of the said formal offer and directed

intervenors to submit their respective comments thereon. Said intervenors were, likewise, directed to inform the Commission if they intend to present their own witnesses.

On January 8, 2004, the Commission issued an Order noting the intervenors' failure to submit their comments on the formal offer of LUBELCO and to inform the Commission if they intend to present their own witnesses. Accordingly, the Commission considered intervenors to have waived their right to submit said comments and to present their witnesses. The case is, therefore, deemed submitted for resolution.

I. SUMMARY OF LUBELCO's APPLICATION

I.A. REVENUE REQUIREMENT

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

Account Name	TEST YEAR	
Purchased Power (Inclusive of Fuel Cost amounting to PhP 264,237)	PhP	3,967,239
Payroll		2,212,347
Operation and Maintenance (less Fuel, Purchased Power & Payroll)		2,111,917
Debt Service (plus Interest Cost of Cash Working Capital)		1,385,040
Revenue Requirement		9,676,543
Other Revenue Items		0
Reinvestment Fund ¹ (2%)		213,399
TOTAL REVENUE REQUIREMENT	PhP	9,889,942

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

LUBELCO's proposed revenue requirement was PhP 9,889,942 based on historical costs for the year 2000. The Overall Average Tariff Adjustment (OATA) published was PhP 1.5600/kWh. This same OATA was stated by witness Balibay, in her testimony on November 11, 2002 [Transcript of Stenographic Notes (TSN), November 11, 2002, page 18].

LUBELCO also submitted Audited Financial Statements for the year 2000.

I.B. RATE STRUCTURE/DESIGN

The unbundled rates proposed by LUBELCO were as follows:

Residential

Retail Customer Charge	PhP	37.25/customer/month
Metering Charge		12.75/customer/month
Energy Charge		6.5872/kWh

Commercial

Retail Customer Charge		18.44/customer/month
Metering Charge		6.56/customer/month
Energy Charge		5.4161/kWh

Industrial

Retail Customer Charge		37.13/customer/month
Metering Charge		12.87/customer/month
Energy Charge		4.9076/kWh
Demand Charge		45.74/kW NCP

Public Buildings

Retail Customer Charge	PhP	18.48/customer/month
Metering Charge		6.52/customer/month
Energy Charge		6.8213/kWh

Street Lights

Retail Customer Charge		9.99/customer/month
Metering Charge		15.01/customer/month
Energy Charge		14.4410/kWh

I.B.1. FUNCTIONALIZATION, CLASSIFICATION and ALLOCATION

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

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

I.B.2. SYSTEM LOSS

Witnesses Balibay and Garcia, in their respective testimonies, stated that LUBELCO's system loss for the year 2000 was 21% (November 11, 2002, TSN, page 22 and February 3, 2003, TSN, page 54, respectively).

Mr. Garcia further added that the increase in system loss for 2000 was brought about by defective kilowatt-hour meters, over extended secondary lines and the overloaded transformers that are not replaced (February 3, 2003, TSN, page 54).

I.B.3. INTER-CLASS CROSS SUBSIDY

LUBELCO provided the amounts of cross subsidies for each customer type, as well as a program for the removal thereof.

CUSTOMER TYPE	ADJUSTED EXISTING (PhP)	PROPOSED EXISTING (PhP)	INTER-CLASS CROSS SUBSIDIES (PhP)
Residential	7,680,053	7,924,456	244,403
Commercial	1,250,189	869,189	(381,000)
Industrial	120,999	88,665	(32,334)
Public Building	650,260	563,129	(87,131)
Street Lights	188,441	444,503	256,062
Total	9,889,942	9,889,942	0

I.B.4. LIFELINE RATE and LEVEL

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

	Option 1 (At Rates Equal to Existing Rate)	Option 2 (At Proposed Energy Charge Only)	Option 3 (At Rates Equal to Proposed Customer Charge Only)
Level	10 kWh	10 kWh	10 kWh
Rate	PhP 6.8216/kWh	PhP 6.5872/kWh	PhP 50.00/Customer/Month

