

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 PROVISION
OF REPUBLIC ACT NO. 9136

**ERC CASE NO. 2001-890/
ERC CASE NO. 2002-196**

ZAMBOANGA CITY ELECTRIC COOPERATIVE, INC.
(ZAMCELCO),

Applicant

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DECISION

Before this Commission for resolution is the application filed on December 21, 2001 by applicant Zamboanga City Electric Cooperative Inc. (ZAMCELCO) for the approval of its unbundled rates pursuant to the provisions of Republic Act No. 9136.

In its Order dated February 6, 2002, the Commission required ZAMCELCO to submit additional data and to indicate the specific rates it applied for. On April 19, 2002, ZAMCELCO filed its "Compliance" to said Order.

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 April 24, 2002 were issued setting the case for hearing on June 20 and 21, 2002.

Subsequently, ZAMCELCO filed an "Amended Petition" dated May 14, 2002 essentially revising its proposed schedule of rates. Consequently, the Commission issued another Order and a Notice of Public Hearing both dated May 17, 2002 setting the case for hearing also on June 20 and 21, 2002 indicating the revised Overall Average Tariff Adjustment (OATA) proposed by ZAMCELCO.

ZAMCELCO 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, ZAMCELCO had the Notice of Hearing published in the *Malaya* and the *Manila Standard* both on May 29, 2002 and June 3, 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 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 Mayor of Zamboanga City was furnished copies of the Order and the Notice of Public Hearing for the appropriate posting thereof on its bulletin board.

On June 3, 2002, the NAPOCOR Industrial Consumers Association, Inc. (NICAI) and other Industrial Consumers of Electricity through Engr. Robert Mallillin filed their position paper on the concerns, comments, and position of the industrial power consumers on the application of the various distribution utilities for the unbundling of their respective rates and approval of revised rates schedules, to wit:

Rate Design:

- Distribution System Charges, which are attributable to fixed cost, should be in “P/kW” if metering installations permit. Exception should only be applied to consumers without demand meters;
- Metering charge should be in terms of “Peso per Customer” and not “Peso per kiloWatt” (P/kW) or “Peso per kiloWatt-hour” (P/kWh);
- The Supply Charge should be in terms of “Peso per Customer”;
- The Distribution System Charge should be determined based on the delivery voltage level of the customer;
- The Distribution System Charge should further be unbundled into: (1) Subtransmission System Charge and (2) Distribution System Charge;
- The Distribution System Loss Recovery (DSLRL) should be a separate and distinct charge. This should further be segregated by voltage level in each customer class in order to reflect rate levels that are closer to the true cost of service;

- The Lifeline Rate threshold level should consider also the connected load aside from the historical energy consumption of the customer;
- Distribution Utilities should phase out cross subsidies starting with the proposed charges/rates under the rate unbundling cases now filed with the ERC;
- Regarding Cost of Service, Distribution Plant Items like poles, line hardware, line transformer, conductors and wires should be allocated under “Demand” only; and
- The system loss caps as provided for in R.A. 7832 should be maintained.

At the initial hearing on June 20, 2002, the following entered their appearances: Atty. Narvaro Belar S. Navarro as counsel for applicant ZAMCELCO. Atty. Asbi N. Edding and Mr. Efren Y. Wee entered their appearances in behalf of intervenors/oppositors City Council of Zamboanga City and Industrial Group of Zamboanga, Inc. (IGZI), respectively, while Engr. Robert Mallillin and Engr. Amado Pacpaco manifested their appearance as intervenors in behalf of NICAI.

During said hearing, Atty. Edding and Mr. Wee moved for the postponement of the scheduled hearing in order to observe due process on the case. They manifested that they were able to get copies of the amended application only on June 14, 2002 or a few days before the hearing, and considering the voluminous and

technical nature of the documents submitted, it would be difficult for them to properly participate in the hearings. Counsel for applicant manifested his opposition to the postponement stating for the record that applicant had properly complied with the Commission's publication and posting requirements and duly furnished the intervenors/oppositors with copies of the documents that they requested. After deliberation, the Commission granted the motion to reset the hearing to August 6, 2002. The Commission, however, allowed applicant to submit proof of its compliance with Commission's publication and posting requirements.

Likewise, the Commission ordered ZAMCELCO to explain in writing, copy furnished the other parties to the case, the discrepancy in the data submitted pertaining to its power purchase, payroll, operating and maintenance account, and its system loss. The Commission also directed applicant to submit a program for its system loss reduction.

