

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

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

ERC CASE NO. 2001-1007

**ZAMBOANGA DEL SUR II ELECTRIC
COOPERATIVE, INC. (ZAMSURECO II), Applicant.**

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D E C I S I O N

Before this Commission for resolution is the application filed on December 26, 2001 by Zamboanga del Sur II Electric Cooperative, Inc. (ZAMSURECO II) for the approval of its unbundled rates pursuant to the provisions of Republic Act No. 9136.

Having found said application sufficient in form and substance with the required fees having been paid, an Order and a Notice of Public Hearing both dated February 1, 2002 were issued setting the same for hearing on March 11 and 12, 2002.

ZAMSURECO 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, ZAMSURECO II published the Notice of Public Hearing at *Malaya* and *Balita* on February 15 and 22, 2002 and February 18 and 25, 2002, respectively.

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

Likewise, the Municipal Mayors of Alicia, Bayog, Buug, Diplahan, Imelda, Ipil, Kabasalan, Kumalarang, Lakewood, R. T. Lim, Malangas, Naga, Payao, Siay, Titay, Tungawan, Vitali, Mabuhay, Olutanga, Talusan, all in the Province of

Zamboanga del Sur and the Municipal Mayors of Baliguian, Sibuco, Siocon and Siraway, all in the Province of Zamboanga del Norte were furnished with copies of the Order and the Notice of Public Hearing for the appropriate posting thereof on their respective bulletin boards.

At the initial hearing on March 11, 2002, only the counsel for ZAMSURECO II appeared and entered his appearance. No oppositor appeared nor was there any opposition registered.

During said hearing, ZAMSURECO II submitted proofs of compliance with the Commission's publication and posting of notice requirements which were duly marked as Exhibits "A" to "C-8", inclusive. ZAMSURECO II was unable to submit the certificate of postings from the above-mentioned municipalities citing time constraint. However, it reserved its right to submit said certificates at the earliest possible opportunity. The Commission granted the motion and thus, allowed the provisional presentation of evidence subject to the submission of the certificates of posting. The certificates of posting were submitted by ZAMSURECO II before the March 12, 2002 hearing. Thereafter, ZAMSURECO II presented its two (2) witnesses.

The first witness, Ms. Josephine B. Gresos, ZAMSURECO II's acting Accountant, testified on the documents submitted in support of the application as well as on certain relevant schedules. In the course of her testimony, additional documents were presented, identified by reference and marked as Exhibits "E" to "FFFF-1", inclusive. When the Commission propounded clarificatory questions to the witness, she was unable to answer to the Commission's satisfaction. Hence, the Commission directed ZAMSURECO II to present the same witness at the next hearing.

When the hearing was continued on March 12, 2002, Ms. Gresos was recalled to the witness stand to answer questions from the Commission. After which, ZAMSURECO II presented its second witness, Mr. Quirino B. Amigo, Engineering Services Manager, who testified on the various technical aspects of the application including line loss incurred by ZAMSURECO II.

On April 11, 2002, ZAMSURECO II submitted its first "Formal Offer of Evidence" consisting of documentary evidence marked as Exhibits "A" to "QQ-8", inclusive. Another "Formal Offer of Evidence" was submitted dated May 14, 2002, consisting of documentary evidence marked as Exhibits "A" to "FFFF-1", inclusive. On May 15, 2002, ZAMSURECO II sent by facsimile a letter informing the Commission of the discrepancies in the figures contained in the schedules submitted and requested that the same be disregarded as it would submit final amended schedule together with the overall average tariff adjustment, within fifteen (15) working days from May 16, 2002. Consistent with its request, ZAMSURECO II filed on June 10, 2002 a "Motion to Admit Revised Schedules to Conform to the Uniform Rate Filing Requirements". However, the Commission denied ZAMSURECO II's request in its Order dated June 6, 2002. In the same Order, the Commission admitted the "Formal Offer of Evidence" formally offered by ZAMSURECO II on May 14, 2000.

