

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

IN THE MATTER OF THE APPLICATION
FOR AUTHORITY TO INCREASE RATES
WITH PROVISIONAL AUTHORITY

**ERC CASE NO. 2001-523
(ERB CASE NO. 99-17)**

IN THE MATTER OF THE APPLICATION
FOR APPROVAL OF THE UNBUNDLED
RATES PURSUANT TO THE PROVISIONS
OF REPUBLIC ACT NO. 9136

ERC CASE NO. 2001-971

MISAMIS OCCIDENTAL II ELECTRIC COOPERATIVE,
INC. (MOELCI II),

Applicant.

x-----x

DECISION

Before this Commission for resolution are the consolidated applications filed by applicant Misamis Occidental II Electric Cooperative, Inc. (MOELCI II) for (a) authority to increase its rates by PhP 0.20/kWh with prayer for provisional authority filed on March 30, 1999 and docketed as ERC Case No. 2001-523 (ERC Case No. 99-17); and (b) approval of its unbundled rates

pursuant to the provision of Republic Act No. 9136 filed on December 26, 2001 and docketed as ERC Case No. 2001-971.

ERC Case No. 2001-523 (ERB Case No. 99-17):

On March 30, 1999, MOELCI II filed an application for authority to increase its rates by PhP 0.20/kWh with prayer for provisional authority.

Having found the said application sufficient in form and substance with the required fees having been paid, an Order and a Notice of Public Hearing, both dated April 7, 1999, were issued setting the case for initial hearing on April 28 and 29, 1999.

In the same Order, MOELCI II 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, to include one (1) locally published in the area covered by its franchise, if there was any, the last date of publication to be made not later than two (2) weeks before the scheduled date of initial hearing.

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 application, the Order and the Notice of Public Hearing and were requested to have their respective duly authorized representatives present at the aforesaid initial hearing.

Likewise, the Offices of the Mayors of the Cities and Municipalities within MOELCI II's franchise area were furnished with copies of the Order and the Notice of Public Hearing for the appropriate posting thereof of their respective bulletin boards.

Several hearings were conducted whereby MOELCI II was able to present its evidence, both testimonial and documentary. The National Electrification Administration (NEA) appeared as intervenor while the City of Ozamis and the Municipality of Tudela submitted their respective oppositions in the form of Resolutions.

On August 25, 1999, the then Energy Regulatory Board (ERB) issued an Order provisionally authorizing MOELCI II an increase in rates of PhP 0.1108/kWh applicable to all types of customers to be implemented in two phases; First Phase: Fifty percent (50%) of the increase or PhP 0.0540/kWh to be implemented on the date of the Order; and Second Phase: the remaining fifty percent (50%) of the approved increase of PhP 0.0568/kWh to be implemented on January 1, 2000. The staggered implementation of the said increase is designed to cushion its impact on the consuming public.

ERC Case No. 2001-971:

On December 26, 2001, MOELCI II filed an application for approval of its unbundled rates pursuant to the provisions of Republic Act No. 9136. MOELCI II proposed an overall average tariff adjustment (OATA) of PhP 0.3679/kWh.

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 July 4, 2002, were issued setting the case for initial hearing on August 26, 2002.

MOELCI II was directed to cause the publication of the Notice of Public Hearing, at its own expense, twice (2x) for two (2) successive weeks in two (2) newspapers of general circulation in the country, the last date of publication to be made not later than two (2) weeks before the scheduled date of initial hearing. In compliance with the said directive, MOELCI II published the Notice of Public Hearing in the "*Manila Times*" and "*Kabayan*" both on July 15 and 22, 2002.

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

Likewise, the Offices of the Mayors of the Cities and Municipalities within the franchise area of MOELCI II were furnished with copies of the Order and the Notice of Public Hearing for the appropriate posting thereof on their respective bulletin boards.

During the initial hearing on August 26, 2002, only MOELCI II was present. No oppositor appeared nor was there any opposition registered.

At the said hearing, MOELCI II submitted proofs of compliance with the Commission's publication and posting of notice requirements which were duly marked as Exhibits "A" to "C-7", inclusive. Thereafter, it presented its witnesses. The first witness, Mr. Jemil L. Pelimer, MOELCI II's Finance Manager, testified on MOELCI II's financial reports and schedules attached to the application which were accordingly marked as Exhibits "D" to "W-1", inclusive. At the termination of the direct examination of the said witness, the Commission asked further details regarding the application and pointed out inconsistencies therein. MOELCI II was, thus, directed not to include the required cash working capital in its revenue requirements. Relative thereto, the Commission enjoined MOELCI II to submit various documents/data, within fifteen (15) days from said date of hearing.