On July 25, 2002, ZAMCELCO submitted with its "Compliance" dated July 24, 2002 the data required by the Commission.

On August 2, 2002, intervenor IGZI submitted its "Position Paper/Preliminary Comments".

At the August 6, 2002 hearing, Atty. Narvaro Belar S. Navarro appeared as counsel for applicant ZAMCELCO. Atty. Asbi N. Edding appeared in behalf of the City Council of Zamboanga City. Mr. Efren Y. Wee and Roberto Valerio appeared in

behalf of intervenor/oppositor IGZI. Engr. Amado Pacpaco appeared for the industries connected with NICAI. In said hearing, ZAMCELCO presented two (2) witnesses. The first witness, Mrs. Rosario David, ZAMCELCO's Finance Manager, testified on certain relevant schedules and on the documents submitted in support of the application. In the course of her testimony, additional documents were presented, identified by reference and marked as Exhibits "D" to "P", inclusive. Engr. Pacpaco conducted cross-examination, particularly as to the effect of ZAMCELCO's proposed OATA on its customers. Mr. Valerio cross-examined witness David on the discrepancy of about PhP 80 Million in power costs and on why primary voltage and power factor discounts received by ZAMCELCO were not passed on to its consumers. Mr. Valerio also propounded questions as to the propriety of an annual increase in salary of ZAMCELCO's employees being justified by the cooperative with the provisions of its Collective Bargaining Agreement with its employees. Atty. Edding asked the witness regarding ZAMCELCO's loan with the National Electrification Administration (NEA) and the arrearages with National Power Corporation (NPC). Atty. Edding likewise inquired as to the system loss of ZAMCELCO and the effect of its rural electrification program on the cooperative and the rest of its consumers. Thereafter, the Commission propounded clarificatory questions to witness David.

At the continuation of the hearing of the case in the afternoon of the same day, representatives from NEA were present to clarify matters that may be raised by the oppositors, intervenors, and by the Commission. Their spokesperson, Mrs. Juana Reyes explained among other items, that in 1993 NEA took a hands-off

policy regarding collective bargaining agreements of the cooperatives, and as far as ZAMCELCO is concerned, NEA had no idea as to the status of ZAMCELCO's collective bargaining agreement with its employees. However, she clarified her statement that in 1996, NEA approved a salary scale of electric cooperative employees. She also mentioned that in 1998, ZAMCELCO requested for a 20% increase in salaries but it was disapproved because as provided for in the salary guidelines for electric cooperative employees, the granting of across-the-board salary increase is counter-productive but instead to use step increment of the approved salary scale for giving incentives for good performing employees. (TSN pp. 11-12, Aug. 6, 2002)

Thereafter, ZAMCELCO presented its Transmission and Distribution Manager, Engr. Cesar Melad, as its witness to testify on the technical aspect of its application. Mr. Valerio cross-examined witness Melad on the system loss reduction program proposed by ZAMCELCO. On the other hand, Engr. Pacpaco queried about ZAMCELCO's operations in Sacol Island and the effect thereof on ZAMCELCO's rates for its mainland consumers. He also manifested that a separate application be filed for the island averring that since ZAMCELCO is the one that generates power for the consumers in Sacol Island, filing a separate application will spare the customers in the mainland from subsidizing the operational cost of said island.

Atty. Edding on his part asked questions regarding ZAMCELCO's system loss and the solutions implemented by the cooperative. Witness Melad cited that

part of their program to reduce system loss was to relocate billing meters close to the substations. In the middle of witness Melad's testimony, ZAMCELCO moved that the other members of the team who prepared the application be allowed to supplement the testimony of witness Melad. In the absence of any objections from the oppositors/intervenors, the motion was granted and Messrs. Jaime Wee and Samuel Julio were also allowed to answer under oath the questions raised by the oppositors/intervenors. Witness Julio explained that figures for technical losses for its three (3) customer classes are just estimates. Engr. Pacpaco further asked questions regarding the connections of industrial consumers to ZAMCELCO. Witness Julio mentioned that they classify industrial consumers into two (2) categories: 1) the preferential industrial load and 2) ordinary industrial. The preferential industrial load consumers are those having a maximum demand of 1,000 kilowatts and above, while those having maximum demands less than 1,000 kilowatts would be classified under the category of ordinary industrial consumers (TSN Aug. 6, 2002 2:00 p.m. pp. 87-88). For its part the Commission asked clarificatory questions. Thereafter, it directed ZAMCELCO to submit the following: (a) Proof of the approval from the National Electrification Administration (NEA) of applicant's reorganization; (b) Proof of NEA's approval of the annual increases in the salaries of applicant's employees; (c) Breakdown of its Year 2000 expenses for travel and transportation amounting to about PhP1.3 Million; (d) Explanation on the discrepancies in the payroll figures as contained in the Audited Financial Statement and the Uniform Filing Requirement; (e) Priority Program for its Reinvestment Fund; and (f) A report on power outages within its franchise area for the years 2000 and 2001.