I. SUMMARY OF ZAMSURECO II's APPLICATION

I.A. REVENUE REQUIREMENT

ZAMSURECO II's, revenue requirement per unbundled application based on historical year 2000 and 2002 budget are as follows:

	HISTORICAL YEAR	PROJECTED 2002 BUDGET
KWh Sales	43,025,000	43,203,000
Purchased Power ¹	(PhP) 100,637,000	128,928,000
Payroll ²	14,439,000	19,725,000
O&M (net of Purchased Power & Payroll)	27,572,000	28,423,420
Debt Service Cost ³	9,385,000	10,134,000
Total	152,033,000	187,207,000
Reinvestment Fund (5%) ⁴	7,704,000	9,360,000
TOTAL REVENUE REQUIREMENT	159,737,000	196,567,000
EXISTING REVENUE	158,669,000	175,372,000
Required Increase/(Decrease)	(PhP) 1,068,000	21,195,000
Required Increase/(Decrease) per kWh	(PhP) 0.0248	0.4907

Witness Gresos, in her testimony on March 11, 2002, (Transcript of Stenographic Notes (TSN), March 11, 2002, pages 24 to 29) stated the following as the bases of the cost components of the revenue requirement of ZAMSURECO II:

- For historical costs (Schedule A of the Uniform Filing Requirement [UFR]), the references are the Adjusted Trial Balance for December 31, 2000, Monthly Financial and Statistical Reports (MFSRs) for the Year 2000 and actual loan payments based on the Schedule of National Electrification Administration (NEA) Loan Amortization as of December 31, 2000.
- For Projected Costs (Schedule B of UFR), the reference is the proposed budget for the year 2002.

ZAMSURECO II manifested its preference for the Projected Costs with an OATA of PhP 0.4907/kWh over its application based on Historical Costs with an OATA of PhP 0.0248/kWh.

¹ Gross of Prompt Payment Discounts, Power Factor and Primary Voltage Discount.

² Comprises of Salaries and Wages including SSS/PhilHealth/HDMF Employer Shares, 13th & 14th Month Pay.

³ Annual payments of loans to the National Electrification Administration (NEA).

⁴ PhP 7,704,000 and PhP 9,360,000 both equivalent to 5% of the total revenue requirement.

I.B. RATE STRUCTURE/DESIGN

The unbundled rates proposed by ZAMSURECO II are as follows:

Residential

Retail Customer Charge	PhP 23.81/cust./mo.
Metering Charge	16.19/cust./mo.
Energy Charge	3.5099/kWh

Commercial

Retail Customer Charge	PhP 24.69/cust./mo.
Metering Charge	19.31/cust./mo.
Energy Charge	3.0663/kWh

Industrial

Retail Customer Charge	PhP 25.34/cust./mo.
Metering Charge	69.66/cust./mo.
Energy Charge	2.5299/kWh
Demand Charge	90.64/KW NCP

Public Buildings

Retail Customer Charge	PhP 22.34/cust./mo.
Metering Charge	17.66/cust./mo.
Energy Charge	3.0943/kWh

Street Lights

Dist. Facilities Charge	PhP 20.00/cust./mo.
Energy Charge	3.9510/kWh

I.B.1. FUNCTIONALIZATION, CLASSIFICATION and ALLOCATION

All of the functionalization and the allocation factors used by ZAMSURECO II were default factors provided in the UFR prescribed by ERC. These were adopted by ZAMSURECO II as applicable to its operations.

I.B.2. LINE LOSSES

The actual line losses for the year 2000 was 9.75%. ZAMSURECO II adopted the actual purchased power cost net of Primary Voltage and Power Factor Discounts.

Witness Amigo stated, "The reason for ZAMSURECO II's adopting the 14% projected systems loss despite the 9.75% in the test year is that during the year ending

2001, the cooperative experienced a high systems loss of 15%. ZAMSURECO II is mandated by the National Electrification and Administration (NEA) to expand its line to far flung areas to comply with the thrust of the government for national electrification of the country. But by the following years, since they have a plan to upgrade its system, ZAMSURECO II may cope up with the 10.6% systems loss.” (March 12, 2002, TSN pages 50 to 53).

