

Republic of the Philippines  
**ENERGY REGULATORY COMMISSION**  
San Miguel Avenue, Pasig City

**IN THE MATTER OF THE APPLICATION  
FOR APPROVAL OF THE REVISED RATE  
SCHEDULES IN COMPLIANCE WITH SEC.36  
OF REPUBLIC ACT NO. 9136 AND ERC  
ORDER DATED OCTOBER 30, 2001, WITH  
PRAYER FOR PROVISIONAL AUTHORITY.**

**ERC CASE NO. 2002-164**

- and -

**PETITION FOR APPROVAL OF  
REAPPRAISAL OF ASSETS IN SERVICE.**

**ERC CASE NO. 2001-485  
(ERB CASE NO. 98-78)**

**MACTAN ELECTRIC COMPANY, INC.  
(MECO),**

*Applicant.*

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**D E C I S I O N**

Before the Commission for resolution are the application, amended application and second amended application filed on February 21, 2002, March 26, 2002, and April 15, 2002, respectively, by applicant Mactan Electric Company, Inc. (MECO) for approval of its unbundled rates pursuant to the provision of Republic Act No. 9136. MECO proposed an Over-all Average Tariff Adjustment (OATA) of P0.4603/kWh as a result of the restructuring and/or reformatting of its existing rate structure in accordance with the prescribed Uniform Rate Filing Requirements (UFR).

Having found the applications sufficient in form and substance with the required fees having been paid, an Order and a Notice of Public Hearing were issued, both dated May 7, 2002, setting the same for initial hearing on June 13, 2002.

In the same Order, MECO was directed to publish, at its own expense, the Notice of Public Hearing twice (2X) for two (2) successive weeks in two (2) newspapers of general circulation in the Philippines at least two (2) weeks before the scheduled date of initial hearing.

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

Copies of the Order and the Notice of Public Hearing were likewise furnished the Mayor of Lapu-lapu City and the Mayor of the Municipality of Cordova, both in the Province of Cebu, for the appropriate posting thereof on their respective bulletin boards.

On May 31, 2002, MECO moved for the resetting of the initial hearing of this case to a later date as it failed to comply with the publication and posting of the Notice of Public Hearing requirements. Relative thereto, an Order dated

June 3, 2002 was issued by the Commission granting the said motion and resetting the initial hearing to July 18, 2002.

During the July 18, 2002 initial hearing of this case, only MECO appeared. No oppositor appeared nor was there any opposition registered.

At the said hearing, MECO presented its proofs of compliance with the Commission's publication and posting of notice requirements and had these marked as Exhibits "A" to "C-5", inclusive. It then moved that an order of general default be made against all parties who might be minded to oppose the application. Said motion was noted. Thereafter, it presented its only witness, Mr. Hamelito A. Quiokeles, MECO's Vice President, for direct examination. Mr. Quiokeles testified on the manner by which MECO prepared its revised rate application including the different schedules using the unbundling process. In the course thereof, documents were presented and marked as Exhibits "D" to "J", inclusive.

At the termination of the direct examination, the Commission profounded clarificatory question on the said witness. In the course thereof, MECO was directed to submit several documents within twenty (20) calendar days from said date of hearing.

On September 5, 2002, MECO filed its "Formal Offer of Exhibits" which was admitted for the purposes for which they were being offered.

On March 16, 2004, the City of Lapu-Lapu filed its “Comments with Opposition” to the instant application of MECO. In its “Comments”, the City of Lapu-Lapu made mention of the fact that MECO has provided it with electricity for decades now, including the island-barangays of Olango Island. It also averred that the Municipality of Cordova is likewise being serviced by MECO. Therefore, MECO is the only supplier of electricity in the whole island of Mactan.

As regards the instant application, the City of Lapu-Lapu opposes the same on the following grounds.

(a) MECO has not yet provided a standby generator in case of unexpected power shortages. Considering the emergence of the City as a growing metropolis, a standby generator is a very vital facility that must be provided by MECO in order not to unnecessarily hamper critical business establishments and agencies of government;

(b) MECO has failed to address the growing problem of unsafe electric wires that hang from one electric post to another. There have been instances when the exposed electrical wires have too much heat so much so that adverse weather conditions could lead to fire or other untoward circumstances; and,

(c) Power fluctuations have been experienced by certain areas in the City, especially in the City Hall Complex due to absence of power transformers.

## I. MECO's PROPOSAL

MECO's proposed rate structure (the Revised Rate Schedule) reflects the unbundling of rates in accordance with the sectors or functions identified in Section 5 of RA 9136. These rates were developed on the basis of the data and calculations contained in the schedules prescribed in the Uniform Filing Requirements (UFR) as per ERC Order dated October 30, 2001, as follows:

TABLE 1

Residential Service
Residential Distribution Wheeling Service
Commercial Service
Commercial Distribution Wheeling Service
Industrial Service
Industrial Distribution Wheeling Service
Bulk Rate
Bulk Rate Wheeling Service
Government Building
Street Lighting

### I.A. Revenue Requirement

MECO calculated its Total Revenue Requirement based on test year 2000 using the Return on Rate Base (RORB) methodology. The application contains assets valued both at historical and appraised value. MECO's calculation used the appraised or sound value of assets, as underlying basis for the formulation and design of the Revised Rate Schedules. The submitted historical costs of assets, as required in the UFR, was solely for informational purposes, and not as basis for ratemaking.