On August 14, 2002, ZAMCELCO submitted a letter request seeking an extension until August 31, 2002 within which it could file its comment on the IGZI Position paper submitted on August 2, 2002. Through its Order dated August 5, 2002, the Commission gave ZAMCELCO until August 15, 2002 within which to file its comments.

On the same date, the group represented by Engrs. Mallillin and Pacpaco filed its "Manifestation". In said Manifestation, the following issues were raised:

- a) Operating Expenses of ZAMCELCO for specific cost items are very high and unjustified;
- b) ERC is the proper authority to review, approve, or disapprove the compensation packages of the employees of the electric distribution utilities;
- c) Operation of Sacol Island should be financially separated from the mainland operation of ZAMCELCO since the island operation is also technically separate from the mainland operation;
- d) Applicable charges for the Large Load class of customers should be lower than the Industrial class of customers and should be the lowest among the customer classes; and
- e) the Non-technical portion of the system loss of ZAMCELCO is very high and is the main reason for its financial loss.

On August 30, 2002, the Commission received through facsimile transfer the "Comments on Intervenor's Position Paper" filed by ZAMCELCO.

On September 26, 2002, the Commission received through facsimile transfer a "Request for Extension to File/Submit an Answer /Rejoinder " from intervenors IGZI praying that it be given until October 4, 2002 to file its answer to the comments

filed by ZAMCELCO to IGZI's position paper of August 2, 2002. Said request was granted by the Commission through its Order dated September 30, 2002.

On October 9, 2002, the Commission received the "Consolidated Rejoinder/Comments on Petitioner's Comments Filed on August 30, 2002" filed by IGZI.

On October 18, 2002 ZAMCELCO filed a) an "Urgent Ex-Parte Motion for Early Resolution of Petition" praying that its application be resolved by the Commission and b) a "Manifestation " declaring that it would no longer give any comment to the Consolidated Rejoinder/Comments filed by IGZI and thereby rests its case.

On November 25, 2002, the Commission took note of said Motion and Manifestation and directed ZAMCELCO to submit its formal offer of evidence within ten (10) days from receipt of said Order. Likewise, Atty. Edding, Mr. Efren Wee, and IGZI were also given ten (10) days from receipt of said Order within which to submit their comments on ZAMCELCO's Formal Offer of Evidence.

On December 20, 2002, ZAMCELCO filed an "Urgent Ex-Parte Motion for Extension of Time to File Formal Offer of Documentary Exhibits", praying that it be granted an extension of fifteen (15) days within which to file its Formal Offer of Evidence (FOE).

On January 2, 2003, ZAMCELCO filed its Formal Offer of Evidence (FOE).

On January 17, 2003, the Commission directed ZAMCELCO to furnish the oppositors and intervenors copies of its FOE and reiterated its directive for said oppositors and intervenors to file their comments on the FOE within ten (10) days from receipt thereof.

On February 4, 2003, ZAMCELCO submitted through facsimile transfer its "Compliance" of same date, manifesting its compliance with the Commission's January 17, 2003 Order.

I. SUMMARY OF ZAMCELCO'S APPLICATION

1.A. REVENUE REQUIREMENT

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

ACCOUNT NAME	HISTORICAL YEAR
KWh Sales	293,585,431
Purchased Power	PhP 739,201,654
Payroll	80,099,675
Operation & Maintenance (less Purchased Power & Payroll)	59,844,791
Debt Service Plus Cash Working Capital	21,661,528
Revenue Requirement	PhP 900,807,648
Less: Other Revenue Items	0
Reinvestment Fund (8%) *	73,978,190
Total Revenue Requirement	PhP 974,785,838

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

Witness David stated that the following are the bases for the cost components of the revenue requirement of ZAMCELCO (Transcript of Stenographic Notes (TSN), p. 33 of August 6, 2002 9:00 a.m. hearing and p. 13 of August 6, 2002 2:00 p.m. hearing):

- For historical costs by function (Schedule A), the data were based on the Audited Financial Statement for the year 2000.
- The PhP 73 Million Reinvestment Fund proposed by ZAMCELCO was based on historical data in the work plan approved by the NEA. Included in the said proposed Reinvestment Fund were the actual expenses in year 2000 for the initial construction of facilities and distribution lines for the rural electrification project in Sacol Island.