I.B.3. INTER-CLASS CROSS SUBSIDY

ZAMSURECO II provided the amounts of cross subsidies for each customer type and did not include a program for the removal thereof.

CUSTOMER TYPES		ADJUSTED EXISTING	PROPOSED	INTER-CLASS CROSS SUBSIDIES
Residential	(PhP)	75,029,144.66	88,941,860.47	13,912,715.81
Small Commercial		36,726,158.99	33,657,618.59	(3,068,540.40)
Industrial		40,335,296.21	29,332,867.04	(11,002,429.17)
Public Buildings		5,284,533.17	4,878,758.28	(405,774.89)
Street Lights		2,361,873.97	2,925,902.62	564,028.65
TOTAL	(PhP)	159,737,007.00	159,737,007.00	(0.00)

I.B.4. LIFELINE RATE AND LEVEL

ZAMSURECO II proposed the following level and rate for marginalized consumers:

	Option 1	Option 2
	(at existing rates)	(at proposed customer charges)
Level (kWh)	15	15
Rate (PhP)	3.5046/kWh	40.00/customer/month

Based on the submitted Supplemental Application, marked as Exhibits “QQQ-1” to “QQQ-2”

I.C. OTHER CHARGES

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

1	Connection Fees The utility has no existing connection fee.		
2	Meter Installation Cost of initial service connection is shouldered by the coop. A fee of P50.00 is charged to members-consumers who wish to avail of the second or more preceding connections.	PhP	50.00
3	Cost of Wires Cost of service drop is P22.00/meter which is at lesser cost compared to local supplier.	PhP	22.00 /meter
4	Membership Fees For every new consumer applying for service connection, membership fee of P5.00 is being collected	PhP	5.00
5	Guaranty Payment		
	a. kWh Meter Deposit A meter deposit equivalent to P1,000 is being collected from the consumers. The coop policy enables the consumer to withdraw the same deposit upon permanent disconnection and return of the same meter.	PhP	1,000.00 /meter
	b. Energy Deposit A charge imposed on large commercial, industrial, and on consumers having transient/temporary connections determined according to their estimated energy consumption for one month.		
6	Inspection Fees A charge on house wiring installations done other than the coop's bonafide baronage electricians.		
7	Other Service Charges		
	a. Reconnection Fees – are charge imposed to reconnect a disconnected electric service of members-consumers on varied reasons.		
	b. Disconnection Fees – are charge imposed to members-consumers requesting for disconnection of their kWh meter from electric service.		
	Industrial		
	Large	PhP	250.00
	Medium	PhP	200.00
	Small	PhP	150.00
	Commercial		
	Minimum	PhP	60.00
	Above Minimum	PhP	80.00
	Residential/Public Building		
	Minimum	PhP	40.00
	Above Minimum	PhP	60.00
	Streetlights		
	Fluorescent/SL (20-40 watts)	PhP	30.00
	Luminaries (50 watts & above)	PhP	40.00
	c. Penalty Fees for delinquent consumers – a fine imposed to members-consumers whose electric bill payments are made after the expiry date indicated in their statement of accounts.	PhP	20.00

II. COMMISSION DISCUSSIONS AND CONCLUSIONS

II.A. DETERMINATION OF TOTAL REVENUE REQUIREMENT

II.A.1. TEST YEAR

ZAMSURECO II's proposal to use the 2002 projected budget is rejected by the Commission since it is inconsistent with Rule 15, Section 6(c) of the Implementing Rules and Regulations (IRR) of the Act. 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 COST

At present, ZAMSURECO II is buying power from two sources, namely: National Power Corporation (NPC) and Zamboanga City Electric Cooperative, Inc. (ZAMCELCO). The Commission notes that the contractual arrangement between ZAMSURECO II and ZAMCELCO had no prior approval from the Energy Regulatory Board (ERB). The Commission further notes that the power rate charged by the latter supplier is higher than that of NPC. In view thereof, the Commission limits the purchased power rates to that not exceeding the NPC rate.