MOELCI II then presented his second witness, Engr. Paz Buhisan, MOELCI II's Technical Services Department Head, to testify on the technical aspect of the application, particularly on MOELCI II's system loss reduction program. After the direct examination, the Commission asked clarificatory questions on the said witness. In the course thereof, MOELCI II was directed to formally inform the NEA of the fact that the amounts that should have been segregated as reinvestment fund had been co-mingled with other funds to service its debts; to submit a listing of its power outages; and to submit a list of prioritization of projects under its systems loss recovery program.

Thereafter, The Commission issued an Order dated August 29, 2002, reiterating its directives in its letter dated August 12, 2002 for MOELCI II to submit several documents and data, within ten (10) days from receipt thereof.

On various dates, MOELCI II submitted the required documents and data. On September 5, 2003, MOELCI II submitted its "Formal Offer of Evidence" consisting of Exhibits "A" to "X", inclusive, which was admitted by the Commission for the purposes for which they were being offered.

I. SUMMARY OF MOELCI II's APPLICATION

I.A. REVENUE REQUIREMENT

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

Account Name	TEST YEAR	
Purchased Power	PhP	157,583,745
Payroll		23,027,000
Operation and Maintenance (less Fuel, Purchased Power & Payroll)		26,805,000
Debt Service plus interest on CWC		28,226,634
Revenue Requirement		235,642,379
Other Revenue Items		0
Reinvestment Fund (1%) ¹		2,168,428
TOTAL REVENUE REQUIREMENT	PhP	237,810,807

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

MOELCI II's proposed revenue requirement was PhP 237,810,807 based on historical costs for the year 2000. The Overall Average Tariff Adjustment (OATA) published was PhP 0.3679/kWh. This same OATA was stated by witness Pelimer, in his testimony on August 26, 2002 [Transcript of Stenographic Notes (TSN), August 26, 2002, page 7].

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

I.B. RATE STRUCTURE/DESIGN

The unbundled rates proposed by MOELCI II were as follows:

Residential

Retail Customer Charge	PhP	7.16/customer/month
Metering Charge		22.84/customer/month
Energy Charge		4.2511/kWh

Small Commercial

Retail Customer Charge		7.01/customer/month
Metering Charge		22.99/customer/month
Energy Charge		3.4754/kWh

Large Commercial

Retail Customer Charge		4.13/customer/month
Metering Charge		25.87/customer/month
Energy Charge		2.9630/kWh
Demand Charge		117.61/kW

Industrial

Retail Customer Charge	PhP	14.07/customer/month
Metering Charge		60.93/customer/month
Energy Charge		2.9952/kWh
Demand Charge		116.71/kW

Public Buildings

Retail Customer Charge		7.07/customer/month
Metering Charge		22.93/customer/month
Energy Charge		3.5319/kWh

Street Lights

Distribution Facilities Charge		161.3373/pole/month
Energy Charge		12.1332/kWh

I.B.1. FUNCTIONALIZATION, CLASSIFICATION and ALLOCATION

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

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

I.B.2. SYSTEM LOSS

Witnesses Pelimer and Buhisan, in their respective testimonies, stated that MOELCI II's system loss for the year 2000 was 24% (August 26, 2002, TSN, pages 10 and 26).

Ms. Buisan further added that the increase in system loss for 2000 was brought about by the sudden closure of its big load consumer, energization of far flung barangays, expansion of lines and pilferages (August 26, 2002, TSN, pages 26-29).

I.B.3. INTER-CLASS CROSS SUBSIDY

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

CUSTOMER TYPE	ADJUSTED EXISTING (PhP)	PROPOSED EXISTING (PhP)	INTER-CLASS CROSS SUBSIDIES (PhP)
Residential	119,131,126	132,787,507	13,656,381
Small Commercial	59,357,149	49,691,837	(9,665,312)
Large Commercial	6,877,268	5,860,972	(1,016,296)
Industrial	34,412,277	26,922,530	(7,489,747)
Public Building	13,968,022	13,136,689	(831,333)
Street Lights	4,000,311	9,346,618	5,346,307
Total	237,746,153	237,746,153	0

I.B.4. LIFELINE RATE and LEVEL

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

Level	7 kWh
Rate	PhP 3.8635/kWh

I.C. OTHER CHARGES

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

PARTICULARS	RATES (PhP)
1. Reconnection Fee	
a. Residential	50.00
b. Commercial	100.00
c. Industrial	500.00
2. Calibration Fee	50.00
3. Membership Fee	5.00
4. Guaranty Payment	
a. Small Commercial	500.00
b. Big Commercial	1,000.00
5. Change Contract Fee	20.00
6. Transfer of Meter	50.00

