

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. 2001-980

**CEBU III ELECTRIC COOPERATIVE,
INC. (CEBECO III),**

Applicant.

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DECISION

Before the Commission for resolution is the application filed by applicant Cebu III Electric Cooperative, Inc. (CEBECO III) for approval of its unbundled rates pursuant to the provision of Republic Act No. 9136 filed on December 20, 2001 and docketed as ERC Case No. 2001-980.

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 May 16, 2002, were issued setting the case for initial hearing on June 28, 2002.

In the same Order, CEBECO III was directed to cause the publication of the Notice of Public Hearing at its own expense twice (2x) in two (2) newspapers of general circulation in the Philippines, which should include one (1) newspaper of local circulation within CEBECO III's franchise area, the last day of publication to be made not later than two (2) weeks before the scheduled date of initial hearing. In compliance with the said directive, CEBECO III published the Notice of Public Hearing in "*Balita*" and "*Malaya*" both on May 28 and June 4, 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 aforementioned initial hearing.

Likewise, the Municipal/City Mayors of Aloguinsan, Asturias, Balamban, Pinamungahan and Toledo City 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 of this case on June 28, 2002, only CEBECO III appeared and entered its appearance. No oppositor appeared nor was there any opposition registered.

CEBECO III presented proofs of compliance with the Commission's posting and publication of notice requirements which were duly marked as Exhibits "A" to "C-4", inclusive. Thereafter, CEBECO III presented its first witness, Mr. Rolando Vicente, CEBECO III's Finance Services Department Head, who testified on the different schedules submitted in support of the application. In the course thereof, several documents were presented and subsequently marked as Exhibits "D" to "W", inclusive. The direct examination having been terminated, the Commission propounded clarificatory questions. In the course thereof, CEBECO III was directed to submit the following: a.) program for reduction of expenses; b.) details on Representation and Entertainment Expense Account; c.) breakdown of Administrative Expense; and d.) breakdown of personnel, both technical and non-technical.

CEBECO III then presented its second witness, Mr. Jayvee Salida, CEBECO III's Chief Engineer, who testified on the technical aspect of the application. The direct examination of said witness having been terminated, the Commission again propounded clarificatory questions. In the course thereof, CEBECO III was directed to submit a work plan for its utilization of the Reinvestment Fund.

CEBECO III then moved that it be given seven (7) days from date of hearing within which to submit the required documents and formal offer of evidence. Said motion was granted by the Commission.

Meanwhile, the Commission directed CEBECO III to submit additional documents for the proper evaluation of the instant application. In compliance therewith, CEBECO III submitted said documents on various dates.

On September 27, 2002, CEBECO III submitted its "Formal Offer of Evidence" which was admitted by the Commission for the purposes for which they were being offered. CEBECO III having rested its case with the filing of said formal offer and having submitted all the additional documents required by the Commission, this case is now ripe for resolution.

I. SUMMARY OF CEBECO III's APPLICATION

I.A. REVENUE REQUIREMENT

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

ACCOUNT NAME	TEST YEAR	
KWh Sales		57,857,373
Purchased Power	PhP	146,218,000
Payroll		25,244,000
Operation & Maintenance (less Purchased Power & Payroll)		12,992,000
Debt Service		9,354,000
Reinvestment Fund (5%) ¹		9,690,559
TOTAL REVENUE REQUIREMENT	PhP	203,498,559

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

CEBECO III's proposed revenue requirement was PhP 203,498,559 based on historical test year 2000. The OATA published was PhP 0.1761/kWh.

CEBECO III also submitted Audited Financial Statements for the year 2000.

I.B. RATE STRUCTURE/DESIGN

The unbundled rates proposed by CEBECO III were as follows:

Residential

Retail Customer Charge	PhP	6.15/customer/month
Metering Charge		8.85/customer/month
Energy Charge		4.0277/kWh

Commercial

Retail Customer Charge		17.21/customer/month
Metering Charge		27.79/customer/month
Energy Charge		3.2198/kWh

Industrial-Non Large Load

Retail Customer Charge		43.58/customer/month
Metering Charge		306.42/customer/month
Energy Charge		2.8011/kWh
Demand Charge		61.94/kW NCP

Large Load-AFC

Retail Customer Charge		1,816.00/customer/month
Metering Charge		18,184.00/customer/month
Energy Charge		2.7377/kWh
Demand Charge		67.78/ kW NCP