Thus, the Generation and Transmission charges shall reflect the power suppliers' generation charges and transmission charges of the National Transmission Company (TRANSCO) as approved in ERC Orders dated September 6 and 20, 2002, Case No. 2001-901. A separate charge to account for the allowable line losses shall likewise be provided (please refer to Section II.B.2.c for details). Hence, a distribution utility with line losses that are within the allowable caps, can recover from its end-users the total cost of the generation and transmission. *Annualization*⁵ of the billing determinants was applied.

Based on the new generation and transmission charges, as well as the allowable Line Losses, the Commission considered ZAMSURECO II's unbundled Generation, Transmission and Recoverable Line Losses as follows:

Generation Charges	PhP	54,025,066
Transmission Charges		38,645,576
Recoverable Line Losses		12,182,107
Total	PhP	104,852,748

⁵ The annualization procedure is utilized in ratemaking to develop billing determinants nearest to the year end level.

II.A.3. PAYROLL

The Commission adjusted the payroll account upwards by PhP 1,049,221 to update it to the current salary level of PhP 15,488,221.

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

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

ZAMSURECO II only started implementing the WAC formula in February 2001.

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

The Commission adjusted ZAMSURECO II's Operation and Maintenance (O&M) Expenses by the following amounts:

Particulars	Amount
Disallowed Expenses	PhP (709,805)
Adjustments made in Pensions & Benefits	1,187,954
Reclassified Expense from Payroll	21,000
TOTAL ADJUSTMENTS	PhP 499,149

The Commission generally does not allow excessive and extravagant expenditures. The disallowed expenses charged under Outside Services, Association and Membership Dues, Injuries and Damages, Communication Expenses, and Miscellaneous and General Expenses were found to be under this qualification. Furthermore, said expenses are considered dispensable in the electric operation and do not redound to the benefit of consumers, hence not allowable for revenue requirement determination. These expenses translate to PhP 0.0162/kWh, which the Commission considers material.

The O&M Expenses are further adjusted by updating the Pensions and Benefits to 2002 level and by reclassification of certain accounts.

For future rate cases, ZAMSURECO II 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 ZAMSURECO II,

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

II.A.5. OTHER REVENUES and EXPENSES

Other Revenues, net of other expenses, amounting to PhP 5,157,768 including fifty percent (50%) of the prompt payment discount actually received, should be deducted from the revenue requirement used to calculate the rates for the end-users. The Commission believes that the cooperative and end-users should share the benefits of this prompt payment discount. In this manner, ZAMSURECO II is also provided an incentive to improve efficiency in the payment of its purchased power costs.

Other Revenues		
312-451-00 Rent from Electric Property	PhP	1,210,990
312-452-00 Prompt Payment Discount (50%)		1,472,859
312-456-00 Other Electric Revenue		1,182,293
312-000-00 Non-operating Income		<u>1,520,201</u>
	PhP	5,386,343
Other Expenses		
461-000-00 Non-Operating Expense		<u>228,576</u>
Other Revenues, net	PhP	5,157,768

II.A.6. DEBT SERVICE

The Commission adjusted the proposed debt service of ZAMSURECO II by increasing the amount by PhP 245,726 in order to reflect the debt service shown in the NEA Loan Profile below:

LOANS	LOAN PROFILE	
	PER ZAMSURECO II	PER NEA
Rural Electrification:		
A (PhP)	1,287,000	1,287,105
B	1,683,000	1,755,200
C	217,000	216,796
D	979,000	979,068
E	1,469,000	1,469,120
F1	212,000	847,900
F2	43,000	86,236
KOREA	88,000	88,052
LOCAL-A	7,000	7,268
LOCAL-C	12,000	11,796
USA	1,637,000	1,643,932
EL-Concessional	276,000	276,096
WB-RERP- (RE)	1,002,000	962,156
WB-(LOG)	473,000	-
T O T A L (PhP)	<u>9,385,000</u>	<u>9,630,726⁶</u>

⁶ WB-RERP-(LOG) amounting to PhP 717,580 were not considered from debt service as it had been fully paid in March 2002.