II. COMMISSION DISCUSSIONS and CONCLUSIONS

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

II.A. DETERMINATION OF TOTAL REVENUE REQUIREMENT

II.A.1. TEST YEAR

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

II.A.2. GENERATION and TRANSMISSION COSTS

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

The Generation and Transmission charges shall reflect the generation charges of the NPC as approved in the Commission's Orders dated February 24, 2003 and January 26, 2004, Case No. 2003-44 [In the Matter of the Adoption of the Generation Rate Adjustment Mechanism (GRAM) and

Incremental Currency Exchange Recovery Adjustment (ICERA)] and 2003-574 [In the Matter of the Application for the Recovery of Fuel and Independent Power Producer Costs Under the Generation Rate Adjustment Mechanism (GRAM)], respectively; and the transmission charges of the National Transmission Corporation (TRANSCO) as approved in ERC Orders dated September 6 and 20, 2002, Case No. 2001-901 [In the Matter of the Application for the Approval of the Revised Unbundled Power Rates, National Power Corporation (NPC) – Applicant]. The FOREX component of the NPC's Generation Rate used is PhP 0.2207 per kWh. A separate charge to account for the allowable system loss shall likewise be provided (please refer to Section II.B.2.d. for details). Hence, a distribution utility with a system loss that is within the allowable cap can recover from its end-users the total cost of generation and transmission. *Annualization*² of billing determinants was applied.

The Commission made a net downward adjustment of PhP 12,071,523 to the Purchased Power as shown below:

Adjustment to Purchased Power Cost	PhP	2,335,987
Adjustment to System Loss		(14,407,510)
Net Adjustment	PhP	(12,071,253)

The adjustment to Purchased Power Cost of PhP 2,335,987 pertains to the difference between the proposed Purchased Power of MOELCI II amounting to PhP 157,583,745 and the Generation and Transmission Charges

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

based on the new rates of NPC and TRANSCO amounting to PhP 159,919,732.

Records show that MOELCI II's average system loss for the years 2000, 2001 and 2002 was 21.71% which is higher than the cap of 14%. The Commission allowed a system loss of 14% in the calculation of MOELCI II's revenue requirement as discussed in Section II.B.2.d. of this Decision. Thus, the Commission made a total adjustment to system loss of PhP 14,407,510 which represents the excess of actual system loss over the allowable recoverable cap of PhP 20,915,502.

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

Generation Charge	PhP	73,959,503
Transmission Charge		50,637,217
Recoverable System Loss		20,915,502
Total	PhP	145,512,222

MOELCI II's approved generation charges shall remain fixed until changes in NPC's generation rates are approved and authorized by the Commission pursuant to its Orders dated September 29, 2003, Case No. 2003 –291 [In the Matter of the Application for the Approval of the Revised Unbundled Generation Tariffs] and February 24, 2003, Case No. 2003-44 [In the Matter of the Adoption of the Generation Rate Adjustment Mechanism (GRAM) and Incremental Currency Exchange Recovery Adjustment (ICERA)]

respectively. In which case, MOELCI II shall bill its end-users the new generation rate charged by NPC. In the meantime, MOELCI II shall discontinue charging the Purchased Power Adjustment (PPA) upon effectivity of the unbundled rates.

II.A.3. PAYROLL

The Commission finds MOELCI II's payroll amounting to PhP 23,027,000 acceptable.

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

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

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

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

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

“Reasonable costs” may be defined as the cost of those goods and services which, while maybe not 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 MOELCI II to institute and report to the Commission its respective policies and procedures for cost-cutting and for the transparent and competitive procurement of goods and services.

MOELCI II's end-users have a right to receive safe, reliable and adequate service at a reasonable rate. On the other hand, these end-users should pay their power bills on time to ensure MOELCI II's viability. To this end, MOELCI II should view a petition for an increase in rates to be the last recourse. In future filings, MOELCI II should be reminded that it has the burden of proving that all reasonable and appropriate cost-cutting measures have been taken before resorting to a petition to increase rates.

The Commission made a downward adjustment of PhP 2,687,385 to MOELCI II's Operation and Maintenance Expenses as follows:

Retirement Benefit in excess of one month allowed by the Commission for inclusion in the rates	1,883,385
Miscellaneous expenses related to power supply already included in the computation of Cost of Power	<u>804,000</u>
TOTAL ADJUSTMENT	<u>2,687,385</u>

The said expenses were excluded for revenue requirement determination. These expenses translate to PhP 0.0480/kWh, which the Commission considers material.