ZAMCELCO's proposed revenue requirement was PhP 974,785,838 based on Audited Financial Statement for year 2000 as evidenced by its submitted and published OATA of PhP 0.6067/kWh.

I.B. RATE STRUCTURE/DESIGN

The unbundled rates proposed by ZAMCELCO were as follows:

Residential

Distribution System Charge	PhP	0.6185/kWh
Supply Charge		0.2012/kWh
Metering Charge		0.2821/kWh
Generation Charge		2.5179/kWh
Retail Customer Charge		17.90/cust./mo.

Commercial

Distribution System Charge	PhP	0.3756/kWh
Generation Charge		2.6521/kWh
Metering Charge		28.31/cust./mo.
Retail Customer Charge		15.69/cust./mo.

Primary Retail Service (Industrial Consumers)

Distribution System Charge		0.2254/kWh
Generation Charge		2.6335/kWh
Demand Charge		15.7800/kW
Supply Charge		0.0075/kWh
Metering Charge		0.0439/kWh
Retail Customer Charge		7.26/cust./mo.
Metering Customer Charge		42.74/cust./mo.

Public Buildings

Distribution System Charge		0.3417/kWh
Supply Charge		0.0261/kWh
Metering Charge		0.0612/kWh
Generation Charge		2.5178/kWh
Customer Charges:		
Retail Customer Charge		12.87/cust./mo.
Metering Customer Charge		30.13/cust./mo.

Street Lights

Distribution System Charge		0.3510/kWh
Supply Charge		0.0354/kWh
Metering Charge		0.0718/kWh
Generation Charge		2.5178/kWh
Customer Charges:		
Retail Customer Charge		14.22/cust./mo.
Metering Customer Charge		28.78/cust./mo.

Large Load

Distribution System Charge	PhP	0.2718/kWh
Supply Charge		0.0061/kWh
Metering Charge		0.0432/kWh
Generation Charges:		
Energy Charge		2.6572/kWh
Demand Charge		28.66/kW
Customer Charges:		
Retail Customer Charge		12.35/cust./mo.
Metering Customer Charge		87.65/cust./mo.

I.B.1. FUNCTIONALIZATION, CLASSIFICATION and ALLOCATION

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

I.B.2. SYSTEM LOSS

The actual system loss for the year 2000 was 19.75%. ZAMCELCO adopted the actual purchased power cost gross of Primary Voltage and Power Factor Discounts.

Witness Julio mentioned in his testimony (TSN pp. 96-97; August 6, 2002 2:00 p.m. hearing) that ZAMCELCO has laid out plans to attain the 1% yearly reduction of system loss for a period of five years. The top priority among its plans is the transfer of substation to load centers, but it would mean a large investment on the part of ZAMCELCO. Also, the cooperative intends to come up with an innovative concept of installing more capacitors that would improve its voltage profile and reduce its system loss. Another action it intends to implement is to intensify the zoning operation of Meters on Poles (MOP) project to minimize pilferages.

I.B.3. INTER-CLASS CROSS SUBSIDY

ZAMCELCO provided the amounts of cross subsidies for each customer type including a program for the removal thereof.

CUSTOMER TYPES	ADJUSTED EXISTING (PhP)	PROPOSED (PhP)	INTER-CLASS CROSS SUBSIDIES (PhP)	Gradual removal Of Cross-Subsidies		
				1 st yr.	2 nd yr.	3 rd yr.
Residential	329,783,217	377,214,818	(0.4927)	(0.3695)	(0.2463)	(0.1232)
Commercial	271,032,375	239,491,330	0.4068	0.3051	0.2034	0.1017
Industrial	197,151,055	169,094,549	0.4914	0.3685	0.2457	0.1228
Large Load	88,120,302	111,617,652	(0.6396)	(0.4797)	(0.3198)	(0.1599)
Public Bldgs.	66,828,324	58,086,574	0.4474	0.3356	0.2237	0.1119
Street Lights	21,870,564	19,280,914	0.4051	0.3038	0.2025	0.1013
TOTAL	974,785,838	974,785,838				

I.B.4. LIFELINE RATE AND LEVEL

ZAMCELCO proposed the following levels and rates for marginalized end-users:

	Option 1 (At Existing Rates)	Option 2 (At Proposed Customer Charges)
Level	12 kWh	12 kWh
Rate	PhP 2.8681/kWh	PhP 43.00/customer/mo.