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 its end-users. The cooperative shall apply 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.

II.A.7. REINVESTMENT FUND

The provision for reinvestment fund equivalent to 5% of the Gross Revenue shall be used by ZAMSURECO II to finance expansion and rehabilitation/upgrading of its existing electric power system in accordance with the submitted Systems Rehabilitation/Upgrading and/or Systems Loss Reduction Plan. One of the main purposes of providing the 5% Reinvestment is for the end-users of ZAMSURECO II to shoulder part of their increasing capitalization requirements as outside sources of funding are getting scarce. Disbursements from the Reinvestment Fund shall be distinct from the O&M Expenses.

The Commission considered the Systems Rehabilitation/Upgrading and Loss Reduction Plan costs and approves an annual amount of PhP 8,046,583 for ZAMSURECO II's Reinvestment Fund based on 5% of gross revenue requirement, 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 shall be placed in a separate account and shall be disbursed in accordance with the plan submitted by ZAMSURECO II;
- (c) ZAMSURECO 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. The progress report shall include detailed accounting itemizing total collections, the actual use of all disbursements, and actual current line losses using the format prescribed by the Commission. Upon review of the progress report, the Commission may issue an order for ZAMSURECO II to appear and show cause why it should continue collection of the reinvestment fund; and
- (d) ZAMSURECO II shall submit a new Systems Rehabilitation/Upgrading and/or Systems Loss Reduction Plan covering the period 2004 to 2008, one (1) year after the date of this Decision using the format to be prescribed by the Commission.

II.A.8. PROVISIONAL AUTHORITY GRANTED BY ERB

The Commission takes note of ZAMSURECO II's provisional rate increase of PhP 0.1639/kWh which the previous Board granted on August 7, 2001 in ERB Case No. 98-89. The finality of the said provisional authority will be addressed in a separate decision which the Commission will issue.

II.A.9. REVENUE REQUIREMENT SUMMARY

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

	ZAMSURECO II PROPOSAL	ADJUSTMENTS	ERC APPROVAL
Purchased Power (PhP)	100,637,000	4,215,748	104,852,748
Payroll	14,439,000	1,049,221	15,488,221
O & M (net of PP & Payroll)	27,572,000	499,149	28,071,149
Other Revenues (net of other expenses)		(5,157,768)	(5,157,768)
Debt Service Cost	9,385,000	245,726	9,630,726
Reinvestment Fund	7,704,000	342,583	8,046,583
TOTAL REVENUE REQUIREMENT (PhP)	159,737,000	1,194,659	160,931,661
EXISTING REVENUE	158,668,941	3,090,185	161,759,126 ¹
Required Increase/(Decrease) (PhP)	1,068,059		(827,465)
KWh Sales	43,025,220		43,855,074 ²

1. Annualized Existing Revenue

2. Annualized Sales

The Commission, after considering adjustments of PhP 1,194,659 approves a total revenue requirement of PhP 160,931,661 for ZAMSURECO II.

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.

ZAMSURECO II proposed an OATA of PhP 0.0248/kWh. The Commission approves an OATA of (PhP 0.0189)/kWh using rates of year 2000, prior to the effectivity of the provisional authority. The main reasons for this decrease are the impact of the annualization procedure and the inclusion of the Other Revenue Items as discussed in Sections II.A.2 and II.A.5 respectively, of the Commission's Discussions and Conclusions.

II.B. RATE STRUCTURE/DESIGN DETERMINATION

II.B.1. FUNCTIONALIZATION, CLASSIFICATION and ALLOCATION

The functionalization and allocation factors used by ZAMSURECO II were the default factors provided for in the Uniform Rate Filing Requirements issued by the Commission on October 30, 2001. In the case of ZAMSURECO II, a number of the default factors did not represent the best alternative among possible factors. Thus, the following three (3) default factors used by ZAMSURECO II for functionalization and allocation are hereby modified, to wit:

First, the use of Net Plant in Service (PLTSVC-N) as a factor to functionalize and allocate Maintenance for Office and General Plant will cause skewed results by allocating these maintenance costs toward assets not part of such activity. The Commission, therefore, adopts 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) is adjusted to include the customer information expense and the general and administrative expense accounts since the default factor in the UFR considered only distribution related expenses.