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

II.A.5. OTHER REVENUE ITEMS

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

The Commission encourages MOELCI II to improve its financial operations through the development of other sources of revenue. In order to balance the interest of MOELCI II 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 2,711,264.

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

Particulars	Amount (PhP)
Pole Rental	93,723
Transformer Rental	96,574
Total ORI	190,297
50% of the above	95,149

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

II.A.6. DEBT SERVICE

The Commission made a downward adjustment of PhP 13,860,576 to assure that the debt service included in MOELCI II's revenue requirement is consistent with NEA's records. The details of the adjustment are shown below:

LOANS	PER NEA (PhP)	Per MOELCI II (PhP)	Variance (PhP)
RURAL ELECTRIFICATION			
LOAN A	734,091	734,091	0
LOAN B	357,967	357,967	0
LOAN C	531,500	531,500	0
LOAN D	171,904	171,904	0
LOAN E	191,412	191,412	0
LOAN F	8,950,700	8,950,700	0
OTHER LOANS:			
OECF – Construction	2,942,692	2,942,716	(24.00)
OECF – Logistical	485,792	485,792	0
OTHERS:			
NEA Arrears		5,913,918	(5,913,918)
Third Millennium - Large Load		4,000,000	(4,000,000)
Coop Headquarters		3,946,634	(3,946,634)
TOTAL	14,366,058	28,226,634	(13,860,576)

Pursuant to Section 60 of R.A. 9136 and E.O. 119, savings realized by electric cooperatives (ECs) due to the assumption of certain loans by the Power Sector Assets and Liabilities Management Corporation (PSALM Corp.) shall be passed on to EC's end-users. MOELCI II applied for a rate reduction under the Guidelines for the Implementation of the Reduction in Rates of the Electric Cooperatives Due to Condonation of Debts issued by the Commission on October 21, 2002, as amended on November 15, 2002.

The Commission, in its Order dated April 1, 2003, granted MOELCI II a Provisional Authority to reduce its rates by PhP 0.2114/kWh effective on the next billing cycle after receipt of the said Order. The said reduction in rates is likewise shown on the rate schedule provided in the Disposition of this Decision.

II.A.7. REINVESTMENT FUND

The Commission permits a reinvestment fund equivalent to 5% of a cooperative's Gross Revenue to finance expansion and rehabilitation/upgrading of its existing electric power system in accordance with the submitted System Rehabilitation/Upgrading and/or System Loss Reduction Plan. This resulted in an upward adjustment of PhP 8,722,507 in the reinvestment fund account.

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

The Reinvestment Fund is authorized subject to the following conditions:

- a) This reinvestment fund shall not be used, even temporarily, for any purpose other than for those projects specified in the submitted plan;
- b) The amounts collected for the reinvestment fund, including interest income (as discussed in Section II.A.5.), shall be placed in a separate account and shall be disbursed in accordance with the plan submitted by MOELCI II;
- c) MOELCI II is further required to submit a progress report no later than one (1) year after the date of this Decision and every year thereafter using the format prescribed by the Commission. The

progress report shall include detailed accounting itemizing total collections, the actual use of all disbursements, and actual current system losses.

Upon review of the progress report, the Commission may issue an order for MOELCI II to appear and show cause why it should continue collection of the reinvestment fund; and

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

II.A.8. REVENUE REQUIREMENT SUMMARY

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

	MOELCI II Proposal (PhP)	Adjustments (PhP)	ERC Approval (PhP)
Purchased Power	157,583,745	(12,071,523)	145,512,222
Payroll	23,027,000	0	23,027,000
O & M (less PP & Payroll)	26,805,000	(2,687,385)	24,117,615
Debt Service	28,226,634	(13,860,576)	14,366,058
Reinvestment Fund ³	2,168,428	8,722,507	10,890,935
Other Revenue Items	0	(95,149)	(95,149)
Total Rev. Requirement	237,810,807	(19,992,126)	217,818,681

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

MOELCI II proposed an OATA of PhP 0.3679/kWh using rates of year 2000 (as discussed in Section I.A. of this Decision). The OATA is a measurement tool based on the formula: [(Total Revenue Requirement less Existing Revenue) divided by kWh sales]. This measurement is not meant to refer to any specific customer class.