On the basis of the submitted schedule (Schedule B), the proposed total Revenue Requirement amounted to PhP624,897,000 computed as follows:

**TABLE 2**

<b>Account Name</b>	<b>Total Company (PhP)</b>
Fuel	0
Purchased Power	489,545,000
Payroll	14,501,000
O & M (net purchase power and payroll)	32,803,000
Depreciation and Amortization	33,154,000
Income Taxes	13,308,000
Other Expenses	0
Return on Rate Base	41,586,000
Less: Other Revenue Items	0
<b>Total Revenue Requirement</b>	<b>624,897,000</b>

**I.A.1. Operating Revenue**

MECO reported a total operating revenue of PhP563,187,000 for the year 2000, computed as follows:

**TABLE 3**

<b>Customer Type</b>	<b>Revenue (PhP)</b>
Residential	196,981,000
Commercial	50,466,000
Industrial	127,436,000
Bulk Power	169,633,000
Flat Rate	3,574,000
Gov't. Bldgs.	3,355,000
Streetlights	11,742,000
<b>TOTAL</b>	<b>563,187,000</b>

## I.B. RATE BASE

MECO proposed that Schedule B (Restated Value of Assets) be used as basis in the determination of its Rate Base. Thus, MECO utilized the appraised value of assets as reported by an independent appraiser, Asian Appraisal Company, Inc., as of May 17, 1999. An adjustment was made by MECO to reflect additions and retired assets for the period May 17, 1999 to December 31, 2000. The proposed rate base is as follows:

**TABLE 4**

	<b>Adjusted Electric (PhP)</b>
Distribution Plant	420,888,000
General Plant	24,077,000
<b>Total Plant in Service</b>	<b>444,965,000</b>
Less: Accumulated Depreciation	
Distribution Plant	171,443,000
General Plant	13,476,000
<b>Total Accumulated Depreciation</b>	<b>184,919,000</b>
<b>Net Plant in Service</b>	<b>260,046,000</b>
Other Rate Base Item:	
Cash Working Capital	86,506,000
<b>TOTAL RATE BASE</b>	<b>346,552,000</b>

### I.B.1 Plant in Service

#### I.B.1.a Asset Valuation as of May 17, 1999

Under ERC Case No. 2001-185 (ERB Case No, 98-78), In the Matter of the Petition for the Approval of Reappraisal of Assets in Service, MECO submitted for ERC's approval the appraisal conducted by Asian Appraisal Co., Inc. (AACI). Based on its report, MECO's assets as of May 17, 1999 has a total cost of reproduction, new of PhP 372,444,850 and sound value of PhP 295,302,900, to wit:

**TABLE 5**

<b>Particulars</b>	<b>Cost of Reproduction, New (PhP)</b>	<b>Sound Value (PhP)</b>
Land	27,559,000	27,559,000
Buildings	6,386,000	4,669,000
Other Land Improvements	1,853,000	1,396,000
Machinery & Equipment	347,300	111,500
Electrical Equipment	329,141,700	255,478,700
Laboratory Equipment	1,415,200	1,234,700
Communications Equipment	431,600	193,900
Transportation Equipment	3,829,000	3,829,000
Furniture & Office Equipment	1,482,050	831,100
<b>TOTAL</b>	<b>372,444,850</b>	<b>295,302,900</b>

**I.C. Rate Design**

MECO's proposed rate structure consisted of charges for the following specific functions: a) Generation/Transmission b) Distribution c) Supply and d) Metering.

**I.C.1. Functionalization & Allocation Factors**

The functionalization and allocation factors used by MECO were the default factors provided for in the UFR prescribed by the Commission.

**I.C.2. Generation and Transmission Charge**

MECO proposed the adoption of a Generation and Transmission Charge for the proposed customer classes in order to recover its power cost, franchise tax, system losses and company use, as follows:

$$\text{Transmission Charge} = \frac{A}{[1 - B_1 + B_2 + B_3](1 - FT)}$$

Where:

- A = Bill based on authorized NPC Transmission rate per kwh (using 2000 test year)
- B<sub>1</sub> = System Loss percent but not exceeding cap
- B<sub>2</sub> = Company Use percent but not exceeding cap
- B<sub>3</sub> = Percent of lifeline customer use
- FT = Prevailing national and local franchise tax rate

$$\text{Generation Charge} = \frac{A}{[1 - B_1 + B_2 + B_3](1 - FT)}$$

Where:

- A = Bill based on authorized NPC Generation rate per kwh (using 2000 test year)
- B<sub>1</sub> = System Loss percent but not exceeding cap
- B<sub>2</sub> = Company Use percent but not exceeding cap
- B<sub>3</sub> = Percent of lifeline customer use
- FT = Prevailing national and local franchise tax rate

### 1.C.3 Purchased Power Adjustment

MECO also proposed for the Purchased Power Adjustment Formula (PPA), as follows:

$$\text{PPA} = \frac{A}{B \times [1 - (C_1 + C_2 + C_3)](1 - FT)} - D$$

Where:

A	=	Total NPC and/or IPP gross billing (exclusive of primary voltage, primary factor and prompt payment discount) for the supply month Less amount recovered from pilferages.
B	=	Total kWh purchased from NPC and/or IPP for the supply month
C1	=	System Loss but not exceeding cap
C2	=	Company Use but not exceeding cap
C3	=	Lifeline customers use
FT	=	Prevailing national and local franchise tax
IT	=	Income tax
RORB	=	Rate of Return on Rate Base
D	=	MECO's generation charge based on approved NPC's Generation/Energy Charge per kWh for year 2000 test year

#### **I.C.4. System Loss**

MECO proposed to recover its 2000 actual system loss of 13.10% through the proposed Generation and Transmission Charge formulas set forth in Section I.C.2. above.

#### **I.C.5. Distribution Charge**

MECO determined its Distribution Charge for Residential, Commercial, and Streetlights for each categories with kilowatt-hour sold as their billing determinant resulting in a peso per kilowatt-hour charge. The rate for Industrial, Bulk Rate and Government Buildings customers were determined by using a combination of peso per kilowatt-hour (P/kWh) and peso per kilowatt (P/kW).

### I.C.6. Supply and Metering Charges

MECO proposed a Peso per kilowatt-hour per month charge for the supply and metering services.

### I.C.7. Interclass Cross Subsidy

MECO indicated the amount of cross subsidies for each type of customers and proposed a three (3) year period for the removal thereof.