I.C. OTHER CHARGES

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

PARTICULARS	RATES
1. New Connection Charges Membership Fee Inspection Fee Service Fee Other Material Needed Meter Deposit Energy Deposit Service Drop Wire	PhP 5.00 50.00 25.00 117.00 1,000.00 200.00 25.00/meter
2. Reconnection Fee	40.00
3. Relocation Fee	40.00
4. Calibration Fee	40.00
5. Exclusive Transformer Installation/Rental Transformer Rental per KVA 10 KVA 15 KVA 25 KVA Installation Cost Other Material Needed Inspection Fee Connection Fee Meter Deposit (60A) Energy Deposit	1,200.00 annually 1,300.00 annually 1,800.00 annually 150.00 230.95 100.00 100.00 1,500.00 200.00

II. COMMISSION DISCUSSIONS and CONCLUSIONS

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

II.A. DETERMINATION OF TOTAL REVENUE REQUIREMENT

II.A.1. TEST YEAR

The Commission finds LUBELCO's proposal to use the test year 2000 in its unbundled rate application acceptable, since it is consistent with Rule 15 Section 6 (c) of the Implementing Rules and Regulations (IRR) of R.A. 9136. Therefore, the discussions and conclusions that follow are based on Schedule A, adjusted to audited financial statement figures for historical test year 2000.

II.A.2. GENERATION COSTS

At present, LUBELCO is buying power only from National Power Corporation – Small Power Utilities Group (NPC-SPUG). LUBELCO also generates its own power through its generation plant in Cabra.

The Generation charges shall reflect the NPC-SPUG's generation charge as approved in ERC Order dated December 20, 2002, Case No. 2002-01 [In the Matter of the Application for the Approval of Unbundled Power Rates and Basic Rate Increase in the Small Island Grids, National Power Corporation (NPC) – Applicant]. A separate charge to account for the allowable system loss shall likewise be provided in the bill to end-users (please refer to Section II.B.2.c. for details). Hence, a distribution utility with

system loss that is within the allowable caps can recover from its end-users the total cost of generation. *Annualization*² of billing determinants was applied.

The upward adjustment made by the Commission to Purchased Power of PhP 1,572,762 consisted of the following:

Particulars	Amount (PhP)	
Adjustment to Purchased Power Cost	PhP	2,081,282
Adjustment to System Loss		(508,520)
Total	PhP	1,572,762

The adjustment to Purchased Power of PhP 2,081,282 pertains to the difference between the proposed Purchased Power of LUBELCO amounting to PhP 3,967,239 (inclusive of Fuel cost of PhP 264,237) and the purchased power cost based on the new rates of NPC-SPUG amounting to PhP 6,048,521 (PhP 5,611,032 for LUBELCO - Main and PhP 437,489 for LUBELCO - Cabra).

Records show that LUBELCO's average system loss for the years 2000, 2001 and 2002 was 21.02% and 1.93% for LUBELCO – Main and LUBELCO - Cabra, respectively. The Commission allowed a system loss of 14% for LUBELCO – Main in the calculation of LUBELCO's revenue requirement as discussed in Section II.B.2.b. of this Decision. Thus, the Commission made an adjustment to system loss of PhP 508,520 which represents the excess of actual system loss over the allowable recoverable cap of PhP 765,377 for LUBELCO – Mainland. For LUBELCO - Cabra, the Commission adopted the actual system loss of 1.93% or an allowable recoverable cap of PhP 8,456.