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

Factor Name	Functionalization Factor Description	Total Check	Generation	Transmission	Distribution	Supply	Metering
ORI	Other Revenue Items	1.0000	0.0000	0.0000	0.3238	0.3525	0.3238

ZAMSURECO II submitted allocation of distribution cost into demand and customer-related cost using the Minimum Plant Method⁷. The method, wherein the demand and customer-related costs are based on the cost of the smallest-sized pole, wire or transformer, resulted in a modified demand and customer allocations for the downstream distribution costs which averaged to 70%-30% compared to the 28%-72% demand-customer allocation submitted by ZAMSURECO II.

⁷ Minimum Plant Method is a tool in the allocation of the distribution costs to demand and customer-related

II.B.2 DESIGN AND CALCULATION OF CHARGES

II.B.2.a. GENERATION CHARGE

Consistent with the Decision in ERC Case No. 2001-901, In the Matter of the Application for Approval of the Revised Unbundled Power Rates, National Power Corporation-Applicant dated June 26, 2002, and the Commission's Orders dated September 6 and 20, 2002, the generation charge to be billed to end-users shall be the approved rate per kiloWatt-hour including Benefit to Host Communities and Franchise Charge and Foreign Exchange Rate Adjustment (FOREX). The NPC's approved rate will remain fixed until changes are authorized by the Commission. This eliminates the need for future Purchased Power Adjustment (PPA).

II.B.2.b. TRANSMISSION CHARGE

The Commission's Decision in ERC Case No. 2001-901 dated June 26, 2002 and Order dated September 20, 2002 set the transmission charges for the TRANSCO without automatic adjustments. Since the transmission rates to be paid by ZAMSURECO 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 ZAMSURECO II have been calculated based on the approved TRANSCO rates which include cross subsidy elements to be phased out over a three-year period.

	Residential	Commercial	Industrial	Public Bldg.	Street Lights
Year 1					
Demand Charge (PhP/kW)			5.00		
Transmission System Charge (PhP/kWh)	0.9973	0.8662	0.6398	0.8751	1.1502
Year 2					
Demand Charge (PhP/kW)			5.00		
Transmission System Charge (PhP/kWh)	1.0449	0.9076	0.6710	0.9169	1.2052
Year 3					
Demand Charge (PhP/kW)			5.00		
Transmission System Charge (PhP/kWh)	1.0925	0.9489	0.7021	0.9586	1.2600
Year 4					
Demand Charge (PhP/kW)			5.00		
Transmission System Charge (PhP/kWh)	1.1402	0.9903	0.7333	1.0004	1.3150

II.B.2.c. LINE LOSS CHARGE

The Commission defines Line Losses for utilities to include System Loss and the utility's use of power for its own operations not to exceed a cap of one percent (1%) of kiloWatt-hour (kWh) purchased and generated. Line Losses should not include the personal use of its Board of Directors, officers and staff.

The Commission approves the recovery of allowed Line Losses through the establishment of a separate Line Loss Charge. The allowed Line Losses are equal to the actual Line Losses for the test year or the Line Loss cap whichever is lower. In arriving at this decision, the Commission recognizes that the distribution utility faces some risks of over- or under-recovery in the event its load characteristics change through time. The Line Losses not only result in additional unbundled generation costs but also additional unbundled transmission costs to be paid by end-users. When Line Losses are within the allowable caps, the distribution utility shall recover from the end-users all generation and transmission costs.

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 the said law. Section 10 of R.A. 7832 and Rule IX, Section 1 of the IRR provide that the recoverable System Loss should not exceed the fourteen percent (14%) ceiling allowed for year 2000.

The Commission believes that the present cap on System Loss of 14% 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.