Large Load-CIPDI

Retail Customer Charge	1,751.37/customer/month
Metering Charge	18,248.63/customer/month
Energy Charge	2.7496/kWh
Demand Charge	68.82/ kW NCP

Street Lights

Retail Customer Charge	8.00/customer/month
Energy Charge	3.2531/kWh

Public Buildings

Retail Customer Charge	8.57/customer/month
Metering Charge	21.43/customer/month
Energy Charge	3.0912/kWh

The Distribution Wheeling Rates proposed by CEBECO III were as follows:

	RATES	
Residential Distribution Wheeling Service		
Distribution Charges:		
Distribution System Charge	PhP	1.6529 /kWh
Metering Charge		8.75 /cust./mo.
Commercial Distribution Wheeling Service		
Distribution Charges:		
Distribution System Charge		0.7386 /kWh
Metering Charge		27.26 /cust./mo.
Industrial (Non Large Load) Distribution Wheeling Service		
Distribution Charges:		
Distribution System Charge		68.85 /kW NCP
Metering Charge		286.21 /cust./mo.
Large Industrial Distribution Wheeling Service		
Distribution Charges:		
Distribution System Charge		74.88 /kW NCP
Metering Charge (Optional)		17,185.67 /cust./mo.
Public Building Distribution Wheeling Service		
Distribution Charges:		
Distribution System Charge		0.5543 /kW NCP
Metering Charge		20.64 /cust./mo.

I.B.1. FUNCTIONALIZATION, CLASSIFICATION and ALLOCATION

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

I.B.2. SYSTEM LOSS

The actual System Loss for the year 2000 was 6%. CEBECO III adopted the actual purchased power cost net of Primary Voltage and Power Factor Discounts (Transcript of Stenographic Notes [TSN], June 28, 2002, page 66).

I.B.3. INTER-CLASS CROSS SUBSIDY

CEBECO III provided the amounts of cross subsidies for each customer type but did not include a program for the removal thereof.

CUSTOMER TYPE	ADJUSTED EXISTING (PhP)	PROPOSED (PhP)	INTER-CLASS CROSS SUBSIDIES (PhP)
Residential	76,832,605	83,598,344	(6,765,739)
Commercial	30,384,388	27,004,340	3,380,048
Industrial-Non Large Load	8,753,080	6,960,428	1,792,652
Large Load-AFC	23,330,788	21,496,741	1,834,047
Large Load-CIPDI	47,848,222	50,758,645	(2,910,423)
Street Lights	5,579,005	5,032,685	546,320
Public Buildings	10,770,471	8,647,376	2,123,095
TOTAL	203,498,559	203,498,559	0

Based on the submitted Supplemental Application, marked as Schedule H-1

I.B.4. LIFELINE RATE and LEVEL

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

	Option 1 (At Existing Rates)	Option 2 (At Proposed Customer Charges)
Level	15 kWh	15 kWh
Rate	PhP 3.6950/kWh	PhP 55.43/customer/month

Based on the submitted Supplemental Application, marked as Sub-schedule H-3.

I.C. OTHER CHARGES

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

PARTICULARS	Amount (PhP)
1. Line Construction Charges	Calculated
2. Account Initiation Charge: Charge will be applied when meter installation is not required at an existing location. Charge will apply when meter installation is required at a new location.	100.00 150.00
3. Service Call Charge: During Business hours: Outside Business hours: Installation of test equipment requested by REP	100.00 150.00 Calculated
4. Disconnect/Reconnect-Business Hours At Meter At Pole, Weatherhead or Secondary Box	50.00 100.00
5. The Requested Service Interruption Charge	
6. Facilities Relocation/Removal Charge During Business hours: Outside Business hours:	Actual Cost 250.00 /hour 500.00 /hour