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

Based on the new NPC generation charge, as well as the allowable system loss, the Commission sets LUBELCO's unbundled Generation, and Recoverable System Loss as follows:

LUBELCO – Main

Generation Charge	PhP	4,337,135
Recoverable System Loss		765,377
Total	PhP	5,102,512

LUBELCO – Cabra

Generation Charge	PhP	429,033
Recoverable System Loss		8,456
Total	PhP	437,489

LUBELCO – Total

Generation Charge	PhP	4,766,168
Recoverable System Loss		773,833
Total	PhP	5,540,001

LUBELCO's approved generation charge shall remain fixed until changes in NPC-SPUG's generation rate are approved and authorized by the Commission pursuant to its Order dated February 24, 2003 Case No. 2003-44 [In the Matter of the Adoption of the Generation Rate Adjustment Mechanism (GRAM) and Incremental Currency Exchange Recovery Adjustment (ICERA)] and 2003-156 [In the Matter of the Application of the Recovery of Fuel and Independent Power Producer Costs under the Generation Rate Adjustment Mechanism (GRAM)]. Any change thereon shall be reflected as deferred charges or credits which shall be recovered through GRAM as discussed in Section II.B.2.b. of this Decision. In the meantime, LUBELCO shall

discontinue charging the Purchased Power Adjustment (PPA) upon effectivity of the unbundled rates.

II.A.3. PAYROLL

The Commission finds LUBELCO's payroll acceptable, however, expenses related to own generation amounting to PhP 44,260 was not included under payroll, since the same is already included in the computation of the power cost.

The Commission reviewed the Wage Adjustment Clause (WAC) Formula authorized by the then Energy Regulatory Board through ERB Case Nos. 94-25 and 94-96. The then Board allowed the implementation of the WAC Formula based on three (3) established criteria for it to be classified under automatic adjustment clauses. These are: 1) when such costs are extremely volatile, changing rapidly over a short period of time; 2) when such volatile cost changes represent significant portions of total utility operating expenses; and 3) when such volatile cost changes are beyond the ability of the utility to control.

Analysis shows that the wage adjustments do not warrant an automatic recovery clause. The Commission, therefore, rules that the application of the WAC Formula be discontinued. The growth in kWh sales will be sufficient for the electric cooperatives to absorb increases in salaries/wages mandated by the wage orders.

II.A.4. OPERATION and MAINTENANCE (less Purchased Power and Payroll)

In general, operating expenses allowed are those which are reasonably incurred in connection with business operations to yield revenue or income. These should be required or necessary in the operation of an electric distribution utility, are recurring, and should redound to the service or benefit of end-users.

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

“Reasonable costs” 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 LUBELCO to institute and report to the Commission its respective policies and procedures for cost-cutting and for the transparent and competitive procurement of goods and services.

LUBELCO'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 LUBELCO's viability. To this end, LUBELCO should view a petition for an increase in rates to be the last recourse. In future filings, LUBELCO 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 116,405 to the Operation and Maintenance Expenses as follows:

Expenses related to Own Generation which was included in Power Cost Computation	31,549
Decrease in Total Distribution Costs to reduce the resulting Computed OATA to the amount actually applied for by the cooperative	<u>84,856</u>
TOTAL ADJUSTMENT	<u>116,405</u>

The said expenses were excluded for revenue requirement determination. These expenses translate to PhP 0.0970/kWh which the Commission considers material.

For future rate cases, LUBELCO will continually be required to make full disclosure of all its Operation & Maintenance expenses and be responsible in providing documentation to prove the reasonableness and prudence of all its expenditures. LUBELCO should ensure that procedures are put in place so that all expenditures included in the determination of revenue requirement are adequately documented and that such documentation is reasonably accessible to the ERC.

II.A.5. OTHER REVENUE ITEMS

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

The Commission encourages LUBELCO to improve its financial operation through the development of other sources of revenue in order to balance the interest of LUBELCO and its end-user. In recognition of the fact that some of the cost incurred in rendering services under ORI have been included in the determination of revenue requirements, the Commission has adopted the following policy. 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-user by including 50% in revenue requirement.

The total non asset-based ORI which were not deducted from revenue requirement amounted to PhP 62,838.