The Commission, after considering adjustments of PhP 19,992,126 approves a Total Revenue Requirement of PhP 217,818,681 based on the year 2000 equivalent to an OATA of PhP 0.1017/kWh for MOELCI II. There is a difference in the computation of the OATA published by the cooperative and the OATA approved by the Commission. The published OATA pertains to the difference between MOELCI II's proposed revenues and the actual revenues [consisting of the approved power cost component plus the average Purchased Power Adjustment (PPA) for the year 2000 and the approved distribution costs]. On the other hand, the OATA approved by the Commission pertains to the difference between the approved revenue requirement and the calculated actual revenues, both computed at current purchased power costs level. Hence, the resulting OATA accounts only for the distribution component from which MOELCI II directly benefits.

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

II.B. RATE STRUCTURE/DESIGN DETERMINATION

II.B.1 FUNCTIONALIZATION, CLASSIFICATION and ALLOCATION

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

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

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

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

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

MOELCI II submitted a classification of distribution costs into demand and customer-related costs using the Minimum Plant Method. This resulted in a 65% - 35% allocation on the average.

II.B.2. DESIGN and CALCULATION OF CHARGES

II.B.2.a. BAPA

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

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

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

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

II.B.2.b. GENERATION CHARGE

Consistent with the Commission's Orders dated January 26, 2004, Case No. 2003-574 [In the Matter of the Application for the Recovery of Fuel and Independent Power Producer Costs Under the Generation Rate Adjustment Mechanism (GRAM)], the revised generation charge to be billed to end-users shall be the approved rate per kilowatt-hour including Franchise Benefits to Host Communities and Incremental Currency Exchange Rate Adjustment (ICERA). The ICERA component of NPC's Generation Charge

used is PhP 0.2207 per kWh. The NPC's approved generation rate will remain fixed until changes are authorized by the Commission pursuant to the afore-stated Order dated February 24, 2003 as discussed in Section II.A.2. of this Decision. This eliminates the need for future Purchase Power Adjustment (PPA).

II.B.2.c. TRANSMISSION CHARGE

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

Transmission Charges	Residential	Commercial	Industrial	Public Bldg.	Street Lights
October 2003 – September 2004					
Demand Charge PhP/kW			19.80		
Transmission System Charge PhP/kWh	0.9391	0.8325	0.8204	0.8659	1.5786
October 2004 – September 2005					
Demand Charge PhP/kW			19.80		
Transmission System Charge PhP/kWh	0.9748	0.8641	0.8540	0.8988	1.6387
October 2005 – September 2006					
Demand Charge PhP/kW			19.80		
Transmission System Charge PhP/kWh	1.0106	0.8959	0.8878	0.9318	1.6988

II.B.2.d. SYSTEM LOSS CHARGE

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

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

The allowed system loss is equal to the average of actual system loss for the years 2000, 2001 and 2002 or the system loss cap, whichever is lower. In arriving at this decision, the Commission recognizes that the distribution utility faces some risk of over or under-recovery in the event its load characteristics change through time. The system loss not only results in additional unbundled generation costs but also additional unbundled transmission costs to be paid by end-users. When system loss is within the allowable cap, the distribution utility shall recover from the end-users all generation and transmission costs. Thus, system loss in excess of the allowable caps shall not be recovered from the end-users as 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 the IRR provide that the recoverable Technical and Non-Technical System Loss should not exceed the fourteen percent (14%) ceiling allowed for year 2000.

The Commission believes that the present cap on Technical and Non-Technical System Loss of 14% should continue to be used 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 Technical and Non-Technical System Loss or cap of 14% plus 1% cooperative own use (which should not include the personal consumption of MOELCI II's Board of Directors, officers and staff), whichever is lower, shall be deducted from total power cost and to be billed separately as System Loss Charge.

The Commission found that MOELCI II's 2000 - 2002 average system losses was 21.71%. Hence, the Commission considered the system loss cap of 14.00% in the calculation of MOELCI II's revenue requirement.

II.B.2.e. DISTRIBUTION CHARGE

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

MOELCI II did not propose for distribution wheeling rates. However, the Commission believes that wheeling rates are parallel to the cost of service functionalized under Distribution. Thus, the Commission orders that the Distribution Charge provided on Rate Schedules be likewise utilized as Distribution Wheeling Charges available to the future contestable market. Other distribution utilities requesting to wheel power across MOELCI II's facilities shall pay wheeling charges equivalent to Distribution Wheeling Charges for Industrial customers.

