

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. 2001-992

BOHOL II ELECTRIC COOPERATIVE,
INC. (BOHECO II),

Applicant.

X-----X

D E C I S I O N

Before this Commission for resolution is the application filed on December 20, 2001 by applicant Bohol II Electric Cooperative, Inc.(BOHECO II) for the 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 October 4, 2002 were issued setting the same for hearing on November 19, 2002.

BOHECO 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 nationwide circulation in the country, the last date of publication to be made not later than two (2) weeks before the scheduled date of initial hearing. In compliance with the said directive, BOHECO II had the Notice of Public Hearing published in the "*Manila Times*" and "*Kabayan*", both on October 21 and 28, 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 Municipal Mayors of Alicia, Anda, Bien Unido, Buenavista, Candijay, President Carlos P. Garcia, Dagohoy, Danao, Duero, Getafe, Guindalman, Garcia-Hernandez, Jagna, Mabini, Pilar, San Miguel, Sierra Bullones, Talibon, Trinidad, Ubay and Valencia, all in the Province of Bohol, were furnished with copies of the Order and the Notice of Public Hearing for the appropriate posting thereof on their respective bulletin boards.

At the Initial Hearing on November 19, 2002, only BOHECO II appeared. No oppositor appeared nor was there any opposition registered.

During said hearing, BOHECO II submitted proofs of compliance with the publication and posting of notice requirements, which were duly marked as Exhibits “A” to “C-20”, inclusive, Thereafter, it presented its witnesses, Mr. Saturnino Forones, BOHECO II’s Internal Auditor, and Engr. Eugenio Tan, BOHECO II’s Engineering Services Manager, for direct examinations. Witness Forones testified on the preparation of the various documents in support of the application, including the schedules. On the other hand, witness Tan testified on the technical aspects of the application. In the course of their direct examinations, documents were presented and marked as Exhibits “D” to “X” inclusive. The Commission then propounded clarificatory questions on both witnesses. In the course thereof, BOHECO II was directed to submit various documents.

On January 28, 2003, BOHECO II submitted said documents. Subsequently, on August 1, 2003, BOHECO II filed its “Formal Offer of Evidence” which is now admitted by the Commission for the purposes for which they were being offered.

I. SUMMARY OF BOHECO II’s APPLICATION

I.A. REVENUE REQUIREMENT

BOHECO II’s revenue requirement per unbundled application based on historical test year 2000 was as follows:

Account Name	HISTORICAL YEAR
Purchased Power	116,730,037
Payroll	12,435,457
Operation and Maintenance (less Purchased Power & Payroll)	17,820,576
Other Expenses	228,951
Debt Service (plus interest cost of cash working capital)	13,736,727
Revenue Requirement	160,951,748
Less: Other Revenue Items	2,297,235
Reinvestment Fund ¹ (14%)	8,057,750
TOTAL REVENUE REQUIREMENT	166,712,263

BOHECO II's proposed revenue requirement was PhP 166,712,263, based on audited historical costs for the year 2000. The Overall Average Tariff Adjustment (OATA) published was PhP 0.7171/kWh based on year 2000. BOHECO II, however, made some adjustments on its existing revenue upon which the published OATA was based. Consequently, it re-submitted a revised OATA of PhP 0.5981/kWh.

BOHECO II also submitted its Audited Financial Statements for the year 2000.

I.B. RATE STRUCTURE/DESIGN

The unbundled rates proposed by BOHECO II were as follows:

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

Residential/BAPA Energy Charge Retail Customer Charge Metering Charge	Php 6.0146 16.81 13.19	Per kWh /Customer/mo. /Customer/mo.
Commercial Energy Charge Retail Customer Charge Metering Charge	5.1209 33.14 26.86	Per kWh /Customer/Mo. /Customer/Mo.
Industrial Energy Charge Demand Charge Retail Customer Charge Metering Charge	4.9533 132.28 44.99 55.01	Per kWh Per kW /Customer/Mo. /Customer/Mo.
Public Buildings Energy Charge Retail Customer Charge Metering Charge	5.8640 5.52 4.48	Per kWh /Customer/Mo. /Customer/Mo.
Street Lights Energy Charge Retail Customer Charge Metering Charge	6.2925 16.87 13.13	Per kWh / Customer/Mo. / Customer/Mo.