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

Other Revenue Items	Amount (PhP)
Transformer Rental	12,900
TOTAL	12,900
50% of the above	6,450

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

II.A.6. DEBT SERVICE

The Commission made a downward adjustment of PhP 122,317 to ensure that the debt service account included in LUBELCO's revenue requirement is consistent with NEA's records. The Commission disallowed the interest cost associated with Cash Working Capital as calculated by LUBELCO due to lack of justification. The details of the adjustment are as follows:

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LOANS	PER NEA (PhP)	PER LUBELCO (PhP)	Variance (PhP)
RURAL ELECTRIFICATION			
Loan A	159,399	159,399	0
Loan B	12,047	12,047	0
Loan B2	216,738	216,738	0
Loan C	156,208	156,208	0
Loan D	140,948	140,948	0
Loan E	46,148	46,148	0
Loan F	234,864	234,864	0
Loan G	272,191	272,191	0
CONCESS'L LOAN	24,180	24,180	0
LOGISTICAL LOAN			
VEH. (Kia Ceres) *		90,692	(90,692)
OTHER LOANS *			
School Wiring		636	(636)
Banca Gasifier		2,627	(2,627)
Jeepney Gasifier		15,891	(15,891)
Housewiring		3,180	(3,180)
Interest Cost on CWC		9,291	(9,291)
TOTAL	1,262,723	1,385,040	(122,317)

* Fully Amortized as of June 2002 per NEA Loan Profile.

Pursuant to Section 60 of R.A. 9136 and E.O. 119, savings realized by electric cooperatives (ECs) due to the assumption of certain loans by the Power Sector Assets and Liabilities Management Corporation (PSALM Corp.) shall be passed on to EC's end-users. LUBELCO 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 dated July 21, 2003, granted LUBELCO a Provisional Authority to reduce its rates by PhP 0.5309/kWh effective on the next billing cycle after receipt of the said Order. The said reduction in rates is likewise shown on the rate schedule provided in the Disposition of this Decision.

II.A.7. REINVESTMENT FUND

The Commission permits a reinvestment fund equivalent to 5% of a cooperative's Gross Revenue to finance expansion and rehabilitation/upgrading of its existing electric power system in accordance with the submitted System Rehabilitation/Upgrading and/or System Loss Reduction Plan. This resulted in an upward adjustment of PhP 363,436 in the reinvestment fund account.

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

- d) LUBELCO 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 the approved revenue requirement with that proposed by LUBELCO:

	LUBELCO Proposal (PhP)	Adjustments (PhP)	ERC Approval (PhP)
Purchased Power (Inclusive of Fuel Cost amounting to PhP 264,237)	3,967,239	1,572,762	5,540,001
Payroll	2,212,347	(44,260)	2,168,087
O & M (less PP & Payroll)	2,111,917	(116,405)	1,995,512
Debt Service	1,385,040	(122,317)	1,262,723
Reinvestment Fund ³ (5%)	213,399	363,436	576,835
Other Revenue Items	0	(6,450)	(6,450)
Total Revenue Requirement	9,889,942	1,646,766	11,536,708

³ In the UFR, this item is reflected as "Plus Percentage for Cooperative Investment".

LUBELCO proposed an OATA of PhP 1.5600/kWh using rates of year 2000 (as discussed in Section I.A. of this Decision). The OATA is a measurement tool based on the formula: $[(\text{Total Revenue Requirement less Existing Revenue}) \div \text{kWh sales}]$. This measurement is not meant to refer to any specific customer class.

The Commission, after considering adjustments of PhP 1,646,766 approves a Total Revenue Requirement of PhP 11,536,708 equivalent to an OATA of PhP 1.5600/kWh for which it asked for.