7. Temporary Facilities Charge:	
Connect or disconnect service and read a meter already installed	100.00
Install or remove single phase service and read a meter already installed	100.00
Install and remove single phase service wires, meter and transformers (up to 50kVA)	Calculated
All other temporary facilities – installation and removal	Calculated
8. Return Check or Bank Draft Charge:	100.00 or un. interest
9. Off-Site Meter Reading (OMR) Equipment Installation Charge	Equipment installed and labor
10. Automated Meter Reading (AMR) Equipment Installation Charge	Equipment installed & labor and associated overheads
11. Advanced Metering Interval Load Data Equipment Installation Charge	Equipment installed & labor and associated overheads
12. Dual Socket Meter Adapter Installation Charge	Equipment installed & labor and associated overheads
13. Off-Cycle Meter Reading Charge	Equipment installed & labor and associated overheads
14. Automated Meter Reading (AMR) Charge	
AMR-Cycle Meter Read	Calculated
AMR-Specified Date Meter Read	Calculated
Maintenance of electrical pulse devices	Calculated
15. Advanced Metering Interval Load Data Equipment Maintenance Charge	Actual cost to maintain the equipment
16. Electrical Pulse Equipment Maintenance Charge	Actual Cost
17. Fee for monthly-automated meter reading (AMR)	
AMR-Cycle Meter Read	Calculated
AMR-Specified Date Meter Read	Calculated
Maintenance of electrical pulse devices	Calculated
18. 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
19. Broken Meter Seal Charge	Actual Cost
20. Tampering Charge	2,000.00
21. Denial of Access to Meter Charge	500.00
22. Utility Service Switchover Charge	Calculated
23. Security Light Repair Charge	100.00 /hour
24. Miscellaneous Discretionary Service Charge	Calculated
25. Competitive Energy Charges	
Non Standard Service Equipment Inspection/Testing Charge	600.00 /hour + ass. charges
26. Miscellaneous Competitive Energy Charges	Calculated

II. COMMISSION DISCUSSIONS AND CONCLUSIONS

II.A. DETERMINATION OF TOTAL REVENUE REQUIREMENT

II.A.1. TEST YEAR

The Commission finds CEBECO III'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, drawn from audited financial statement figures for the historical test year 2000.

II.A.2. GENERATION and TRANSMISSION COSTS

At present, CEBECO III is buying power only from Toledo Power Company (TPC). The Commission notes that the contractual arrangement between CEBECO III and TPC had no prior approval from the then Energy Regulatory Board (ERB). The Commission further notes that the rates being charged by TPC to CEBECO III are equal to the approved National Power Corporation (NPC) and National Transmission Corporation (TRANSCO). In view thereof, the Commission pegged the purchased power rates to that of NPC and TRANSCO.

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 generation rates.

For the Visayas Grid, the LRAC shall be applied on a staggered basis in order to mitigate the impact of the increase in generation rates on the part of the consumers (please refer to Section II.B.2.a. for details). Pursuant to the afore-stated Order, the implementation of NPC’s Generation Rate Adjustment Mechanism (GRAM) and FOREX in the Visayas 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 of 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 shall reflect 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). Furthermore, the power wheeling charge that CEBECO III pays to Aboitiz Power Solutions, Inc. (APSI) is included in the allowed Transmission Charge. This represents CEBECO III's payment for its use of APSI's substation in providing service to municipalities within its franchise area.

For CEBECO III, the aforementioned Generation and Transmission Charges will remain fixed to the approved rates in this Decision until the Commission approves its contractual arrangement with TPC and APSI.

A separate charge to account for the allowable system losses shall likewise be provided (please refer to Section II.B.2.c. for details). Hence, a distribution utility with a system loss that is within the allowable cap can recover from its end-users the total cost of the generation and transmission. *Annualization*² of the billing determinants was applied.

The adjustment made by the Commission to Purchased Power Cost of PhP 38,998,379 pertains to the difference between the proposed purchased power of CEBECO III amounting to PhP 146,218,000 and the purchased power

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.*

cost based on the new rates of NPC and TRANSCO amounting to PhP 185,216,379.

Records show that CEBECO III's 2000-2002 average system loss (excluding cooperative's own use) was 6.18%. The Commission allowed the pertained system loss, in the calculation of CEBECO III's revenue requirement, as discussed in Section II.B.2.c. of this Decision.

Based on the new NPC generation charges and transmission charges (including wheeling rates of APSI), as well as the allowable system loss, the Commission sets CEBECO III's unbundled Generation, Transmission and Recoverable System Loss as follows:

Generation Charge	PhP	159,125,430
Transmission Charge		14,341,426
Recoverable System Loss		11,749,523
Total	PhP	185,216,379

CEBECO III's approved generation charge shall remain fixed until changes are approved and authorized by the Commission upon approval of its contractual arrangement with TPC and APSI. In the meantime, CEBECO III shall discontinue charging the Purchased Power Adjustment (PPA) upon effectivity of the unbundled rates.