I.B.1. FUNCTIONALIZATION, CLASSIFICATION and ALLOCATION

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

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

I.B.2. SYSTEM LOSS

The actual System Loss for the year 2000 was 20.00%. BOHECO II adopted the actual purchased power cost net of Primary Voltage and Power Factor Discounts.

I.B.3. INTER-CLASS CROSS SUBSIDY

BOHECO II 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/BAPA	108,224,232	115,082,413	6,858,181
Commercial	23,705,246	20,671,418	(3,033,828)
Industrial	19,332,918	16,363,757	(2,969,161)
Public Buildings	12,585,782	10,743,964	(1,841,818)
Street Lights	2,864,085	3,850,711	986,626
Total	166,712,263	166,712,263	0.00

I.B.4. LIFELINE RATE and LEVEL

BOHECO II proposed the following level and rate (equal to the existing rate) for marginalized end-users:

Level	8 kWh
Rate	PhP 6.0146/kWh

I.C. OTHER CHARGES

BOHECO II, in its subsequent submission, provided this Commission with information on its existing Other Charges as shown below.

PARTICULARS	RATES/UNIT
Account Initiation Charge:	
Charge will be applied when meter installation is not required at an existing location.	25.00
Charge will apply when meter installation is required at an existing location.	50.00
Disconnect/Reconnect – Business Hours	
At Meter	50.00
At Pole, Weatherhead or Secondary Box	50.00
Disconnect/Reconnect – Outside Business Hours	
At Meter	50.00
At Pole, Weatherhead or Secondary Box	50.00
Tampering Charge	6,000.00

BOHECO II proposed to adjust and add to its existing charges which are as follows:

PARTICULARS	RATES/UNIT
Account Initiation Charge:	
Charge will be applied when meter installation is not required at an existing location.	100.00
Charge will apply when meter installation is required at an existing location.	100.00
Service Call Charge:	
During Business Hours	100.00
Outside Business Hours	150.00
Installation of test equipment requested by REP	Calculated
Disconnect/Reconnect – Business Hours	
At Meter	50.00
At Pole, Weatherhead or Secondary Box	100.00
Disconnect/Reconnect – Outside Business Hours	
At Meter	100.00
At Pole, Weatherhead or Secondary Box	200.00
Requested Service Interruption Charge	Actual Cost
Facilities Relocation/Removal Charge	
During Business Hours (per Hour)	250.00
Outside Business Hours (per Hour)	500.00
Temporary Facilities Charge	
A. Connect or disconnect service and read a meter already installed	100.00
B. Install or remove single phase service and read a meter already installed	100.00
C. Install and remove single phase service wires, meter and transformers (up to 50 kVA)	Calculated
D. Underground Cable By-pass Charge	Calculated
E. All other temporary facilities – installation and removal	Calculated
Return Check or Bank Draft Charge (Penalty)	100.00
Off-Site Meter Reading (OMR) Equipment Installed Charge	Equipment Installed, labor and overhead
Requested Meter Test Charges	
Single Phase Self Contained	100.00
Three Phase Self Contained	200.00
Single Phase Instrument Rated	100.00
Three Phase Instrument Rated	200.00
Broken Meter Seal Charge	Actual Cost
Denial of Access to Meter Charge	500.00
Utility Service Switchover Charge	Calculated
Security Light Repair Charge (per Hour)	100.00
Miscellaneous Discretionary Service Charge	Calculated
Non-Standard Service Equipment	600.00
Inspection/Testing Charge (per Hour)	Plus associated charges

II. COMMISSION DISCUSSIONS and CONCLUSIONS

II.A. DETERMINATION OF TOTAL REVENUE REQUIREMENT

II.A.1. TEST YEAR

The Commission finds BOHECO II'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, using audited financial statement figures for historical test year 2000.

II.A.2. GENERATION and TRANSMISSION COSTS

At present, BOHECO II is buying power from National Power Corporation (NPC).