There is a difference in the computation of the OATA published by the electric cooperative and the OATA approved by the Commission. The published OATA pertains to the difference between LUBELCO'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 LUBELCO 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

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

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

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

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

Factor Name	Functionalization Factor Description	Total Check	Generation	Transmission	Distribution	Supply	Metering
ORI	Other Revenue Items	1.0000	0.0000	0.0000	0.4122	0.4391	0.1487

LUBELCO submitted a classification of distribution costs into demand and customer-related costs using the Minimum Plant Method. This resulted in a 46 – 54% allocation on the average.

II.B.2. DESIGN and CALCULATION OF CHARGES

II.B.2.a. GENERATION CHARGE

Consistent with the decision in ERC Case No. 2002 - 01 [In the Matter of the Application for Approval of the Unbundled Power Rates and Basic Rate Increase in the Small Island Grids, National Power Corporation – Applicant] dated December 20, 2002, the generation charge to be billed to end-users shall be the approved rate per kilowatt-hour including Basic Rate, Fuel Cost Adjustment (FCA) adjustment. The NPC-SPUG's approved rate will remain fixed until changes are authorized by the Commission pursuant to its Order dated February 24, 2003 as discussed in Section II.A.2. of this Decision. This allows LUBELCO's Generation Charge to remain fixed until such time that

NPC-SPUG's approved rate is adjusted. This eliminates the need for future Purchased Power Adjustment (PPA).

II.B.2.b. 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. The Commission rules that for LUBELCO – Mainland, the System Loss Charge for all end-users shall be PhP 0.6541/kWh. For LUBELCO – Cabra, the System Loss Charge for all end-users shall be PhP 0.2880/kWh.

The allowed system loss is equal to the average system loss for the years 2000, 2001 and 2002 or the system loss cap, whichever is lower. In arriving at this decision, the Commission recognizes that the distribution utility faces some risk of over or under-recovery in the event its load characteristics change through time. The system loss results in additional unbundled generation costs to be paid by end-users. When system loss is within the allowable cap, the distribution utility is able to recover from the end-users all generation costs. Thus, system loss in excess of the allowable cap shall not be recovered from the end-users as calculated in Section II.A.2. of this Decision.

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

The Commission believes that the present cap on Technical and Non-Technical System Loss of 14% should continue to be used. This would, however, be subject to change upon the approval of a new policy by the Commission. The average Technical and Non-Technical System Loss or cap of 14% plus 1% cooperative own use (which should not include personal consumption of LUBELCO's Board of Directors, officers and staff), whichever is lower, shall be deducted from total power cost and to be billed separately as System Loss Charge.

The Commission found that LUBELCO's 2000 to 2002 average system losses were 21.02% and 1.93% for the Mainland and Cabra, respectively. Hence, the Commission used the system loss of 14% for Mainland and 1.93% for Cabra in the calculation of LUBELCO's revenue requirement.

II.B.2.c. DISTRIBUTION CHARGE

The distribution charge shall be billed on a fixed rate per kilowatt-hour for all end-users.

LUBELCO 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 LUBELCO's facilities shall pay wheeling charges equivalent to Distribution Wheeling Charges for Industrial customers.

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

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

The Commission acknowledges that cost-causation rate design principle suggests the recovery of customer-related costs associated with the metering and supply functions through fixed monthly charges. Along with this cost-of-service principle, however, the Commission also considers rate design impacts across the spectrum of customers within each rate class. Although R.A. 9136 requires the removal of inter-class cross subsidies, the law does not require removal of revenue flows that may be characterized as intra-class cross subsidies. The Commission has the flexibility to consider other factors in determining rate design for a particular class of end-users. Therefore, to mitigate the impact on below-average consumption of residential end-users, the Commission orders LUBELCO to use a combination of PhP 5.00 per meter per month and a PhP 0.6552 per kWh rate for the metering function and orders LUBELCO to use a PhP per kWh rate for the supply function. For Commercial, Industrial, and Public Buildings end-users, metering charge shall be billed a fixed rate per meter per month. However, unmetered Street Lights customer class will not be billed a metering charge. The supply charge shall be billed on a fixed rate per customer per month for all end-users (except the Residential).