**TABLE 6**

<b>Customer Classes</b>	<b>Existing Rates (PhP '000)</b>	<b>Normalized Revenue (PhP '000)</b>	<b>Computed Revenue (PhP '000)</b>	<b>Cross Subsidy (PhP '000)</b>
Residential	200,555	222,531	244,471	21,941
Commercial	50,466	55,996	56,588	591
Industrial	127,436	141,399	133,095	(8,304)
Bulk	169,633	188,220	171,166	(17,054)
Public Bldg.	3,356	3,723	3,521	(203)
Streetlights	11,742	13,028	16,056	3,028
Total	563,187	624,897	624,897	0

### I.C.8. Lifeline Rate and Level

MECO proposed a rate of PhP0.0363 per kWh for its lifeline customers using consumption level of 15 kWh. This is sufficient to cover the consumption of two (2) 50 watts incandescent bulb, one (1) 600 watts flat iron, one (1) 60 watts electric fan and one (1) 40 watts radio/t.v. operated at an average of two (2) hours per day. This reflects the cost of living in the areas where family income is below PhP20,000 and below the poverty line set by NSO. The assumed connected loads as basis for the 15 kwh are as follows:

**TABLE 7**

Quantity	Type of Load	Watts	kWh/Month
2	Incandescent bulb	50	6.0
1	Flat Iron	600	2.4
1	Electric Fan	60	3.6
1	Radio/T.V.	40	3.0
		<b>TOTAL</b>	<b>15.0</b>

**I.C.9. Other Charges and Non-Recurring Rates**

MECO proposed the following revised Other Charges and non-recurring rates (UFR Schedule F2 & Schedule L)), to wit:

**TABLE 8**

	<b>CHARGES</b>	<b>PROPOSED FEE (PhP)</b>
<b>I</b>	Reconnection Charge	100.00
<b>II</b>	Change Service Line	100.00
<b>III</b>	Meter Deposit	
	<b>Ordinary Metering</b>	1,000.00
	CT Rated, Single Phase	15,000.00
	CT Rated, Polyphase	30,000.00
<b>IV</b>	Guarantee Deposit	Variable
<b>V</b>	Meter Test	
	Single Phase	100.00
	Three Phase	200.00
<b>VI</b>	Joint Pole Rental Agreement	240.00/pole/year
<b>VII</b>	Change/transfer of Electric Meter	
	Ordinary Metering	100.00
	<b>Metering with Current Transformer</b>	500.00
<b>VIII</b>	Service Fee (New Connection)	
	Residential	100.00
	Commercial/Industrial	500.00
<b>IX</b>	Rental of Transformers	
	5 – 10 kVa	1,000.00/month
	15 kVa	1,250.00/month
	25 kVa	1,500.00/month
	37.5 kVa	1,750.00/month
	50 kVa	2,000.00/month
	75 kVA	2,250/month
<b>X</b>	Surcharge	2% of the previous months arrears

## **II. COMMISSION'S DISCUSSIONS AND CONCLUSIONS:**

In reaching the conclusions herein, the Commission took into consideration the documents as well as the comments and issues submitted by the applicant and oppositor who manifested their respective position on the instant application.

### **II.A. DETERMINATION OF THE TOTAL REVENUE REQUIREMENT**

#### **II.A.1. TEST YEAR**

The Commission finds MECO'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 B, "Revalued Cost by Function" (Cost of Service by Function-Historical Test Year).

#### **II.A.2. GENERATION and TRANSMISSION COSTS**

##### **Generation Cost**

The Commission updated the generation cost based on the most recent approved NPC rate, i.e. ERC Case No. 2004-178, (In the Matter of the Application for the Approval of the Proposed Generation Rates for Luzon, Visayas and Mindanao Grid, National Power Corporation (NPC) and Power Sector Assets and Liabilities Management (PSALM) – Applicants) Order dated September 3, 2004.

The total cost of power as presented in the application amounting to PhP489,545,000 was adjusted to reflect the following:

- a) The Commission decided to retain the system loss cap prescribed under Rule IX Section 1 of the Implementing Rules of Republic Act No. 7832 pending the conduct of a comprehensive study on the matter. Hence, the Commission used the maximum allowable cap for system loss at 9.5% instead of the 13.10% proposed herein by MECO and actual company use of 1% for the year 2000. (See further discussion on Section II.I.3.c)
- b) The Commission also used annualization in calculating the kilowatt-hour sales. This is calculated as the sum of the products of the average kilowatt-hour consumption for each rate class and the year-end number of customers for each rate class; and
- c) Since power rates are to be applied prospectively, the Commission also updated the purchased power costs to the most recent levels available.

Based on data submitted by MECO to the Commission, MECO buys 100% of its power requirements from NPC. The Commission calculated MECO's Generation Cost based on the most recent NPC rate. (As such, the generation cost as computed by the Commission reflects the approved cost of electric power per ERC Order dated September 3, 2004). The total adjusted purchased power cost amounting to P597,458,000 for the test year 2000 was computed as follows:

**TABLE 9**

	<b>Amount (PhP)</b>	
	Purchased Power Cost	
Add/(Deduct): Adjustments:		
Updating of Power Cost	119,957,000	
System Loss in Excess of 9.5%	(12,044,000)	107,913,000
Adjusted Purchased Power Cost		<b>597,458,000</b>

**Transmission Cost**

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 any provision for an automatic adjustment thereof. Since the transmission rates to be paid by MECO are fixed, it is the decision of the Commission to likewise fix the unbundled transmission rates to be billed to end-users. The transmission charges approved for billing by MECO have been calculated based on the approved TRANSCO rates, which include cross subsidy elements to be phased out over a three-year period.

**System Loss**

A separate charge to account for the allowable system loss shall be provided. The Commission decided to retain the system loss cap prescribed under Rule IX Section I of the IRR of R.A 7832 pending the conduct of a comprehensive study on the matter. Hence, the Commission sets the maximum allowable cap for system loss at 9.5% or actual, whichever is lower.

Based on the new generation and transmission charges, as well as the allowable system loss, the Commission has determined MECO's unbundled generation, transmission and recoverable system loss, as follows:

**TABLE 10**

<b>Particulars</b>	<b>Amount (PhP)</b>
Generation Charge	427,190,000
Transmission Charge	110,676,000
Recoverable System Loss	59,592,000
<b>Total</b>	<b>597,458,000</b>

The Commission in its Orders dated October 13 and 20, 2004 under ERC Case No. 2004-322 has developed a recovery mechanism to take care of the Generation Rates and System Loss Rates by Distribution Utilities. Said adjustment mechanism will replace the Generation Rate Adjustment Mechanism (GRAM). In view, thereof, the Commission does not foresee the need for MECO to continue to implement its Purchased Power Adjustment (PPA) clause. Towards this end, the Commission hereby directs MECO to discontinue the implementation of its PPA upon the effectivity of the herein approved unbundled rates.