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

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

The Commission acknowledges that cost-causation rate design principle suggests the recovery of customer-related costs associated with the metering and supply functions through fixed monthly charges. Along with this cost-of-service principle, however, the Commission also considers rate design impacts across the spectrum of customers within each rate class. Although R.A. 9136 requires the removal of inter-class cross subsidies, the law does not require removal of revenue flows that may be characterized as intra-class cross subsidies. The Commission has the flexibility to consider other factors in determining rate design for a particular class of end-users. Therefore, to mitigate the impact on below-average consumption of residential end-users, the Commission orders MOELCI II to use a combination of PhP 5.00 per meter per month and a PhP 0.4003 per kWh rate for the metering function and orders MOELCI II to use a PhP per kWh rate for the supply function. For Commercial, Industrial, Public Building and Street Lights end-users, metering charge shall be billed a fixed rate per meter per month. However, the unmetered Street Lights customer class will not be billed a metering charge. The supply charge shall be billed on a fixed rate per customer per month for all end-users (except the Residential).

All BAPA residential end-users will be charged with rates used for the Residential Class. MOELCI II will draw the various incentives it will provide the BAPA for the revenues that will be generated from the Supply and Metering Charges from BAPA end-users.

II.B.3. INTER-CLASS CROSS SUBSIDY

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

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

	Total	Residential	Commercial	Industrial	Public Bldg.	Street Lights
New Cost-Based Rev. Req.	217,818,681	122,446,040	53,001,149	23,900,401	11,699,232	6,771,859
Existing Rates Revenue	212,128,602	107,296,654	60,318,431	28,491,008	13,358,879	2,663,630
Total Change in Revenue	5,690,079	15,149,386	(7,317,282)	(4,590,607)	(1,659,647)	4,108,229
Percentage Change in Revenue	2.68%					
Normalized Existing Revenue	217,818,681	110,174,750	61,936,396	29,255,243	13,717,214	2,735,078
Inter-Class Cross - Subsidy Amounts (PhP)	0	(12,271,290)	8,935,247	5,354,842	2,017,982	(4,036,781)
Class Billing Determinants (in kWh)	55,949,394	28,350,986	15,854,151	7,510,631	3,529,815	703,811
Inter-Class Cross Subsidy Rates (PhP/kWh)		(0.4328)	0.5636	0.7130	0.5717	(5.7356)

II.B.3.b. CROSS SUBSIDY REMOVAL

Section 74 of R.A. 9136 and Rule 16, Section 5 of its Implementing Rules and Regulations provide that the ERC shall issue a scheme for phasing out all cross subsidies including subsidies within Grids, between Grids, and between classes of end-users. The phasing-out period shall not exceed three (3) years from the establishment of the Universal Charge, which may be extended for a maximum period of one (1) year subject to certain conditions.

The Commission approved the cross subsidy removal scheme for the TRANSCO in its Decision dated June 26, 2002, Case No. 2001-901, which impacts the unbundled transmission rates for MOELCI II's end-users. This impact is reflected in the three-year schedule for unbundled transmission charges provided in Section II.B.2.c. above.

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

II.B.4. LIFELINE RATE and LEVEL

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

In determining the minimum lifeline level of consumption to be provided to the marginalized end-users, the Commission calculated the probable load requirement of typical low-income end-users by considering two (2) lighting facilities at 20 watts each and a 50-watt radio that are being used for a reasonable number of hours. In setting the maximum level of lifeline consumption, the Commission may adjust the minimum level of consumption and/or level of the lifeline discount so as to maximize the benefit to low-income end-users while keeping the costs associated with such subsidy between PhP 0.05 and PhP 0.10 per kWh. Thus, the Commission sets the lifeline consumption maximum level of 20 kWh for MOELCI II. The Commission considers the impact that the subsidized Lifeline Rates will have on other end-users who must carry the costs associated with such subsidy. This fact, combined with the desire to maximize the benefit to as many marginalized

end-users as possible, has led the Commission to adopt the following graduated scale for lifeline discount for MOELCI II. The graduated scale is also based on the recognition that individual end-user consumption may likely vary from month to month.

15 kWh and below	-	50%
16 kWh	-	40%
17 kWh	-	30%
18 kWh	-	20%
19 kWh	-	10 %
20 kWh	-	5%

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

The cost of subsidy to lifeline end-users shall be passed on to all non-lifeline end-users. For MOELCI II, the lifeline discounts result in a Lifeline Rate Subsidy by other end-users equal to PhP 0.0641/kWh.

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

MOELCI II shall coordinate with its Barangay Power Associations to gather information on the number of kWh falling under the different lifeline levels and corresponding discount rates for proper billing and implementation of lifeline benefits on the same. Each association will accordingly implement/provide lifeline benefits to its deserving BAPA end-users.

II.B.5. OTHER CHARGES

MOELCI II's additional submission to this Commission of its existing Other Charges as previously presented were considered in the determination of its revenue requirement. Fifty Percent (50%) of the revenues derived from these charges were appropriately deducted from the determination of the revenue requirement allowed to MOELCI II. In future cases filed after Other Charges have been established based on cost, the appropriate level of deduction of the revenue derived from these charges maybe revisited.