II.B.2.e. CABRA RATES

The Commission acknowledges that the revenue requirement for the operation of Cabra was included in the unbundling of rates application of LUBELCO.

However, LUBELCO's own generator serves as back-up power source for Cabra only. LUBELCO is authorized to bill an unbundled Generation Charge of PhP 14.61 per kWh and a System Loss charge of PhP 0.2880 per kWh to customers of Cabra. In addition, Cabra customers shall not be billed any transmission charge. As for all other charges, it shall apply the same unbundled rates specified for each customer class in this Decision.

II.B.3. INTER-CLASS CROSS SUBSIDY

II.B.3.a. CROSS SUBSIDY RATE CALCULATION

The inter-class cross subsidies in existing rates are as follows:

	Total	Residential	Commercial	Industrial	Public Bldg.	Street Lights
New Cost-Based Rev. Req.	11,536,708	9,566,968	999,198	110,360	603,408	256,774
Existing Rates Revenue	9,665,426	7,448,985	1,267,513	123,154	633,925	191,849
Total Change in Revenue	1,871,282	2,117,983	(268,315)	(12,794)	(30,517)	64,925
Percentage Change in Revenue	19.36%					
Normalized Existing Revenue	11,536,708	8,891,152	1,512,911	146,997	756,656	228,992
Inter-Class Cross - Subsidy Amounts (PhP)	0	(675,816)	513,713	36,637	153,248	(27,782)
Class Billing Determinants (in kWh)	1,199,540	925,761	115,995	15,157	78,784	23,843
Inter-Class Cross Subsidy Rates (PhP / kWh)	0	(0.7300)	3.2931	2.4172	1.9452	(1.1652)

II.B.3.b. CROSS SUBSIDY REMOVAL

Section 74 of R.A. 9136 and Rule 16, Section 5 of its Implementing Rules and Regulations provide that the ERC shall issue a scheme for phasing out all cross subsidies including subsidies within Grids, between Grids, and between classes of end-users. The phasing-out period shall not exceed three

(3) years from the establishment of the Universal Charge, which may be extended for a maximum period of one (1) year subject to certain conditions.

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

II.B.4. LIFELINE RATE and LEVEL

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

In determining the minimum lifeline level of consumption to be provided to the marginalized end-users, the Commission calculated the probable load requirement of typical low-income end-users by considering two (2) lighting facilities at 20 watts each and a 50-watt radio that are being used for a reasonable number of hours. In setting the maximum level of lifeline consumption, the Commission may adjust the minimum level of consumption and/or 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 10 kWh for LUBELCO. 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 LUBELCO. The graduated scale is also based on the recognition that individual end-user consumption may likely vary from month to month.

7 kWh and below	-	10%
8 -10 kWh	-	5 %

LUBELCO shall apply these discounts to the following residential charges: Generation, 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 10 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 LUBELCO, the lifeline discounts result in a Lifeline Rate Subsidy by other end-users equal to PhP 0.0568/kWh.

II.B.5. OTHER CHARGES

LUBELCO's additional submission to this Commission of its existing Other Charges as previously presented were considered in the determination of its revenue requirement. Fifty Percent (50%) of the revenues derived from these charges were appropriately deducted from the revenue requirement allowed to LUBELCO. 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 LUBELCO are hereby pegged at their existing levels until such time that the Commission sets new rates on the same. Further, LUBELCO is ordered to make a compliance filing on its Other Charges one (1) year from the date of this Decision using a format to be prescribed by the Commission.

The compliance filing for the approval of Other Charges shall include rates that are cost-based, as well as all supporting cost justification for the rates, including but 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 AN AVERAGE RESIDENTIAL END-USER

A comparison of the estimated impact of all adjustments to the revenue requirement on the monthly bill of an average residential end-user consuming 25 kWh a month for LUBELCO – Mainland and 12 kWh a month for LUBELCO – Cabra, using rates based on LUBELCO's actual existing rates as of January 2004 against the unbundled rates approved by the Commission, is shown below.