ZAMSURECO II is free at anytime to apply for a change in the Line Loss charge. The application shall include all relevant information necessary to determine Line Losses for the most recent twelve-month period.

II.B.2.d. DISTRIBUTION CHARGE

The distribution charge shall be billed on a fixed rate per kiloWatt-hour for all end-users and fixed rate per maximum monthly demand (kW) for those end-users with demand meters.

ZAMSURECO II did not propose distribution wheeling rates as required. The Commission believes that wheeling rates are parallel to the cost of service functionalized under Distribution. Thus, the Commission orders that the Distribution Charge provided on Rate Schedules be likewise utilized as Distribution Wheeling Charges available to the future contestable market. However, other distribution utilities requesting to wheel power across ZAMSURECO 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 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.B.2.e. METERING and SUPPLY CHARGES

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

II.B.3. INTER-CLASS CROSS SUBSIDY

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

		Total	Residential	Commercial	Industrial	Public Bldgs.	Street Lights
New Cost-Based Rev. Reqs.	(PhP)	160,931,663	92,802,207	33,088,636	27,278,685	4,855,899	2,906,236
Existing Rates Rev.	(PhP)	161,759,126	75,518,694	37,486,446	41,076,998	5,465,594	2,211,395
Total Change in Rev.	(PhP)	(827,463)	17,283,513	(4,397,810)	(13,798,312)	(609,695)	694,840
Percentage Change in Rev.		-0.51%					
Normalized Existing Rev.	(PhP)	160,931,663	75,132,385	37,294,688	40,866,872	5,437,635	2,200,083
Inter-class Cross Subsidy	(PhP)		(17,669,822)	4,206,052	13,588,187	581,736	(706,152)
Class Billing Determinants	(kWh)	43,855,074	20,892,683	10,162,509	10,662,980	1,500,712	636,190
Inter-class Cross Subsidy Rates	(PHP per kWh)		(0.8457)	0.4139	1.2743	0.3876	(1.1100)

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

II.B.3.b. CROSS SUBSIDY REMOVAL

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.

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 rate for ZAMSURECO II's end-users. This impact is reflected in the three-year schedule for unbundled transmission charges provided in Section II.B.2.b 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, ZAMSURECO 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 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.

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) lighting facilities at 20 Watts each and a 50-Watt Radio that are being used for a reasonable number of hours. Thus, the Commission sets the lifeline consumption maximum level at 18 kWh for ZAMSURECO 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 ZAMSURECO 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	-	20%
16 kWh	-	15%
17 kWh	-	10%
18 kWh	-	5%

ZAMSURECO II shall apply these discounts to the following residential charges: Generation, Transmission, Distribution, Supply, Metering, and Line 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 18 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 ZAMSURECO II, the lifeline discounts result in a Subsidy on Lifeline Charge by other end-user equal to PhP 0.0566/kWh.

II.B.5. OTHER CHARGES

ZAMSURECO II's additional submissions to this Commission of its existing Other Charges as previously presented were considered in the determination of its revenue requirement. The revenues derived from these charges were appropriately deducted from the determination of the revenue requirement allowed to ZAMSURECO II.

The Other Charges of ZAMSURECO II are hereby pegged at their existing level until such time that the Commission sets new rates on the same. Further, ZAMSURECO II is ordered to make compliance filing on its Other Charges a year from the 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.B.6. 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 50 kWh a month using rates based on ZAMSURECO II's actual existing rates as of August 2002 against the unbundled rates approved by the Commission is shown below.