The Generation Charges shall reflect the generation charge as provisionally authorized by the Commission in the joint filing of National Power Corporation (NPC) and Power Sector Assets and Liabilities Management Corporation (PSALM) in its Order dated September 29, 2003, Case No. 2003-291 [In the Matter of the Application for the Approval of the Revised Unbundled Generation Tariffs] and the revised methodology designated as the "Long-Run Avoidable Cost" (LRAC) methodology in lieu of the "Return on Rate Base" (RORB) methodology for the determination of the NPC's and PSALM's generation rates.

For the Bohol Province, the Generation Rate is equivalent to the sum of the Annual LRAC Average Rate, and Franchise & Benefits to Host Communities (please refer to Section II.B.2.b. for details). The implementation of NPC's Generation Rate Adjustment Mechanism (GRAM) and FOREX in Bohol grid is terminated upon the effectivity of the approved rates based on the LRAC Methodology.

Furthermore, the Generation Charges shall also reflect the Incremental Currency Exchange Rate Adjustment (ICERA) as approved in ERC Order dated December 4, 2003, Case No. 2003 – 498 [In the Matter of the Adoption of the Incremental Currency Exchange Rate Adjustment, National Power Corporation (NPC) and Power Sector Assets and Liabilities Management Corporation (PSALM), Applicants] . The ICERA rate of PhP (0.0065)/kWh will be implemented by NPC and PSALM within a period of six months starting December 2003 to May 2004.

The Transmission Charges of the National Transmission Corporation (TRANSCO) as approved in ERC Orders dated September 6 and 20, 2002, Case No. 2001-901 [In the Matter of the Application for the Approval of the Revised Unbundled Power Rates, National Power Corporation (NPC) – Applicant]. A separate charge to account for the allowable system loss shall likewise be provided in the bill to end-users (please refer to Section II.B.2.d. for details). Hence, a distribution utility with system loss that is within the

allowable cap can recover from its end-users the total cost of generation and transmission. *Annualization*² of the billing determinants was applied.

The downward adjustment of PhP 11,596,979 made by the Commission to Purchased Power consisted of the following:

Adjustment to Purchased Power Cost	PhP	4,743,667
Adjustment to System Loss		6,853,312
Total Adjustments	PhP	11,596,979

The adjustment made by the Commission to Purchased Power Cost of PhP 4,743,667 pertains to the difference between the proposed purchased power of BOHECO II amounting to PhP 116,730,037 and the purchased power cost based on the new rates of NPC and TRANSCO amounting to PhP 111,986,370.

Records show that BOHECO II's 2000-2002 average system loss (excluding cooperative own use) was 18.85%. The Commission allowed a system loss of 14% in the calculation of BOHECO II's revenue requirement, as discussed in Section II.B.2.d. of this Decision. Thus, the Commission made an adjustment to system loss of PhP 6,853,312 to exclude the excess of actual system loss over the allowable recoverable cap of PhP 15,243,583.

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 charges and transmission charges, as well as the allowable system loss, the Commission sets BOHECO II's unbundled Generation, Transmission, and Recoverable System Loss as follows:

Generation Charge	PhP	69,695,030
Transmission Charge		20,194,445
Recoverable System Loss		15,243,583
Total	PhP	105,133,058

BOHECO II's approved generation charge shall remain fixed until changes in NPC's generation rate are approved and authorized by the Commission pursuant to its Order dated September 29, 2003, Case No. 2003-291 [In the Matter of the Application for the Approval of the Revised Unbundled Generation Tariffs]. In which case, BOHECO II shall bill its end-users the new generation rate charged by NPC. In the meantime, BOHECO 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 on the payroll account by PhP 3,339,177, bringing this to the current salary level of PhP 15,774,634. The adjustment is due to updating salary levels approved by BOHECO II's Board thru Board Resolution No. 81, Series of 2002.

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 a utility, are recurring, and should redound to the service or benefit of end-users.

The Commission enjoins BOHECO II to incur only “prudent and reasonable costs” for inclusion in the determination of retail rates. While a

distribution utility enjoys the benefit of passing its costs of purchased power and other reasonable costs to the end-user, 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 BOHECO II 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.