For LUBELCO's Customers in Mainland:

Based on Actual Existing Rates			Based on ERC Approved Unbundled Rates			
	PhP/kWh	Amount (PhP)			PhP/kWh	Amount (PhP)
Basic Rate	5.8989	147.47	Generation Charges:		3.7064	92.66
PPA	1.7785	44.46	Distribution Charge		2.3823	59.56
WAC	0.2128	5.32	System Loss Charge		0.6541	16.35
PAR	(0.3000)	(7.50)	Supply Charge		2.4140	60.35
Universal Charge:			Metering Charges:			
Missionary Electrification	0.0373	0.93	Per Meter Per Month			5.00
Environmental Share	0.0025	0.06	Per kWh		0.6552	16.38
Rate Reduction due to Loan Condonation	(0.5309)	(13.27)	Inter-Class Cross Subsidy		(0.7300)	(18.25)
			Universal Charge:			
			Missionary Electrification		0.0373	0.93
			Environmental Share		0.0025	0.06
			Lifeline Rate[(Discount)/Subsidy]		0.0568	1.42
			Power Act Reduction		(0.3000)	(7.50)
			Rate Reduction due to Loan Condonation		(0.5309)	(13.27)
TOTAL BILL		177.48	TOTAL BILL			213.69
PhP/kWh		7.0991	PhP/kWh			8.5477

For LUBELCO's Customers in Cabra:

Based on Actual Existing Rates			Based on ERC Approved Unbundled Rates			
	PhP/kWh	Amount (PhP)			PhP/kWh	Amount (PhP)
Basic Rate	10.0000	120.00	Generation Charges:		14.6100	175.32
PPA	1.7785	21.34	Distribution Charge		2.3823	28.59
WAC	0.2128	2.55	System Loss Charge		0.2880	3.45
PAR	(0.3000)	(3.60)	Supply Charge		2.4140	28.97
Universal Charge:			Metering Charges:			
Missionary Electrification	0.0373	0.45	Per Meter Per Month			5.00
Environmental Share	0.0025	0.03	Per kWh		0.6552	7.86
Rate Reduction due to Loan Condonation	(0.5309)	(6.37)	Inter-Class Cross Subsidy		(0.7300)	(8.76)
			Universal Charge:			
			Missionary Electrification		0.0373	0.45
			Environmental Share		0.0025	0.03
			Lifeline Rate[(Discount)/Subsidy]		0.0568	0.68
			Power Act Reduction		(0.3000)	(3.60)
			Rate Reduction due to Loan Condonation		(0.5309)	(6.37)
TOTAL BILL		134.40	TOTAL BILL			231.62
PhP/kWh		11.2002	PhP/kWh			19.3019

DISPOSITION

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

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

For LUBELCO's Customers in Mainland:

	Res.	Com.	Industrial	Public Bldg.	Street Lights
Generation Charges:					
Generation System Charge PhP/kWh	3.7064	3.7064	3.7064	3.7064	3.7064
System Loss Charge PhP/kWh	0.6541	0.6541	0.6541	0.6541	0.6541
Distribution Charges:					
Demand Charge PhP/kWh					
Distribution System Charge PhP/kWh	2.3823	1.2356	1.2556	2.1471	6.0772
Supply Charges:					
Retail Customer Charge PhP/Customer/ Mo.		64.55	60.85	63.37	31.38
Supply System Charge PhP/kWh	2.4140				
Metering Charges:					
Retail Customer Charge PhP/Meter/ Mo.	5.00	20.98	26.78	20.98	
Metering System Charge PhP/kWh	0.6552				
Inter-Class Cross Subsidy Charge PhP/kWh	(0.7300)	3.2931	2.4172	1.9452	(1.1652)
Universal Charge:					
Missionary Electrification Charge PhP/kWh	0.0373	0.0373	0.0373	0.0373	0.0373
Environmental Share PhP/kWh	0.0025	0.0025	0.0025	0.0025	0.0025
Lifeline Rate (Discount)/Subsidy PhP/kWh	0.0568	0.0568	0.0568	0.0568	0.0568
Loan Condonation PhP/kWh	(0.5309)	(0.5309)	(0.5309)	(0.5309)	(0.5309)
Power Act Reduction PhP/kWh	(0.3000)				
Lifeline Rate (Discount)/Subsidy. To be based on Residential rate in a graduated scale as provided in Section II.B.4. of this Decision.					
Loan Condonation. Pursuant to Order on ERC Case No. 2003-155 dated July 21, 2003.					