II.A.3. PAYROLL

The Commission made a net downward adjustment on the payroll account by PhP 2,899,120. The adjustment consists of : (1) upward adjustment in the amount of PhP 939,365 due to updating of CEBECO III's payroll and (2) downward adjustment due to the exclusion of 14th month pay and other benefits in the amount of PhP 3,838,485.

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

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

The Commission noted that CEBECO III did not avail of the WAC formula.

**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 CEBECO III 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 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 CEBECO III to institute and report to the Commission its policies and procedures for cost-cutting and for the transparent and competitive procurement of goods and services.

CEBECO III'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 CEBECO III's viability. To this end, CEBECO III should view a petition for an increase in rates to be the last recourse. In future filings, CEBECO III 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 an upward adjustment of PhP 9,934,358 on CEBECO III's Operation and Maintenance (O&M) Expenses as follows:

O&M Adjustments

Adjustment to Employees' Pensions and Benefits	PhP	10,334,358
Consumer Prompt Payment Discount		
reclassified to Other Revenue Items		(400,000)
Net O&M Adjustments	PhP	9,934,358

For future rate cases, CEBECO III will continually be required to make full disclosure of all its O&M expenses for the Commission to determine the prudence of all its expenditures. CEBECO III 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 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 CEBECO III to improve its financial operation through the development of other related sources of revenue. In order to balance the interest of CEBECO III and its end-users and in recognition of the fact that some of the costs incurred in rendering services under ORI have already 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 the total revenue requirement amounts to PhP 1,918,995.

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

Other Revenue Items	Amount
Prompt Payment Discount, net of Consumer Prompt Payment Discount of PhP 400,000	PhP 5,480,932
Rent from Electric Property	508,264
Total Other Revenue Items	5,989,196
50% of the above	PhP 2,994,598

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

II.A.6. DEBT SERVICE

The Commission made a downward adjustment of PhP 2,432,404 due mainly to the exclusion of loans that have been fully paid as of the present time. Thus, the allowable amount for debt service in the determination of the revenue requirement consistent with NEA's records should be PhP 6,921,596. The details of the adjustment are shown below.

LOANS	LOAN PROFILE		ADJUSTMENT (PhP)
	PER NEA (PhP)	PER CEBECO III (PhP)	
PER NEA:			
RURAL ELECTRIFICATION			
A	947,324	947,000	324
B	287,916	288,000	(84)
C	1,104,072	1,104,000	72
D	41,372	41,000	372
E(FR)	102,460	102,000	460
F	1,568,616	1,538,000	30,616
H		1,130,000	(1,130,000)
I		39,000	(39,000)
E		2,602,000	(2,602,000)
WB-RERP (RE)	1,152,000		1,152,000
WB-RERP (LOG)	154,420		154,420
COMPAC 1			
Local – A	74,960	75,000	(40)
KOR – B	124,384	124,000	384
BRAZIL D	57,308	57,000	308
USA – F	1,306,764	1,307,000	(236)
TOTAL	6,921,596	9,354,000	(2,432,404)

Pursuant to Section 60 of R.A. 9136 and E.O. 119, savings realized by electric cooperatives (ECs) due to the assumption of certain loans by the Power Sector Assets and Liabilities Management Corporation (PSALM) shall be passed on to the ECs' end-users. CEBECO III 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 March 17, 2003, granted CEBECO III a Provisional Authority to reduce its rates by PhP 0.0121/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

CEBECO III made a proposal for the provision for reinvestment fund in its unbundling of rates application in the amount of PhP 9,690,559.

The Commission permits a reinvestment fund equivalent to 5% of a cooperatives' 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 2,647,052 resulting in an adjusted amount of PhP 12,337,611.

One of the main purposes of providing the 5% Reinvestment is for the end-users of CEBECO III to shoulder part of the 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 CEBECO III.
- (c) CEBECO III 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 CEBECO III to appear and show cause why it should continue collection for the reinvestment fund; and

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

II.A.9. REVENUE REQUIREMENT SUMMARY

The table provided below is the comparison of approved revenue requirement with that proposed by CEBECO III:

ACCOUNT NAME	CEBECO III PROPOSAL	ADJUSTMENTS	ERC APPROVAL
Purchased Power PhP	146,218,000	38,998,379	185,216,379
Payroll	25,244,000	(2,899,120)	22,344,880
O & M (less PP & Payroll)	12,992,000	9,934,358	22,926,358
Other Revenue Items	0	(2,994,598)	(2,994,598)
Debt Service	9,354,000	(2,432,404)	6,921,596
Reinvestment Fund ³	9,690,559	2,647,052	12,337,611
TOTAL REVENUE REQUIREMENT PhP	203,498,559	43,253,667	246,752,226