**II.A.3. Operation and Maintenance (Less Power Cost and Payroll)**

The general criteria in the evaluation of operating expenses to be allowed for recovery are: 1) that the expense is needed in the operation of the utility; 2) it is recurring; and 3) it redounds to the benefit of the utility's customers (Public Service Commission [PSC] Decision in Case Nos. 85889,85890 and 89893). The Commission enjoins MECO 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 consumer, 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 as a service-oriented company, its mandate is to advocate and transact judiciously for and in behalf of its consumers.

“Reasonable costs” refers to 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 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, a utility cannot simply rely on its right to pass on its costs to its consumers. As such, the Commission, in fulfilment of the policy of the EPIRA to establish a regime of free and fair competition and full public accountability to achieve greater operational and economic efficiency, enjoins MECO to institute and report to the Commission their respective policies and procedures for cost-cutting and the transparent and competitive procurement of goods and services.

MECO’s customers have a right to receive safe, reliable, and adequate service at a reasonable rate. To this end, MECO should view a petition for an increase in rates to be the last recourse. In future filings, MECO 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.

Operations and Maintenance account was adjusted to PhP16,222,000 computed as follows:

**TABLE 11**

	<b>AMOUNT (PhP)</b>	
	Total O & M per MECO	
Less: Adjustments		
Expenses excluded for ratemaking (refer to Table 12)	1,165,000	
Franchise Tax	15,416,000	16,581,000
<b>Adjusted O &amp; M</b>		<b>16,222,000</b>

The Commission finds some expenses to be unnecessary in the provision of MECO's electric service and of which MECO failed to provide adequate documentation. The Commission thus excluded the same for ratemaking purposes, as follows:

**TABLE 12**

<b>PARTICULARS</b>	<b>AMOUNT (PhP)</b>
Misc. Consumer Services Expenses	743,000
Association & Membership Dues	191,000
Misc. Gen. Expenses	231,000
<b>TOTAL</b>	<b>1,165,000</b>

Franchise tax shall appear as a separate line item on the customers' bills as a percentage of the total distribution, supply, metering and other adjustments (i.e. interclass cross-subsidy and lifeline subsidy). Given this rate design, it is appropriate to remove the amount of PhP15,416,000 associated with franchise taxes from the revenue requirement as this is just a pass through item.

For future rate cases, MECO will continue to be required to make full disclosures of all its O & M expenses in order for the Commission to determine the prudence of its expenditures. Unless otherwise justified by MECO, expenses

found to be unreasonably incurred shall not be allowed by the Commission as part of its recoverable costs to be passed on to MECO's end-users.

#### **II.A.4. Depreciation and Amortization**

The Commission made an adjustment to exclude the depreciation expense on disallowed assets under ERC Case No. 2001-485. The adjusted depreciation expense to be considered in the revenue requirement is computed as follows:

**TABLE 13**

	<b>AMOUNT (PhP)</b>
Depreciation per UFR	33,154,000
Add/(Deduct) Adjustment : Depreciation on Disallowed Assets	(138,000)
Adjusted Depreciation to be included in revenue requirement	<b>33,016,000</b>

##### **II.A.4.1 Depreciation Fund**

MECO is required to set up a depreciation fund each year corresponding to the whole amount of depreciation that it has recorded in its books. The setting up of this fund should be done on a monthly basis corresponding to the monthly depreciation. MECO will be required to strictly account for the expenditures out of this fund which should be used strictly for investment in electric plant. The utility is free to withdraw funds from this account at any time but all withdrawals should be reported to the Commission within 30 days specifying the use of the funds. This report should be consolidated with the monthly reportorial requirements (M-001 & M-002).

## II.A.5. INCOME TAX

The finality of the Supreme Court Decision in G.R. Nos. 141314 and 141369 dated April 9, 2003 affirms that for ratemaking purposes under the RORB methodology, income tax payment should not be recovered from the customers as operating cost.

In view of the above, income tax payment in the amount PhP13,308,000 were excluded from MECO's revenue requirement.

## II.B.1. Other Revenue Items

The Commission considered Other Revenues as items to be deducted from the revenue requirement used to calculate the rates for the end-users. Since all the expenses associated with the provision of the services that gave rise to these items of revenue are included in the revenue requirement, the income generated must also be considered, to wit:

**TABLE 14**

<b>PARTICULARS</b>	<b>AMOUNT (PhP)</b>
Rev. from Misc. Electric Operation, net	188,000
Pole Rental	1,355,000
Service Connections	258,000
<b>Total</b>	<b>1,801,000</b>

## II.C. RATE BASE

### II.C.1.a. Summary of Net Plant in Service

MECO's net plant in service as of December 31, 2000 considered in the rate base computation are as follows:

**TABLE 15**

<b>PLANT, PROPERTY &amp; EQUIPMENT</b>	<b>AMOUNT (PhP)</b>
Assets as of May 17, 1999 per Appraisal Report	
Reproduction Cost, New	372,444,000
Less: Accumulated Depreciation	(77,141,000)
Sound Value	295,303,000
Less : Disallowed Assets per Inspection	(3,806,000)
Adjusted Net Plant in Service as of May 17, 1999	291,497,000
Net Additions/Retirements from May 1999 - Dec. 2000	(35,257,000)
<b>Adjusted Net Plant in Service as of December 31, 2000</b>	<b>256,240,000</b>

**II.C.1.b. Asset Valuation as of May 17, 1999**

The appraisal report considered in this case was the one submitted for approval by MECO in ERC Case No. 2001-485 (ERB Case No. 98-78). Based on the submitted report, MECO's assets as of May 17, 1999 have a total value of PhP372,444,000 as cost of reproduction new and PhP295,303,000 as sound value. Net additions/retirement subsequent to the last appraisal are reflected at cost amounting to PhP35,257,000.

**II.C.1.c. Assets Disallowed per Inspection**

Pursuant to ERB Special Assignment No. 2000-46 dated June 9, 2000, an inspection team proceeded to MECO in Cebu to conduct an ocular inspection/verification of the assets, property and equipment in service.