For LUBELCO's Customers in Cabra:

	Res.	Public Bldg.
Generation Charges:		
Generation System Charge PhP/kWh	14.6100	14.6100
System Loss Charge PhP/kWh	0.2880	0.2880
Distribution Charges:		
Demand Charge PhP/kWh		
Distribution System Charge PhP/kWh	2.3823	2.1471
Supply Charges:		
Retail Customer Charge PhP/Customer/ Mo.		63.37
Supply System Charge PhP/kWh	2.4140	
Metering Charges:		
Retail Customer Charge PhP/Meter/ Mo.	5.00	20.98
Metering System Charge PhP/kWh	0.6552	
Inter-Class Cross Subsidy Charge PhP/kWh	(0.7300)	1.9452
Universal Charge:		
Missionary Electrification Charge PhP/kWh	0.0373	0.0373
Environmental Share PhP/kWh	0.0025	0.0025
Lifeline Rate (Discount)/Subsidy PhP/kWh	0.0568	0.0568
Loan Condonation PhP/kWh	(0.5309)	(0.5309)
Power Act Reduction PhP/kWh	(0.3000)	
Lifeline Rate (Discount)/Subsidy. To be based on Residential rate in a graduated scale as provided in Section II.B.4. of this Decision.		
Loan Condonation. Pursuant to Order on ERC Case No. 2003-155 dated July 21, 2003.		

2. To direct LUBELCO to comply with the following:
 - a) Discontinue charging the PPA upon effectivity of the approved unbundled rates. Any change in the cost of power purchased shall be reflected as deferred charges or credits which shall be recovered through GRAM;
 - b) Discontinue the application of Wage Adjustment Clause (WAC) formula upon effectivity of the approved unbundled rates;
 - c) Bill P 0.0373/kWh representing the missionary electrification portion of the Universal Charge in accordance with the Decision of the Commission in ERC Case No. 2002-165 (In the Matter of the Petition for the Availment from the Universal Charge the Share for Missionary Electrification, NPC-SPUG, Applicant);
 - 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 said approved unbundled rates not later than thirty (30) days after receipt of this Decision;

- g) Submit for verification and confirmation purposes on or before the twentieth (20th) day of the month following the effectivity of the approved unbundled rates and every month thereafter:
 - 1) five (5) sample bills for each end-user class; 2) copy of bills from the generation and transmission companies; and
 - 3) Monthly Financial and Statistical Reports (MFSRs), complete with all related schedules;

- h) Make a formal application with the Commission for the approval of existing or future contracts with any entity for the wholesale purchases of power not yet approved by the Commission;

- i) Make a formal application to continue the use of Other Charges within one (1) year from date of this Decision using a format to be prescribed by the Commission;

- j) File a progress report on the reinvestment fund 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 Program covering the period 2004 to 2008, no later than one (1) year after the date of this Decision using a format to be prescribed by the Commission; and

- I) 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 29, 2004.

RODOLFO B. ALBANO, JR.
Chairman

OLIVER B. BUTALID
Commissioner

CARLOS R. ALINDADA
Commissioner

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Commissioner

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