CEBECO III proposed and published an OATA of PhP 0.1761/kWh using rates of year 2000. 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 43,253,667, approves a total revenue requirement of PhP 246,752,226 equivalent to an OATA of PhP 0.0924/kWh. The difference in the computation of OATA between CEBECO III and the Commission is primarily due to the power cost component of

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

the existing approved power and distribution rates plus the average Purchased Power Adjustment (PPA) for the year. The approved OATA was computed using existing approved distribution rates (inclusive of WAC, if any) and unbundled power cost as of December 2003. 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.

II.B. RATE STRUCTURE/DESIGN DETERMINATION

II.B.1. FUNCTIONALIZATION, CLASSIFICATION and ALLOCATION

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

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

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

Third, since the Commission is now including ORI, it was necessary to functionalize and allocate these amounts. The functionalization factors for the ORI, which were determined based on direct assignment, were as follows:

Factor Name	Functionalization Factor Description	Total Check	Generation	Transmission	Distribution	Supply	Metering
ORI	Other Revenue Items	1.0000	0.0000	0.0000	0.0890	0.9110	0.0000

CEBECO III submitted a classification of distribution cost into demand- and customer-related cost using the Minimum-Plant Method. This method resulted in a 51%-49% allocation on the average.

II.B.2. DESIGN AND CALCULATION OF CHARGES

II.B.2.a. GENERATION CHARGE

Consistent with the Commission’s Order dated September 29, 2003, Case No. 2003-291 [In the Matter of the Application for the Approval of the

Revised Unbundled Generation Tariffs], the revised generation charge to be billed to end-users shall be the approved rate per kilowatt-hour including Benefits to Host Communities.

For CEBECO III, the approved LRAC rate applicable for the Visayas Grid is as follows:

Billing Cycle	Visayas Grid PhP/kWh	Franchise & Benefits to Host Communities	FPCA PhP/kWh
Dec. 26, 2003 to Mar. 25, 2004	2.6587	0.0177	0.05

CEBECO III's rate will remain fixed until the Commission approves its contractual arrangement with TPC and APSI as discussed in Section II.A.2. of this Decision. This allows CEBECO III's Generation Charge to remain fixed until such time that its approved and authorized rates are adjusted by the Commission. This eliminates the need for future Purchased Power Adjustment (PPA).

II.B.2.b. TRANSMISSION CHARGE

The Commission's Decision in ERC Case No. 2001-901 dated June 26, 2002 and Order dated September 20, 2002 set the transmission charges for the National Transmission Corporation (TRANSCO) without automatic adjustments. Since the transmission rates to be paid by CEBECO III 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 CEBECO III have been calculated based on the approved TRANSCO rates, which do not include cross subsidy elements, due primarily to the fact that TPC and CEBECO III are only availing of the ancillary services of TRANSCO. and actual wheeling charges imposed by APSI, as discussed in Section II.A.2. of this Decision.

The Commission utilized the Coincident Peak Demand Allocation Method on the transmission costs considering that it yielded the most reasonable result for CEBECO III's end-users.

II.B.2.c. SYSTEM LOSS CHARGE

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

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

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 risks of over- or under-recovery in the event its load characteristics change through time. The system loss not only results in additional unbundled generation costs but also additional unbundled transmission costs to be paid by end-users. When system loss is within the allowable cap, the distribution utility is able to 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 discussed in Section II.A.2. of this Decision.

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

The Commission 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 actual Technical and Non-Technical System Loss or cap of 14% plus 1% cooperative own use (which should not include personal consumption of CEBECO III'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 CEBECO III's 2000 to 2002 average system loss (exclusive of cooperative's own use) was 6.18% which is lower than the aforementioned cap of 14%. Hence, the Commission considered system loss of 6.18% in the calculation of CEBECO III's revenue requirement.

II.B.2.d. DISTRIBUTION CHARGE

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

CEBECO III proposed for distribution wheeling rates (shown in Section I.B. above). 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. However, other distribution utilities requesting to wheel power across CEBECO III's facilities shall pay wheeling charges equivalent to Distribution Wheeling Charges for Industrial customers.