BOHECO 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 BOHECO II's viability. To this

end, BOHECO II should view a petition for an increase in rates to be the last recourse. In future filings, BOHECO 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 1,773,168 on BOHECO II's Operation and Maintenance Expenses as follows:

Excluded Expenses

Amount in the UFR that exceeds what is allowed

under NEA Guidelines

Bonus & Cash Gift	PhP	1,047,583
Other Benefits of BOD & Officers		558,085
BAPA Collectors' Honorarium		167,500
Total Excluded Expenses	Php	<u><u>1,773,168</u></u>

These expenses were excluded for revenue requirement determination and translate to PhP 0.0680/kWh, which the Commission considers material.

For future rate cases, BOHECO II will continually be required to make full disclosure of all its O & M expenses and be responsible in providing documentation to prove the reasonableness and prudence of all its expenditures. BOHECO II should ensure that procedures are put in place so that all expenditures that are included in the determination of revenue

requirement are adequately documented and that such documentation is reasonably accessible to the ERC.

II.A.5. OTHER REVENUE ITEMS

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

The Commission encourages BOHECO II to improve its financial operation through the development of other related sources of revenue. In order to balance the interests of BOHECO II and its end-users and in recognition of the fact that some of the costs incurred in rendering services under ORI had already been included in the revenue requirement, 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 the total revenue requirement amounts to PhP 1,799,015.

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

OTHER REVENUE ITEMS

Transformer Rental	PhP	<u>1,074,180</u>
50% of the Above	PhP	<u>537,090</u>

The amount excluded from revenue requirement is less than the amount proposed by BOHECO II by PhP 1,531,194.

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

II.A.6. DEBT SERVICE

The Commission made a downward adjustment of PhP 2,019,499 to assure that the debt service account included in BOHECO II's revenue requirements is consistent with NEA's records. The Commission disallowed the interest cost associated with cash working capital as calculated by BOHECO II due to lack of justification and loans from other banks. The details of the adjustment are shown below:

LOANS	AMOUNT (PhP)
PER NEA	
Rural Electrification:	
LOAN A	1,904,840
LOAN B	430,800
LOAN C1	1,839,148
LOAN D (OD)	1,481,852
LOAN E (FR)	719,524
LOAN F	1,483,212
Restructured #2	923,272
World Bank – ESL (A)	320,096
World Bank – ESL (B)	537,088
OECF - RE	2,077,396
TOTAL	11,717,228
LESS:	
Proposed Debt Service	12,517,004
Interest on Cash Working Capital	1,219,723
NET ADJUSTMENT	(2,019,499)

Thus, the total allowable amount of debt service in the determination of the revenue requirement should be PhP 11,717,228.

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 PSALM shall be passed on to the ECs' end-users. BOHECO II applied for a rate reduction pursuant to 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 June 09, 2003, granted BOHECO II a Provisional Authority to reduce its rates by PhP 0.2243/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 a downward adjustment of PhP 261,158 to the reinvestment fund account representing the excess over the 5% allowed by the Commission.

One of the main purposes of providing the 5% Reinvestment Fund is for the end-users of BOHECO 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 BOHECO II;

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

- d) BOHECO 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 BOHECO II:

Account Name	BOHECO II Proposal	Adjustments	ERC Approval
Purchased Power	116,730,037	(11,596,979)	105,133,058
Payroll	12,435,457	3,339,177	15,774,634
O & M (less PP & Payroll)	17,820,576	(1,773,168)	16,047,408
Debt Service	13,736,727	(2,019,499)	11,717,228
Reinvestment Fund ³	8,057,750	(261,158)	7,796,592
Other Revenue Items	(2,068,284)	1,531,194	(537,090)
Total Rev. Requirement	166,712,263	(10,780,433)	155,931,830

BOHECO II proposed an OATA of PhP 0.7171/kWh using rates of year 2000. The OATA is a measurement tool based on the formula: [(Total Revenue Requirement less Existing Revenue) divided by kWh sales]. This measurement is not meant to refer to any specific customer class.

The Commission, after considering adjustments of PhP (10,780,433), approves a total revenue requirement of PhP 155,931,830 based on the year 2000, equivalent to an OATA⁴ of PhP 0.3365/kWh for BOHECO II. The actual impact to end-users will depend on the level of rates currently being charged. This impact is illustrated in Sec. II.B.6 of this Decision.