From the Inspection Report dated August 22, 2000, nothing has come to the attention of the Commission that would cause it to question the findings of Asian Appraisal Co., Inc. However, the Commission disallowed some assets with a total cost of reproduction, new of PhP5,826,000 and a total sound value of

PhP3,806,000 which were found as not use and useful in the operation of the business. In that regard, the Commission approved MECO's adjusted sound value of properties and equipment in service as of May 17, 1999 in the amount of PhP291,497,000.

### **II.C.2. Allowance for Cash Working Capital**

Working capital is money a business must have available to meet payroll and expenses until customers have paid for the service or product. Utilities are usually allowed, as part of their rate base, an amount for working capital to cover expenses during the time it takes for the customers to use the service, be billed for it and collect payments.

MECO included an amount equal to two (2) months cash operating and maintenance expenses including purchased power costs as the estimated allowance for cash working capital.

The cash working capital allowance included in the rate base should approximate the cash requirements based on an estimate of the net lag in cash flow. In order to refine the application of the formula used in past proceedings, a more detailed review of the actual lag in cash flow associated with the payments for purchased power and the inflow of cash from customer's was undertaken. With respect to the outflow of cash associated with the payments for purchased power, it was determined that the time from the provision of service to the outflow of cash can be calculated as follows:

15 days	One-half of the billing cycle
5 days	Meter reading and bill preparations
<u>10 days</u>	Approximate time before payment is due
<u>30 days</u>	Total

Therefore, MECO has an average of approximately thirty (30) days from the time service is received until payment is made.

With respect to the collection of payments from its customers, the time from the provision of service to the inflow of funds can be calculated as follows:

15 days	One-half of the billing cycle
10 days	Meter reading and bill preparation
10 days	Required time to collect the customer's bill without penalty based on the service contract
<u>5 days</u>	Processing time
<u>40 days</u>	Total

Therefore, MECO waits for an average of approximately 40 days before it receives payment for the services provided. With respect to purchased power, it appears that the actual net lag days is approximately 10 days only (40 less 30) and not the 60 days assumed in the application of the formula. MECO's customers who do pay on time should not be penalized because other customers fail to comply with MECO's payment schedule. If additional finance cost are incurred because of late payment of bills, these costs should be recovered in the form of penalties to the late paying customers and not as additional cash working capital to be paid by all customers.

The adjusted Cash Working Capital allowed by the Commission was computed as follows:

**TABLE 16**

	<b>Amount (PhP)</b>	
Total O & M (excluding Power Cost)		63,740,000
Less: Taxes & Non Cash Items		
Provision for Bad Debts	2,000,000	
Property Taxes	395,000	
Depreciation Expense	33,016,000	35,411,000
Net O & M		<u>28,329,000</u>
Cash Working Capital - O & M (2 months)		4,722,000
Adjusted Power Cost	597,458,000	
Cash Working Capital - Power Cost (10/360 days)		16,596,000
<b>TOTAL CASH WORKING CAPITAL</b>		<b>21,318,000</b>

### II.C.3 Materials and Supplies

MECO did not include materials and supplies in the rate base. The Commission believes that the reported materials and supplies amounting to PhP13,771,000 must be included in the determination of rate base considering that these represent electrical materials and supplies that are essential in providing electricity supply.

### II.C.4 Summary of Rate Base

The following tabulates the adjustments made by the Commission in the components of MECO's rate base:

**TABLE 17**

	<b>Per MECO (PhP)</b>	<b>Adjustment (PhP)</b>	<b>Per ERC (PhP)</b>
Net Plant in Service	260,046,000	(3,806,000)	256,240,000
Materials & Supplies	0	13,771,000	13,771,000
CWIP	0	982,000	982,000
Cash Working Capital	86,506,000	(65,188,000)	21,318,000
<b>Total Rate Base</b>	<b>346,552,000</b>	<b>(54,241,000)</b>	<b>292,311,000</b>

## II.D. Rate of Return

The current form of regulation practiced for the privately-owned electric utilities is a cost based method known as the rate of return on rate base (RORB) methodology. Power rates are set to recover cost of service prudently incurred plus a reasonable rate of return on rate base. The rates of return pertains to the percentage which when multiplied by the authorized Rate Base, provides a return that will fairly compensate the company for the risk inherent to the investment of capital. This simply means that a regulated utility is allowed to set rates which will cover operating costs and provide an opportunity to earn a reasonable rate of return on the assets utilized in the business.

On the basis of current jurisprudence, the Commission has determined that the 12% rate of return will be maintained in this case but the income tax thereon will not be allowed as operating expense. Thus, the 12% rate of return is a pre-tax rate of return which is equivalent to PhP 35,077,320 computed as follows:

**TABLE 18**

Adjusted Rate Base	PhP292,311,000
Rate of Return	12%
Return on Rate Base	<b>PhP35,077,320</b>

The Commission intends to adopt a new internationally accepted method of rate regulation known as Performance-Based Regulation. The treatment of income tax in this new method may be different from the present RORB method.

**II.E. REVENUE REQUIREMENT SUMMARY**

On the basis of the foregoing discussion, the Commission after considering adjustment of PhP69,576,000 approved a total revenue requirement of PhP694,473,000 equivalent to an OATA of PhP0.1774.

**TABLE 19**

<b>REVENUE REQUIREMENT</b>			
	<b>Per MECO (PhP)</b>	<b>Adjustments (PhP)</b>	<b>Per ERC (PhP)</b>
Purchased Power	489,545,000	107,913,000	597,458,000
Payroll	14,501,000	0	14,501,000
Operation & Maintenance	32,803,000	(16,581,000)	16,222,000
Depreciation & Amortization	33,154,000	(138,000)	33,016,000
Income Taxes	13,308,000	(13,308,000)	0
Other Expenses	0	0	0
Return on Rate Base	41,586,000	(6,509,000)	35,077,000
Revenue Requirements	624,897,000	71,377,000	696,274,000
Add/(Deduct): Other Rev. Item	0	(1,801,000)	(1,801,000)
<b>Total Revenue Requirement</b>	<b>624,897,000</b>	<b>69,576,000</b>	<b>694,473,000</b>
Adjusted Operating Revenue (2000)			669,670,000
Increase(Decrease) PhP			24,803,000
Annualized kWh Sales			139,829,000
Required Increase P/kWh			0.1774

The Overall Average Tariff Adjustment (OATA) is a measurement tool based on the formula: (Total Revenue Requirement less Existing Revenue divided by kilowatt-hours sales). This measurement is not meant to refer to any specific customer class. MECO proposed for an OATA of P0.4603 per kilowatt-hour.