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

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

The Commission acknowledges that cost-causation rate design principle suggests the recovery of customer-related costs associated with the metering and supply functions through fixed monthly charges. Along with this cost of service principle, however, the Commission also considers rate design impacts across the spectrum of end-users within each rate class. Although R.A. 9136 requires the removal of inter-class cross subsidies, the law does not require the 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 CEBECO III to use a PhP 5.00 per meter per month and a PhP 0.4321/kWh rate for the metering function and orders CEBECO III to use a PhP per kWh rate for

the supply function. All other end-users shall be billed a fixed monthly meter and customer charge for the meter function and supply function, respectively.

II.B.3 INTER-CLASS CROSS SUBSIDY

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

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

	Total	Residential	Comm'l	Industr'l	Large Load (AFCI)	Large Load (CIPDI)	Public Building	Street Light
New Cost-Based Rev. Reqs. PhP	246,752,226	99,007,081	33,298,498	8,670,123	26,438,320	62,558,048	10,922,520	5,857,636
Existing Rates Revenue PhP	241,346,036	81,947,575	33,027,280	8,783,380	30,206,788	69,601,054	11,719,111	6,060,848
Total Change in Revenue PhP	5,406,190	17,059,506	271,218	(113,257)	(3,768,468)	(7,043,006)	(796,591)	(203,212)
%Change in Rev.	2.24%							
Normalized Existing Revenue PhP	246,752,226	83,783,214	33,767,096	8,980,129	30,883,425	71,160,129	11,981,621	6,196,612
Inter-Class Cross Subsidy PhP		(15,223,867)	468,598	310,006	4,445,105	8,602,081	1,059,101	338,976
Class Billing Determinants kWh	58,504,147	19,886,483	7,937,785	2,094,586	7,172,303	17,023,242	2,843,915	1,545,833
Inter-Class Cross Subsidy Charge PhP/kWh		(0.7655)	0.0590	0.1480	0.6198	0.5053	0.3724	0.2193

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, CEBECO III will continue to charge the inter-class cross subsidy rates set forth in Section II.B.3.a. above.

II.B.4. LIFELINE RATE and LEVEL

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

In determining the minimum lifeline level of consumption to be provided to the marginalized end-users, the Commission calculated the probable load requirement of a typical low-income end-user 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

30 kWh for CEBECO III. 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 CEBECO III. The graduated scale is also based on the recognition that individual end-user consumption may likely vary from month to month.

15 kWh and below	-	50%
16 - 20 kWh	-	45%
21 kWh	-	40%
22 kWh	-	35%
23 kWh	-	30%
24 kWh	-	20%
25 kWh	-	10%
26 - 30 kWh	-	5%

CEBECO III 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 30 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 CEBECO III, the lifeline discounts result in a Lifeline Rate Subsidy to other end-users equal to PhP 0.0525/kWh.

II.B.5. OTHER CHARGES

CEBECO III's additional submissions to this Commission of its existing Other Charges as previously presented was considered in the determination of its revenue requirement. The revenues derived from these charges were appropriately deducted from the determination of the revenue requirement allowed to CEBECO III. 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 CEBECO III are hereby pegged at their existing levels until such time that the Commission sets new rates on the same. Further, CEBECO III 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 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 57 kWh a month using rates based on CEBECO III's actual existing rates as of December 2003 against the unbundled rates approved by the Commission, is shown below.

Based on Actual Existing Rate			Based on ERC Approved Unbundled Rates		
	PhP/kWh	Amount PhP		PhP/kWh	Amount PhP
Basic Rate	3.0592	174.37	Generation Charges		
			Generation System Charge	2.6587	151.55
PPA	0.6358	36.24	Franchise & Benefits to HC	0.0177	1.01
			FPCA Under-recovery Charge	0.0500	2.85
Power Act Reduction	(0.3000)	(17.10)	ICERA	(0.0065)	(0.37)
			Transmission System Charge	0.2161	12.32
Universal Charges:			System Loss Charge	0.2008	11.45
Miss.Elect. Charge	0.0373	2.13	Distribution Charge	1.0409	59.33
Envrnmntal. Charge	0.0025	0.14	Supply Charge	0.2816	16.05
Loan Condonation	(0.0121)	(0.69)	Metering Charges:		
			Retail Customer Charge/Month		5.00
			Metering System Charge	0.4321	24.63
			Loan Condonation	(0.0121)	(0.69)
			Inter-class Cross Subsidy Charge	(0.7655)	(43.63)
			Universal Charges:		
			Missionary Electrification Charge	0.0373	2.13
			Environmental Charge	0.0025	0.14
			Lifeline Rate(Discount)/Subsidy	0.0525	2.99
			Power Act Rate Reduction	(0.3000)	(17.10)
TOTAL BILL		195.09	TOTAL BILL		227.66
PhP/kWh		3.4226	PhP/kWh		3.9940

Rate Reduction due to Loan Condonation per ERC Order dated March 17, 2003 in Case No. 2003 – 67.