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

⁴ The OATA was computed using existing approved distribution rates (inclusive of current WAC, if any) and unbundled power cost as of November 2003.

II.B. RATE STRUCTURE/DESIGN DETERMINATION

II.B.1 FUNCTIONALIZATION, CLASSIFICATION and ALLOCATION

The functionalization and allocation factors used by BOHECO II were the default factors provided for in the UFR issued by the Commission on October 30, 2001. In the case of BOHECO II, 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 BOHECO 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 transmission function.

Third, since the Commission is now including Other Revenue Items (ORI), 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	1.0000	0.0000	0.0000

BOHECO II submitted a classification of distribution cost into demand- and customer-related cost using the Minimum-Plant Method. This method resulted in a 60%-40% allocation on the average.

II.B.2. DESIGN and CALCULATION OF CHARGES

II.B.2.a. BAPA

The Commission, in the design and calculation of charges, takes note of the existence of the Barangay Power Associations (BAPAs) that were conceptualized by the National Electrification Administration (NEA) for the purpose of strengthening member awareness and involvement in efforts towards the reduction of system loss, improvement of collection efficiency, and fortification of the institutional consciousness in the grassroots level. The creation of BAPAs was also necessitated by the growing number of cooperatives' membership, which made it impossible for the cooperatives to physically reach out to all end-users.

The cooperatives are responsible for the energization of the BAPAs while the latter is responsible for the maintenance of the electric lines and other

installed equipment, and the reading and billing of respective member end-users. The cooperatives, in this regard, are mandated to grant various incentives to BAPAs such as three percent (3%) prompt payment discount, rebates on kWh sold, system loss allowance, honorarium for working BAPA officers, annual cash rewards for outstanding BAPAs, and livelihood projects.

The Commission further acknowledges that cooperatives that have instituted BAPAs in their respective franchise areas incur costs with respect to the generation and distribution of power. With reference to the supply and metering functions, the cooperatives generally sustain minimal costs because they only read and bill the BAPAs' mother meters.

In the design and calculation of changes, the Commission did not consider the BAPA as a separate customer class.

II.B.2.b. GENERATION CHARGE

Consistent with the Commission's Orders dated September 29, 2003, Case No. 2003-291 [In the Matter of the Application for the Approval of the Revised Unbundled Generation Tariffs], and December 4, 2003, Case No. 2003-498 [In the Matter of the Adoption of the Incremental Currency Exchange Rate Adjustment (ICERA)], the revised generation charge to be billed to end-users shall be the approved rate per kilowatt-hour including Benefits to Host Communities, and the ICERA rate of PhP (0.0065)/kWh which will be implemented by NPC and PSALM within a period of six months starting December 2003 to May 2004.

For the Bohol Province, the LRAC rates for the following billing cycle is as follows:

Billing Cycle	Bohol PhP/kWh	Franchise & Benefits to Host Communities	FPCA PhP/kWh
Sept. 26, 2003 to Dec. 25, 2003	2.6125	0.0177	0.05
Dec. 26, 2003 to Mar. 25, 2004	2.7332	0.0177	0.05
March 26, 2004 to June 25, 2004	2.8539	0.0177	0.05
June 26, 2004 to Sept. 25, 2004	2.9745	0.0177	0.05

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

II.B.2.c. TRANSMISSION CHARGE

The Commission's Decision in ERC Case No. 2001-901 dated June 26, 2002 and Order dated September 20, 2002 set the transmission charges for the TRANSCO without automatic adjustments. Since the transmission rates to be paid by BOHECO 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 BOHECO II have been calculated based on the approved TRANSCO rates, which include cross subsidy elements to be phased out over a three-year period. The following transmission charges will apply to all end-users, consistent with the gradual phase-out of the intra-grid cross subsidies:

Transmission Charges	Residential	Commercial	Industrial	Public Bldgs.	Street Lights
October 2003 – September 2004					
Demand Charge PhP/kW			14.52		
Transmission System Charge PhP/kWh	0.7838	0.8021	0.6602	0.7558	0.6423
October 2004 – September 2005					
Demand Charge PhP/kW			14.52		
Transmission System Charge PhP/kWh	0.9353	0.9572	0.7995	0.9019	0.7664
October 2005 – September 2006					
Demand Charge PhP/kW			14.52		
Transmission System Charge PhP/kWh	1.0867	1.1121	0.9387	1.0479	0.8905

II.B.2.d. SYSTEM LOSS CHARGE

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

The Commission approves the recovery of allowed system loss through the establishment of a separate System Loss Charge in the bill to end-users. The System Loss Charge shall vary from one customer class to another depending on their respective contributions to the system loss.

However, due to limited information, the Commission is constrained to adopt a uniform allowable System Loss Charge for all end-users of BOHECO II.

The allowed system loss is equal to the average system loss for the year 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 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 caps 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 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 the 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 BOHECO II's Board of Directors, officers and staff), whichever is lower, shall be deducted from total power cost and shall be billed separately as System Loss Charge.

The Commission found that BOHECO II's 2000 to 2002 average was 18.85% which is higher than the aforementioned cap of 14%. The Commission, hence considered the 14% cap on System Loss. This would however be subject to change upon the approval of a new policy relative thereto by the Commission.

II.B.2.e. DISTRIBUTION CHARGE

The distribution charge shall be billed on a fixed rate per kilowatt-hour for Residential, Commercial, Public Building and Street Lights end-users. In the case of BOHECO II's Industrial end-users, the distribution charge shall be billed using a combination of a fixed rate per kilowatt (kW) and a fixed rate per kilowatt-hour (kWh).

BOHECO II did not propose for distribution wheeling rates. The Commission however 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 BOHECO II's

facilities shall pay wheeling charges equivalent to Distribution Wheeling Charges for Industrial end-users.

The Commission's decision to allow a distribution utility to avail of the Distribution Wheeling Charges of another distribution utility is based on the general intent of R.A. 9136 to promote a competitive generation market. Distribution utilities that currently or in the future shall rely in full or in part on the distribution facilities of another distribution utility should not be held captive by the other distribution utility in the purchase of the 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.f. METERING and SUPPLY CHARGES

The Commission acknowledges that cost-causation rate design principle suggests the recovery of customer-related costs associated with the metering and supply functions through fixed monthly charges. Along with this cost-of-service principle, however, the Commission also considers rate design impacts across the spectrum of 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 BOHECO II to use a combination of a PhP 5.00 per

customer per month and a PhP 0.2311 per kWh rate for the metering function. On the other hand, the Commission orders BOHECO II to use a PhP per kWh rate for the supply function.

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

II.B.3. INTER-CLASS CROSS SUBSIDY

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

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

	Total	Residential	Commercial	Industrial	Public Bldgs.	Street Lights
New Cost-Based Rev. Req.	155,931,830	108,289,698	20,405,204	14,735,315	9,933,276	2,568,337
Existing Rates Revenue	147,161,314	96,252,637	21,236,562	16,641,719	10,323,574	2,706,822
Total Change in Revenue	8,770,516	12,037,061	(831,358)	(1,906,404)	(390,298)	(138,485)
Percentage Change in Revenue	5.96%					
Normalized Existing Revenue	155,931,830	101,989,099	22,502,218	17,633,532	10,938,838	2,868,143
Inter-Class Cross - Subsidy Amounts (PhP)	0	(6,300,599)	2,097,014	2,898,217	1,005,562	299,806
Class Billing						
Determinants (in kWh)	26,066,885	17,077,565	3,734,752	2,934,425	1,838,176	481,967
Inter-Class Cross Subsidy Rates (PhP / kWh)		(0.3689)	0.5615	0.9877	0.5470	0.6220

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 TRANSCO in its Decision dated June 26, 2002, Case No. 2001-901, which impacts the unbundled transmission rates for BOHECO 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, BOHECO 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 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 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-watts 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 15 kWh for BOHECO 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 BOHECO II. The graduated scale is also based on the recognition that individual end-user consumption may likely vary from month to month.