**II.F. Adjusted Operating Revenue**

The Commission adjusted MECO's actual operating revenue to PhP669,670,000 computed as follows:

**TABLE 20**

	<b>Amount (PhP)</b>
MECO's actual operating revenue	563,187,000
Adjustments:	
Addt'l. Revenue due to increase in Power Cost	95,948,000
Addt'l. Revenue due to increase in kWh Sales	24,202,000
Franchise Tax	(13,667,000)
<b>Total Adjusted Operating Revenue</b>	<b>669,670,000</b>

## II.I. RATE STRUCTURE/DESIGN DETERMINATION

### II.I.1. Functionalization Factors

The Commission agrees to the functionalization and allocation factors used by MECO. Other Revenue Items which was not considered by MECO in the calculation of the revenue requirement was functionalized to Distribution function and was allocated based on the total revenue, as follows:

**TABLE 21**

Factor	Total	Industrial	Bulk	Residential	Commercial	Public Bldg.	Streetlights
Name	(1)	(2)	(3)	(4)	(5)	(6)	(8)
TOTREV	1.0000	0.1645	0.2217	0.4854	0.0929	0.0057	0.0298

### II.I.2. Billing Determinants and Customer Class Allocation

The Commission concurs with MECO's billing determinants and allocation factors except for the billing determinant and allocation factor used for energy related costs. The Commission believes that any energy related cost should be allocated based on annualized sales.

Annualized sales were derived by multiplying year-end number of customers with average annual kWh usage for each customer class. This was performed to project for the future kWh sales for the development of a more appropriate allocation factors and billing determinants for each customer class. With the annualized sales per customer class, the computed adjusted kilowatt-hour sold was 139,829,000.

The Commission opines that in theory, the most appropriate way to allocate costs among customer classes is based on cost causation principle. Thus, the Commission intends, through future proceedings to move even further towards uniform definitions of customer classes based on cost causation characteristics. However, the Commission believes that such a change would best be accomplished through the issuance of guidelines of general applicability to all utilities. Furthermore, R.A. 9136 requires identification and removal of inter class cross-subsidies. Substantive change in customer classes at this time prevents precise calculation of cross-subsidy in existing rates. Therefore, no changes in customer class allocations are ordered for MECO at this time.

### **II.1.3. Design and Calculation of Charges**

#### **II.1.3.a. Generation Charge**

The Commission updated the generation cost based on the most recent approved NPC rate, i.e., ERC Case No. 2004-178 (In the Matter of the Application for the Approval of the Proposed Generation Rates for Luzon, Visayas and Mindanao Grids, National Power Corporation (NPC) and Power Sector Assets and Liabilities Management (PSALM)-Applicant) Order dated September 3, 2004.

Consistent with the Commission's Order dated September 3, 2004 under ERC Case No. 2004-178, the revised generation charge for Visayas Grid to be billed to end-users shall be the approved rate per kilowatt-hour including Franchise and Benefits to Host Communities.

The Commission has developed a recovery mechanism designed to replace the purchased power cost adjustment clauses being used by the power utilities. The Commission in its Orders dated October 13 and 20, 2004 under ERC Case No. 2004-322 has promulgated the Implementing Guidelines on the Automatic Recovery Adjustment Mechanism (AGRA) effective November 1, 2004. The Commission hereby directs MECO to discontinue the implementation of its PPA upon effectivity of the approved unbundled rates.

#### **II.I.3.b. Transmission Charge**

The Commission's decision in ERC Case No. 2001-901 and the Commission's Order dated September 20, 2002 fixed the transmission charges for the TRANSCO without any provision for automatic adjustment thereof. Since the transmission rates to be paid by MECO are fixed, it is the decision of the Commission to likewise fix the unbundled transmission rates billed to its end-use customers.

The Transmission Charges shall be billed on a fixed rate per kilowatt-hour for Residential, Commercial, Government Buildings and Streetlighting customers. In the case of Industrial and Bulk Rate customers with demand meters, the

transmission charge shall be billed using a combination of a fixed rate per kilowatt (kW) and a rate per kilowatt-hour (kWh).

In consonance with the gradual phase-out of the intra-grid subsidies being billed by TRANSCO, the Commission hereby sets the transmission charges for the succeeding years, as follows:

**TABLE 22**

	Industrial	Bulk	Resd'l.	Comm'l.	Public Bldg.	St. Lights
Sept. 26, 2004 – Sept. 25, 2005						
Demand Charge (P/kW)	134.56	134.56				
Trans. System Charge (P/kWh)	0.3458	0.3821	0.8469	0.8591	0.9561	0.9728
Sept. 26, 2005 - Onward						
Demand Charge (P/kW)	130.36	130.36				
Trans. System Charge (P/kWh)	0.3350	0.3702	0.8205	0.8322	0.9262	0.9424

### **II.I.3.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 operation.

The Commission approves the recovery of allowed system loss through the establishment of a separate System Loss Charge. The system loss charge shall vary from one customer to another depending on their respective contributions to the system loss. The allowed system loss is equal to the actual system loss for the test year or the existing system loss cap prescribed in R.A. 7832 whichever is lower.

The Commission believes that the present cap on System Loss of 9.5% should be used in the calculation of revenue requirements at this time. This would however be subject to change upon the approval of a new policy by the Commission. The actual system loss or cap of 9.5% plus 1% of company use (which should not include personal consumption of MECO's officers and employees) or actual whichever is lower shall be deducted from total power cost and to be billed separately as System Loss Charge. In this case, the Commission adopted a system loss of 10.5% (9.5% + 1%).

#### **II.1.3.d Distribution Charge**

The Distribution Charges shall be billed on a fixed rate per kilowatt-hour for Residential, Commercial, Government Buildings and Streetlights end-users. In the case of Industrial and Bulk Rate with demand meters, the distribution charge shall be billed using a combination of a fixed rate per kilowatt (kW) and a rate per kilowatt-hour (kWh).