The Other Charges of MOELCI II are hereby pegged at their existing levels until such time that the Commission sets new rates on the same. Further, MOELCI II is ordered to make a compliance filing on its Other Charges one (1) year from the date of this Decision using a format to be prescribed by the Commission.

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

II.B.6. ESTIMATED IMPACT ON AN AVERAGE RESIDENTIAL END-USER

A comparison of the estimated impact of all adjustments on the revenue requirement on the monthly bill of an average residential end-user consuming 85 kWh a month, using rates based on MOELCI II's actual existing rates as of January 2004 against the unbundled rates approved by the Commission, is shown below.

Based on Actual Existing Rates			Based on ERC Approved Unbundled Rates			
	PhP/kWh	Amount (PhP)			PhP/kWh	Amount (PhP)
Basic Rate	2.6554	225.71	Generation Charges:			
PPA	1.1919	101.31	Generation System Charge-Main		1.0730	91.21
WAC	0.0336	2.86	Benefits to Host Communities Charge		0.0282	2.40
PAR	(0.3000)	(25.50)	ICERA		0.2207	18.76
Universal Charge:			Transmission Charge		0.9391	79.82
Missionary Electrification	0.0373	3.17	Distribution Charge		1.0249	87.12
Loan Condonation	(0.2114)	(17.97)	System Loss Charge		0.3738	31.77
			Supply Charge		0.1883	16.00
			Metering Charges:			
			Per Meter Per Month			5.00
			Per kWh		0.4003	34.03
			Inter-Class Cross Subsidy		(0.4328)	(36.79)
			Lifeline Rate [(Discount)/Subsidy]		0.0641	5.45
			Power Act Reduction		(0.3000)	(25.50)
			Universal Charge:			
			Missionary Electrification		0.0373	3.17
			Environmental Charge		0.0025	0.21
			Loan Condonation		(0.2114)	(17.97)
TOTAL BILL		289.58	TOTAL BILL			294.68
PhP/kWh		3.4068	PhP/kWh			3.4668
<i>Note: MOELCI II is not yet implementing Environmental Charge of PhP 0.0025 pursuant to the final authority granted by ERC in its Decision dated April 2, 2003 on ERC Case No. 2002-194.</i>						

DISPOSITION

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

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

		Res.	Comm.	Industrial	Public Bldg.	Street Lights
Generation Charges:						
Generation System Charge	PhP/kWh	1.0730	1.0730	1.0730	1.0730	1.0730
Franchise & Benefits to Host Communities Charge	PhP/kWh	0.0282	0.0282	0.0282	0.0282	0.0282
ICERA	PhP/kWh	0.2207	0.2207	0.2207	0.2207	0.2207
Transmission Charges:						
Demand Charge	PhP/kWh			19.80		
Transmission System Charge	PhP/kWh	0.9391	0.8325	0.8204	0.8659	1.5786
System Loss Charge:	PhP/kWh	0.3738	0.3738	0.3738	0.3738	0.3738
Distribution Charges:						
Demand Charge	PhP/kWh			19.80		
Distribution System Charge	PhP/kWh	1.0249	0.5478	0.4658	0.6128	6.2679
Supply Charges:						
Retail Customer Charge	PhP/Cust./Mo.		12.75	12.75	12.75	12.75
Supply System Charge	PhP/kWh	0.1883				
Metering Charges:						
Retail Customer Charge	PhP/Meter/Mo.	5.00	143.64	474.38	31.40	31.40
Metering System Charge	PhP/kWh	0.4003				
Inter-Class Cross Subsidy Charge:	PhP/kWh	(0.4328)	0.5636	0.7130	0.5717	(5.7356)
Lifeline Rate (Discount)/Subsidy	PhP/kWh	0.0641	0.0641	0.0641	0.0641	0.0641
Universal Charge:						
Missionary Electrification Charge	PhP/kWh	0.0373	0.0373	0.0373	0.0373	0.0373
Environmental Charge	PhP/kWh	0.0025	0.0025	0.0025	0.0025	0.0025
Power Act Reduction:	PhP/kWh	(0.3000)				
Rate Reduction due to Condonation of loan :	PhP/kWh	(0.2114)	(0.2114)	(0.2114)	(0.2114)	(0.2114)
Lifeline Rate (Discount)/Subsidy To be based on Residential rate in a graduated scale as provided in Section II.B.4. of this Decision.						
Rate Reduction Due to Loan Condonation as per ERC Order dated April 1, 2003 on ERC Case No. 2003-063						