10 kWh and below	-	30%
11 kWh	-	25%
12 kWh	-	20%
13 kWh	-	15%
14 kWh	-	10%
15 kWh	-	5%

BOHECO 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 15 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 BOHECO II the lifeline discounts result in a Lifeline Rate Subsidy by other end-users equal to PhP 0.0867/kWh.

The Commission believes that BAPA marginalized residential end-users should likewise enjoy the benefit of lifeline rates. For this purpose, the Commission accepts BOHECO II's proposal to integrate the household connections of BAPAs into the Residential customer class.

BOHECO II shall coordinate with its Barangay Power Associations to gather information on the number of kWh falling under the different lifeline level and the corresponding discount rates for proper billing and implementation of

lifeline benefits on the same. Each association will accordingly implement/provide lifeline benefits to its deserving BAPA end-users.

II.B.5. OTHER CHARGES

BOHECO II's additional submission to this Commission of its existing Other Charges as previously presented was 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 BOHECO II. In future cases filed after Other Charges have established on cost, the appropriate level of deduction of the revenue derived from these charges may be revisited.

The Other Charges of BOHECO II are hereby pegged at their existing levels until such time that the Commission sets new rates on the same. Further, BOHECO 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 the 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 AN AVERAGE RESIDENTIAL END-USER

A comparison of the estimated impact of all adjustments on the revenue requirement on the monthly bill of an average residential end-user consuming 41 kWh a month using rates based on BOHECO II's actual existing rates as of November 2003 against the unbundled rates approved by the Commission is shown below.

Based on Actual Existing Rates			Based on ERC Approved Unbundled Rates		
	PhP/kWh	Amount (PhP)		PhP/kWh	Amount (PhP)
Basic Rate	3.9636	162.51	Generation Charges:		
PPA	1.3033	53.44	Generation System Charge	2.6125	107.11
WAC	0.0093	0.38	Benefits to Host Comm. Charge	0.0177	0.72
Univ. Charge			FOREX	0.0500	2.05
			ICERA	(0.0065)	(0.27)
Missionary Electrification	0.0373	1.53	Transmission Charge	0.7838	32.14
Environmental Charge	0.0025	0.10	System Loss Charge	0.5848	23.98
Loan Condonation	(0.2243)	(9.20)	Distribution Charge	1.4790	60.64
Power Act Reduction	(0.3000)	(12.30)	Supply Charge	0.4521	18.54
			Metering Charges:		
			Retail Customer Charge / Month		5.00
			Metering System Charge	0.2311	9.48
			Inter-Class Cross Subsidy	(0.3689)	(15.12)
			Universal Charge:		
			Missionary Electrification Charge	0.0373	1.53
			Environmental Charge	0.0025	0.10
			Lifeline Rate [(Discount)/Subsidy]	0.0867	3.55
			Power Act Reduction	(0.3000)	(12.30)
			Loan Condonation	(0.2243)	(9.20)
TOTAL BILL			TOTAL BILL		
		196.46			227.95
PhP/kWh		4.7917	PhP/kWh		5.5598

DISPOSITION

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

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

		Residential	Commercial	Industrial	Public Building	Street Lights
Generation Charges:						
Generation System Charge	PhP/kWh	2.6125	2.6125	2.6125	2.6125	2.6125
Franchise & Benefits to Host						
Communities Charge	PhP/kWh	0.0177	0.0177	0.0177	0.0177	0.0177
FPCA Adjustment Charge	PhP/kWh	0.0500	0.0500	0.0500	0.0500	0.0500
ICERA Adjustment Credit	PhP/kWh	(0.0065)	(0.0065)	(0.0065)	(0.0065)	(0.0065)
Transmission Charges:						
Demand Charge	PhP/kWh			14.52		
Transmission System Charge	PhP/kWh	0.7838	0.8021	0.6602	0.7558	0.6423
System loss Charge	PhP/kWh	0.5848	0.5848	0.5848	0.5848	0.5848
Distribution Charges:						
Demand Charge	PhP/kWh			14.52		
Distribution System Charge	PhP/kWh	1.4790	1.0977	0.9600	1.0975	1.0579
Supply Charges:						
Retail Customer Charge	PhP/Customer/Mo.		21.22	27.48	21.23	21.12
Supply System Charge	PhP/kWh	0.4521				
Metering Charges:						
Retail Customer Charge	PhP/Meter/ Mo.	5.00	13.58	13.58	12.92	10.86
Metering System Charge	PhP/kWh	0.2311				
Inter-Class Cross Subsidy Charge	PhP/kWh	(0.3689)	0.5615	0.9877	0.5470	0.6220
Universal Charge:						
Missionary Electrification Charge	PhP/kWh	0.0373	0.0373	0.0373	0.0373	0.0373
Environmental Charge	PhP/kWh	0.0025	0.0025	0.0025	0.0025	0.0025
Lifeline Rate (Discount)/Subsidy	PhP/kWh	0.0867	0.0867	0.0867	0.0867	0.0867
Loan Condonation*	PhP/kWh	(0.2243)	(0.2243)	(0.2243)	(0.2243)	(0.2243)
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. *Rate Reduction due to Loan Condonation . Per ERC Order dated June 09, 2003 in ERC Case No. 2003-13 (as provided in Section II.A.6. of this Decision).						