DISPOSITION

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

1. To approve the unbundled schedule of rates of CEBECO III to be effective on the first billing cycle thirty (30) days after receipt of this

Decision:

		Res'l	Comm'l	Indus'l	Large Load (AFCI)	Large Load (CIPDI)	Public Bldg.	Public Buildings
Generation Charges:								
Generation System Charge	PhP/kWh	2.6587	2.6587	2.6587	2.6587	2.6587	2.6587	2.6587
Benefits to Host Comm.Charge	PhP/kWh	0.0177	0.0177	0.0177	0.0177	0.0177	0.0177	0.0177
FPCA Under-recovery Charge	PhP/kWh	0.0500	0.0500	0.0500	0.0500	0.0500	0.0500	0.0500
ICERA		(0.0065)	(0.0065)	(0.0065)	(0.0065)	(0.0065)	(0.0065)	(0.0065)
Transmission Charges:								
Demand Charge	PhP/Kw			20.00	20.00	20.00		
Transmission System Charge	PhP/kWh	0.2161	0.2429	0.4038	0.1712	0.1794	0.2645	0.2995
System Loss Charge	PhP/kWh	0.2008	0.2008	0.2008	0.2008	0.2008	0.2008	0.2008
Distribution Charge								
Demand Charge	PhP/kW			20.00	20.00	20.00		
Distribution System Charge	PhP/kWh	1.0409	0.7155	0.5508	0.4080	0.3953	0.5462	0.4881
Supply Charges:								
Retail Customer Charge	PhP/Cust./Mo.		16.64	52.45	2,770.63	6,554.18	19.39	19.31
Supply System Charge	PhP/kWh	0.2816						
Metering Charges: *								
Retail Customer Charge	PhP/Meter/Mo.	5.00	34.87	408.96	48,558.24	48,558.24	63.59	98.57
Metering System Charge	PhP/kWh	0.4321						
Inter-Class Cross Subsidy Charge	PhP/kWh	(0.7655)	0.0590	0.1480	0.6198	0.5053	0.3724	0.2193
Universal Charges:								
Missionary Electrification Charge	PhP/kWh	0.0373	0.0373	0.0373	0.0373	0.0373	0.0373	0.0373
Environmental Charge	PhP/kWh	0.0025	0.0025	0.0025	0.0025	0.0025	0.0025	0.0025
Lifeline Rate (Discount)/Subsidy	PhP/kWh	0.0525	0.0525	0.0525	0.0525	0.0525	0.0525	0.0525
Loan Condonation **	PhP/kWh	(0.0121)	(0.0121)	(0.0121)	(0.0121)	(0.0121)	(0.0121)	(0.0121)
Power Act Rate Reduction	PhP/kWh	(0.3000)						
Lifeline Rate (Discount)/Subsidy To be based on Residential Rate in a Graduated Scale as provided in Sec. II.B.4. of this Decision.								
* Metering Charges to Street Light consumer class shall apply only to those with installed meters.								
** Rate Reduction due to Loan Condonation per ERC Order dated March 17, 2003 in Case No. 2003 – 67.								

2. To direct CEBECO III to comply with the following:
 - a.) Discontinue charging the PPA upon effectivity of the approved unbundled rates; CEBECO III shall bill its end-users the Generation and Transmission Rates provided in this Decision until the Commission approves its contractual arrangement with TPC and APSI;
 - 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 Availment 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 the 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;
- e.) 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;
- 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:
 - a) five (5) sample bills for each end-user class; b) copy of the bills from the generation and transmission companies; and
 - c) Monthly Financial and Statistical Reports (MFSRs), complete with all related schedules;
- 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 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;

- j.) 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 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, January 21, 2004

LETICIA V. IBAY
Officer In Charge

OLIVER B. BUTALID
Commissioner

JESUS N. ALCORDO
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