Relevant to distribution charge, MECO proposed distribution wheeling rates comprising of its proposed distribution and supply charges. 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 in the Rate Schedules be likewise utilized as Distribution Wheeling Charges available to the future contestable market.

The Commission's decision to allow a distribution utility to avail of the Distribution Wheeling Charges of another distribution utility is based on general intent of R.A. 9136 to promote a competitive generation market. Distribution utilities that currently or in the near future 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. Distribution utilities are, therefore, prohibited from bundling or tying the sale of generation or purchased power with the sale of unbundled distribution wheeling service.

#### **II.1.3.e Metering and Supply Charges**

The Commission acknowledges that cost-causation rate design principles suggest the recovery of customer-related costs associated with the metering and supply functions through fixed monthly charges. In addition to this cost of service principle, however, the Commission must also consider rate design impact across the spectrum of customers within each rate class. Although RA 9136 requires the removal of inter-class cross subsidies, the law does not require removal of intra-class cross-subsidies. The Commission has the flexibility to consider other factors in determining rate design for a particular class of customers. Therefore to mitigate the impact on below-average consumption of residential end-users, the Commission orders MECO to use a combination of a PhP5.00 peso per customer per month and peso per kilowatt-hour for the metering function for residential customers. On the other hand, the Commission orders MECO to use peso per kilowatt-hour rate for the supply function for residential customer. All other end-users shall be charged fixed monthly customer charge for both metering and supply functions. Street Lighting Service will be charged fixed monthly customer charge both for supply and metering function.

## II.J. Franchise Taxes

Franchise taxes shall appear as a separate line item on the customers' bills. Given this rate design, it is appropriate to remove test year amounts associated with franchise taxes from the revenue requirement used to calculate other recurring electricity rates.

Relative thereto, MECO is directed to charge its customers, franchise tax based only on its wheeling and captive market supply revenues pursuant to paragraph (q), Section 4, Rule 7 of the Implementing Rules and Regulations of Republic Act No. 9136, hereunder quoted as follows:

“Section 4. Obligations of a Distribution Utility.

- q) A Distribution Utility shall pay a franchise tax only on its distribution wheeling and Captive Market supply revenues. To this end, the DOF shall issue the necessary guidelines.

## II.K. Cross Subsidy Removal

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

**TABLE 23**

	Total	Residential	Commercial	Industrial	Bulk Rate	Gov't. Bldg.	St. Light
New Cost-Based Revenue	694,472,683	274,672,058	63,475,356	147,380,656	186,641,800	4,022,874	18,279,939
Existing Rates Revenue	669,670,555	238,483,286	59,917,800	150,989,251	201,666,465	3,985,715	14,628,039
Total Change in Revenue	24,802,128	36,188,772	3,557,556	(3,608,595)	(15,024,664)	37,159	3,651,901
Percentage Change in Rev.	1.04						
Normalized Revenue	694,472,683	247,315,827	62,136,934	156,581,336	209,135,447	4,133,331	15,169,807
Inter-class cross subsidy	(0)	(27,356,230)	(1,338,421)	9,200,680	22,493,647	110,458	(3,110,132)
Class Billing Determinants (kWh)	139,828,574	49,488,139	12,778,257	32,877,855	40,336,675	793,937	3,553,711
Inter-class Cross Subsidy (Php/kWh)	(0.0000)	(0.5528)	(0.1047)	0.2798	0.5576	0.1391	(0.8752)

Section 74 of R.A. 9136 and Rule 16, Section 5 of the Implementing Rules and Regulations thereof provide that 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 extendible for a maximum period of one (1) year subject to certain conditions.

In the instant case, the Commission orders 1/3 removal of inter-class cross subsidy and the remaining cross-subsidy to be removed within the next two (2) years at the same rate level of removal. The cross subsidy charges are as follows:

**TABLE 24**

<b>Customer Type</b>	<b>1<sup>st</sup> Year</b>	<b>2<sup>nd</sup> Year</b>	<b>3<sup>rd</sup> Year</b>
Residential	(0.3685)	(0.1843)	0.0000
Commercial	(0.0698)	(0.0349)	0.0000
Industrial	0.1866	0.0933	0.0000
Bulk Rate	0.3718	0.1859	0.0000
Government Building	0.0928	0.0464	0.0000
Street Lights	(0.5835)	(0.2917)	0.0000

The Commission approved the cross subsidy removal scheme for the TRANSCO in its Decision dated June 26, 2002 in ERC Case No. 2001-901 which impacts the unbundled transmission rates for MECO's end-users. This impact is reflected in the two-year schedule for unbundled transmission charges provided in Table 22 of this Decision.

**II.L. 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 rate applicable to MECO.

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 consumers by considering two (2) Incandescent Bulb at 50 watts, one (1) 600 watts flat iron, one electric fan at 60 watts, and one (1) radio/t.v. at 40 watts that are being used at reasonable number of hours. Thus, the Commission sets the lifeline consumption maximum level of 65 kilowatt-hours for MECO. The Commission considers the impact that the subsidized Lifeline Rates will have on other end-users who must carry the cost 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 MECO. The graduated scale is also based on the recognition that individual end-user consumption may likely vary from month to month.

**TABLE 25**

<b>kWh Consumption</b>	<b>% Lifeline Discount</b>
20 kWh and below	50%
21 - 25 kWh	45%
26 - 30 kWh	40%
31 - 35 kWh	35%
36 - 40 kWh	30%
41 - 45 kWh	25%
46 - 50 kWh	20%
51 - 55 kWh	15%
56 - 60 kWh	10%
61 - 65 kWh	5%

MECO shall apply these discounts to the following residential charges: Generation, Transmission, Distribution, Supply, Metering and System Loss. In a given 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 65 kWh in a particular billing period shall not be entitled to any discount lifeline rate for said period.

The cost of subsidy to lifeline end-users shall be passed on to all non-lifeline end-users. For MECO, the lifeline discounts result in a subsidy on Lifeline by other end-users equal to PhP 0.0528/kWh.

#### **II.M. Other Charges**

MECO's existing other charges were considered in the determination of the revenue requirement. The corresponding revenues out of these charges were appropriately deducted from the determination of the revenue requirement allowed to MECO.