2. To direct BOHECO II to comply with the following:
 - a) Discontinue charging the PPA upon effectivity of the approved unbundled rates. BOHECO II shall automatically bill its end-users the new Generation Rate charged by NPC as approved and authorized by the Commission;
 - b) Bill PhP 0.0373/kWh representing the missionary electrification portion of the Universal Charge in accordance with the Decision of the Commission in ERC Case No. 2002-165 [In the Matter of the Petition for the Availments from the Universal Charge the Share for Missionary Electrification, NPC-SPUG, Applicant];
 - c) 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];
 - d) 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-users' bills even if the rate elements currently have a value of zero or have not yet been determined by the Commission;

- e) Inform the end-users within its franchise area of the said approved unbundled rates no later than thirty (30) days after receipt of this Decision;
- f) 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;
- g) 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;
- h) 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;
- i) 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 & 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, actual current system losses;

- j) 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
- k) 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, December 29, 2003.

MANUEL R. SANCHEZ
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
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. **The Municipal Mayor**
Alicia, Bohol 6314
7. **The Municipal Mayor**
Anda, Bohol 6311
8. **The Municipal Mayor**
Bien-Unido, Bohol 6326
9. **The Municipal Mayor**
Buenavista, Bohol 6333
10. **The Municipal Mayor**
Candijay, Bohol 6312
11. **The Municipal Mayor**
Pres. Carlos P. Garcia, Bohol 6346
12. **The Municipal Mayor**
Dagohoy, Bohol 6322
13. **The Municipal Mayor**
Danao, Bohol 6344
14. **The Municipal Mayor**
Duero, Bohol 6309
15. **The Municipal Mayor**
Getafe, Bohol 6334

16. **The Municipal Mayor**
Guindulman, Bohol 6310
17. **The Municipal Mayor**
Garcia- Hernandez, Bohol 6307
18. **The Municipal Mayor**
Jagna, Bohol 6308
19. **The Municipal Mayor**
Mabini, Bohol 6313
20. **The Municipal Mayor**
Pilar, Bohol 6321
21. **The Municipal Mayor**
San Miguel, Bohol 6323
22. **The Municipal Mayor**
Sierra – Bullones, Bohol 6320
23. **The Municipal Mayor**
Talibon, Bohol 6325
24. **The Municipal Mayor**
Trinidad, Bohol 6324
25. **The Municipal Mayor**
Ubay, Bohol 6315
26. **The Municipal Mayor**
Valencia, Bohol 6306
27. **Bohol II Electric Cooperative, Inc.**
Jagna, Bohol 6308
28. **Congressman Ernesto C. Pablo**
Representative-Party List APEC
Room 604, North Wing Building
House of Representatives
1126 Constitution Hills, Quezon City
29. **Fr. Francisco G. Silva**
Administrator
National Electrification Administration
1128 NIA Road, Diliman, Quezon City
30. **Mr. Edgardo M. Del Fonso**
President & CEO
Power Sector Assets & Liabilities Management Corporation (PSALM)
2/F SGVII Building, Ayala Ave. 1200 Makati City