Based on Actual Existing Rate			Based on ERC Approved Unbundled Rates		
	PhP/kWh	PhP		PhP/kWh	PhP
Basic Rate	2.8685	142.75	Generation Charges:		
(FPCA/FOREX) PPA	1.4404	71.68	Generation	1.0499	52.25
WAC	0.0139	0.69	Franchise & Benefits to HC	0.0282	1.40
PPA Reduction	(0.0510)	(2.54)	FOREX	0.1538	7.65
Power Act Reduction	(0.3000)	(14.93)	Transmission System Charge	0.9973	49.63
			Line Loss Charge	0.2778	13.82
			Distribution Charge	1.2699	63.19
			Supply Charge	0.4657	23.17
			Metering Charges		
			Retail Customer Charge/Month		5.00
			Metering System Charge	0.0988	4.92
			Inter-class Cross Subsidy Charge	(0.8457)	(42.09)
			Subsidy on Lifeline	0.0507	2.52
			Power Act Reduction	(0.3000)	(14.93)
TOTAL BILL		197.65	TOTAL BILL		166.55
PhP/kWh		3.9718	PhP/kWh		3.3468

DISPOSITION

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

1. To approve the unbundled schedule of rates of ZAMSURECO II to be effective for all billing cycles following the NPC Bill for the month of December 2002:

	Residential	Commercial	Industrial	Public Bldgs.	Street Lights
Generation Charges:					
Generation System Charge (PhP/kWh)	1.0499	1.0499	1.0499	1.0499	1.0499
Franchise & Benefits to Host Communities Charge (PhP/kWh)	0.0282	0.0282	0.0282	0.0282	0.0282
FOREX Adjustment Charge (PhP/kWh)	0.1538	0.1538	0.1538	0.1538	0.1538
Transmission Charges:					
Demand Charge (PhP/kW)			5.00		
Transmission System Charge (PhP/kWh)	0.9973	0.8662	0.6398	0.8751	1.1502
Line Loss Charge (PhP/kWh)	0.2778	0.2778	0.2778	0.2778	0.2778
Distribution Charge					
Demand Charge (PhP/kW)			5.00		
Distribution System Charge (PhP/kWh)	1.2699	0.6267	0.2994	0.6105	1.2729
Supply Charges:					
Retail Customer Charge (PhP/Customer/Month)		23.17	115.87	23.17	33.09
Supply System Charge (PhP/kWh)	0.4657				
Metering Charge					
Retail Customer Charge (PhP/Customer/Month)	5.00	9.92	49.59	9.92	
Metering System Charge (PhP/kWh)	0.0988				
Inter-Class Cross Subsidy Charge (PhP/kWh)	(0.8457)	0.4139	1.2743	0.3876	(1.1100)
Subsidy on Lifeline	0.0507	0.0507	0.0507	0.0507	0.0507
Power Act Reduction (PhP/kWh)	(0.3000)				
Lifeline Rate	To be based on residential Rate in a graduated scale as provided in this Decision.				

2. To direct ZAMSURECO II to comply with the following:
 - a.) Discontinue charging the PPA upon effectivity of the approved unbundled rates.

- b.) Discontinue the application of the WAC formula and its implementation upon effectivity of this Decision.
- c.) Bill its respective end-users using a billing format which contains at least the rate elements provided in Annex A of this Decision upon the effectivity of the approved unbundled rates.
- d.) Inform the end-users within its franchise area of the approved unbundled rates not later than thirty (30) days after receipt of this Decision.
- e.) Submit for verification and confirmation purposes on or before the twentieth (20th) day of the month following the effectivity of the approved unbundled rates and every month thereafter: a) five (5) sample bills for each end-user class; b) copy of the bills from the generation and transmission companies; and c) MFSRs complete with all related schedules.
- f.) 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.
- g.) 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.
- h.) File a progress report on the reinvestment fund one year after the date of this Decision and every year thereafter using the formats provided in Annexes B and C of this Decision. The report shall include detailed accounting of actual collections and deposits; specific transactions and withdrawals for all disbursements; and actual line losses.
- i.) Submit a new Systems Rehabilitation/Upgrading and/or Systems Loss Reduction Plan covering the period 2004 to 2008, one (1) year after the date of this Decision using the format to be prescribed by the Commission.

SO ORDERED.

Pasig City, November 15, 2002

(Signed) **LETICIA V. IBAY**
Acting Chairman

(Signed) **OLIVER B. BUTALID**
Commissioner

(Signed) **MARY ANNE B. COLAYCO**
Commissioner

(Signed) **CARLOS R. ALINDADA**
Commissioner

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