The other charges of MECO are hereby pegged at their existing levels until such time that the Commission sets new rates on the same. Further, MECO is ordered to make a compliance filing on its Other Charges a year from date of this Decision using a format to be prescribed by the Commission.

The compliance filing for approval of Other Charges shall include rates that are cost-based as well as all supporting cost justification for the rates, including but not limited to the amount of actual time and wages of employees performing each task encompassed by each type of Other Charges.

## II.N. Estimated Impact On Average Residential Consumer

A comparison of the estimated impact of all adjustments on the revenue requirement on the monthly bill of a residential end-user consuming above 140 kWh a month using rates based on MECO's actual existing rates as of August 2004 against the unbundled rates approved by the Commission is shown below:

**TABLE 26**

RESIDENTIAL CONSUMING					
	140	kwh			
Based on Existing Rates			Based on ERC Approved Unbundled Rates		
	Peso/kWh	Amount		Peso/kWh	Amount
Basic Charge:			Generation Charge	3.0551	427.71
First 50	3.0056	150.28	Transmission Charge	0.8649	118.57
Next 51 – 100	2.9806	149.03	Distribution Charge	0.7169	100.37
Over 100	2.9556	118.22	Supply Charge	0.1046	14.64
PCA	2.1848	305.87	Metering Charge		
Power Act Reduction	(0.30)	(42.00)	Retail Customer Charge/Mo.		5.00
			Metering System Charge	0.3383	47.36
			Inter-Class Cross Subsidy Charge	(0.3685)	(51.59)
<b>Universal Charge</b>			Total Distribution Charge		115.78
Missionary	0.0373	5.22	Franchise Tax	2.50%	2.89
Environmental	0.0025	0.35	System Loss Charge	0.4864	68.09
Sub-Total		680.63	Subsidy on Lifeline	0.0528	7.39
			Power Act Reduction	(0.30)	(42.00)
			<b>Universal Charge</b>		
			Missionary	0.0373	5.22
			Environmental	0.0025	0.35
<b>TOTAL BILL (PhP)</b>		<b>680.63</b>			<b>704.02</b>
Peso/kWh		4.91	Peso/kWh		5.03
Inc./Dec.) In Rates P/kWh					0.12
Inc./Dec.) In Bill PhP					17.04

## DISPOSITION

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

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

### MACTAN ELECTRIC COMPANY ERC Case No. 2002-164 SUMMARY RATE SCHEDULE

Customer Class	Gen. Charge	Trans. Charge	Distr. Charge	Supply Charge	Metering Charge	System Loss Charge	Lifeline Subsidy	Inter class Cross Subsidy*	Universal Charge	
									ME	EC
<b>RESIDENTIAL</b> PhP/kWh 65 kWh & below 66 kWh & Above PhP/Cust/Mo.	3.0551	0.8469	0.7169	0.1046	0.3383 5.00	0.4864	- 0.0528	(0.3685)	0.0373	0.0025
<b>COMMERCIAL</b> PhP/kWh PhP/Cust/Mo.	3.0551	0.8591	0.5316	- 150.03	- 40.90	0.3902	0.0528	(0.0698)	0.0373	0.0025
<b>INDUSTRIAL</b> PhP/kWh PhP/kW PhP/Cust/Mo.	3.0551	0.3458 134.56	0.1828 71.14	- 150.03	- 42.47	0.3882	0.0528	0.1866	0.0373	0.0025
<b>BULK RATE</b> PhP/kWh PhP/kW PhP/Cust/Mo.	3.0551	0.3821 134.56	0.2009 70.74	- 150.03	- 118.43	0.3882	0.0528	0.3718	0.0373	0.0025
<b>GOV'T. BLDG.</b> PhP/kWh PhP/kW PhP/Cust/Mo.	3.0551	0.9561	0.5216	- 150.03	- 41.10	0.4864	0.0528	0.0928	0.0373	0.0025
<b>STREETLIGHT</b> PhP/kWh PhP/Cust/Mo.	3.0551	0.9728	0.6127	- 150.03	- 55.35	0.4864	0.0528	(0.5835)	0.0373	0.0025

\*With 1/3 inter class cross subsidy removal

- To approve MECO's net utility plant in service at sound value as of May 17, 1999 amounting to PhP 291,496,900 under ERC Case No. 2001-485 (ERB Case No. 98-78).

3. To direct MECO to comply with the following:
- a) Discontinue charging the PPA upon effectivity of the approved unbundled rates; MECO shall automatically bill its end-users the new Generation Rate charged by NPC as approved and authorized by the Commission and in accordance with ERC Case No. 2004-322 dated October 13 and 20, 2004 on the Automatic Adjustment of Generation Rates and System Loss Rates of Distribution Utilities;
  - b) Bill its respective end-users using a billing format which contains at least the rate elements, provided in this Decision upon effectivity of the approved unbundled rates;
  - c) Make a compliance filing on its Other Charges a year from date of this Decision;
  - d) Bill P0.0373/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);
  - e) Bill the amount of P0.0025/kWh representing the environmental portion of the Universal Charge in accordance with the Commission's Decision 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);
  - f) Set up a depreciation fund each year corresponding to the whole amount of depreciation that it has recorded on its books. The setting up of this fund should be done on a monthly basis corresponding to the monthly depreciation. MECO is required to strictly account for the expenditures out of this fund which should be used strictly for investment in electric plant and all withdrawals from this fund should be reported to the Commission within thirty (30) days from withdrawal;

- g) Inform the end-users within its franchise area of the approved unbundled rates not later than thirty (30) days after receipt of this Decision;
- h) Submit for verification and confirmation purposes on or before the twentieth (20<sup>th</sup>) day of the month following the effectivity of the approved unbundled rates and every month thereafter: a) five (5) sample bills for each customer class; b) copy of bills from the generation and transmission companies ; and c) M001 and M002 with all related schedules;

SO ORDERED.

Pasig City, December 20, 2004.

**RODOLFO B. ALBANO, JR.**  
Chairman

**RAUF A. TAN**  
Commissioner

**JESUS N. ALCORDO**  
Commissioner

**OLIVER B. BUTALID**  
Commissioner

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