2. To direct MOELCI II to comply with the following:
 - a) Discontinue charging the PPA upon effectivity of the approved unbundled rates. MOELCI II shall automatically bill its end-users the new Generation Rate charged by NPC as approved and authorized by the Commission;
 - b) Bill P 0.0373/kWh representing the missionary electrification portion of the Universal Charge in accordance with the Decision of the Commission in ERC Case No. 2002-165 (In the Matter of the Petition for the Availment from the Universal Charge the Share for Missionary Electrification, NPC-SPUG, Applicant);
 - c) Bill PhP 0.0025/kWh representing the environmental portion of the Universal Charge in accordance with the Decision of the Commission in ERC Case No. 2002-194 (In the Matter of the Petition for the Availment from the Universal Charge the Environmental Share/Charge for the Rehabilitation and Management of Watershed areas, NPC, Applicant);
 - d) Bill its respective end-users using a billing format, which contains at least the rate elements, provided in Annex A of this Decision upon effectivity of the approved unbundled rates. The rate elements provided in Annex A should appear on the

end-users bill even if the rate elements currently have a value of zero or have not yet been determined by the Commission;

- e) Discontinue the application of the Wage Adjustment Clause (WAC) formula upon effectivity of the approved unbundled rates;
- f) Inform the end-users within its franchise area of the said approved unbundled rates not later than thirty (30) days after receipt of this Decision;
- g) Submit for verification and confirmation purposes on or before the twentieth (20th) day of the month following the effectivity of the approved unbundled rates and every month thereafter:
 - 1) five (5) sample bills for each end-user class; 2) copy of bills from the generation and transmission companies; and
 - 3) Monthly Financial and Statistical Reports (MFSRs), complete with all related schedules;
- h) Make a formal application with the Commission for the approval of existing or future contracts with any entity for the wholesale purchases of power not yet approved by the Commission;

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

- j) File a progress report on the reinvestment fund no later than one (1) year after the date of this Decision and every year thereafter, using the prescribed formats provided in Annexes B and C of this Decision. The report shall include detailed accounting of actual collections and deposits (including interest/dividend income), specific transactions and withdrawals for all disbursements, and actual current system losses;

- k) Submit a new System Rehabilitation/Upgrading and/or System Loss Reduction Program covering the period 2004 to 2008, no later than one (1) year after the date of this Decision using a format to be prescribed by the Commission; and

- I) Institute policies and procedures for cost-cutting and transparent and competitive procurement of goods and services and submit a report thereon to the Commission within six (6) months from receipt of this Decision.

SO ORDERED.

Pasig City, February 27, 2004.

RODOLFO B. ALBANO, JR.
Chairman

OLIVER B. BUTALID
Commissioner

CARLOS R. ALINDADA
Commissioner

LETICIA V. IBAY
Commissioner

JESUS N. ALCORDO
Commissioner

Copy furnished:

1. ATTY. ZENON S. SUAREZ
Counsel for Applicant
4/F Casman Bldg.,
1198 Quezon Avenue, Quezon City
2. Misamis Occidental II Electric Cooperative, Inc.
Ozamiz City
3. Mr. Jemilo L. Pelimer
Officer-in-Charge
Misamis Occidental II Electric Cooperative, Inc.
Ozamiz City
4. Office of the Solicitor General
134 Amorsolo Street, Legaspi Village
1229 City of Makati
5. Commission on Audit
Commonwealth Avenue
1121 Quezon City
7. Senate Committee on Energy
GSIS Building, Roxas Boulevard
1300 Pasay City
8. House Committee on Energy
1126 Batasan Hills, Quezon City
9. Fr. Francisco G. Silva
Administrator
National Electrification Administration (NEA)
1101 NIA Road, Diliman, Quezon City
10. Power Sector Assets & Liabilities Management Corporation
(PSALM)
2nd Floor, SGV II Building
1226 Ayala Avenue, Makati City
11. Hon. Ernesto C. Pablo
Representative-Party List
APEC
Room 604, North Wing Building
House of Representatives
1126 Batasan Hills, Quezon City
12. The City Mayor
7214 Tangub City

13. The City Mayor
7200 Ozamiz City
14. The Municipal Mayor
7215 Bonifacio, Misamis Occidental
15. The Municipal Mayor
7205 Panaon, Misamis Occidental
16. The Municipal Mayor
7204 Jimenez, Misamis Occidental
17. The Municipal Mayor
7203 Sinacaban, Misamis Occidental
18. The Municipal Mayor
7202 Tudela, Misamis Occidental
19. The Municipal Mayor
7201 Clarin, Misamis Occidental