I.C. OTHER CHARGES

ZAMCELCO, in its subsequent submission, provided this Commission with information on its existing Other Charges as shown below. ZAMCELCO likewise proposed adjustments to these charges.

Particulars	<u>Existing Rate</u>	<u>Proposed Rate</u>
1. Membership Fee	PhP 5.00	PhP 5.00
2. Cost of I.D. & Certificate		30.00
3. Reconnection Fee		
Residential	50.00	100.00
Commercial	75.00	150.00
Ordinary Industrial	100.00	200.00
Public Bldgs.	50.00	100.00
Street Lights	50.00	100.00
Large Industrial	150.00	200.00

4. Service Fee (for relocation of meter/dropline)			
Residential	PhP	25.00	25.00
Commercial		50.00	50.00
5. Re-inspection Fee			
		24.00	30.00
6. Calibration Fee (Private meters only)			
10-30 Ampere Meter		25.00	25.00
Class 100 Ampere Meter		50.00	50.00
Three-Phase Meters		100.00	100.00
7. Testing Fee for Distribution Transformer			
5 KVA - 37.5 KVA Transformer		100.00	100.00
50 KVA – 100 KVA Transformer		200.00	200.00
167 KVA – Above Transformer		300.00	300.00
8. Labor Cost: Installation of Private/Sole User			
dx units:			
One (1) day		5,359.61	5,359.61
One-half (1/2) day		2,679.85	2,679.85
(Salaries of Personnel as of January 2001)			

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, intervenors, 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 ZAMCELCO's proposal to use the 2000 budget 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 the historical test year 2000.

II.A.2 GENERATION and TRANSMISSION COSTS

At present, ZAMCELCO is buying power from National Power Corporation (NPC) to service its franchise area in Zamboanga City. In compliance with the thrust of the government to energize the rural area, during the 4th Quarter of year 2000, ZAMCELCO extended its services to Sacol Island. It started the operation of electric services for said island only in year 2002. In the meantime, ZAMCELCO will shoulder the cost of fuel and oil used to generate power for the island. Based on the statement of witness Melad, he mentioned that the cost to generate power to said island is much higher than the purchased power from NPC. Once the island's operation becomes viable, NPC will provide power to said island. For this case, [the Commission](#) limits [its](#) evaluation to the purchased power cost of the mainland and excluded the initial investment cost to the development of the distribution system of Sacol Island.

The Generation and Transmission charges shall reflect the power supplier's generation charges and 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 NPC's Generation Charge used pertains to the supply month of May 2003 amounting to PhP 0.2506 per kWh. A separate charge to account for the allowable system loss shall likewise be provided in the bill to end-users (please refer to Section II.B.2.c for details). Hence, a distribution utility with system loss that is within the allowable cap can recover from its end-users the total cost of the generation and transmission. *Annualization*¹ of the billing determinants was applied.

The net adjustment made by the Commission to Purchased Power of PhP 24,935,154 consisted of the following:

Increase in Purchased Power Cost	PhP	79,845,988
System Loss in excess of cap		(54,910,834)
Net Adjustment	PhP	24,935,154

¹ 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.

The increase in Purchased Power Cost of **PhP 79,845,988** pertains to the difference between the proposed Purchased Power of ZAMCELCO amounting to PhP 739,201,654 and the Generation and Transmission Charges based on the new rates of NPC and TRANSCO amounting to **PhP 819,047,642**.

Records show that ZAMCELCO's actual system loss for the year 2000 was 19.75%. The Commission allowed a system loss of 14% in the calculation of ZAMCELCO's revenue requirement as discussed in Section II.B.2.c. of this Decision. Thus, the Commission disallowed the amount of **PhP 54,910,834** representing the portion of the system loss in excess of the allowable recoverable cap of PhP 108,065,346.

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

Generation Charge	PhP 414,063,278
Transmission Charge	242,008,184
Recoverable System Loss	108,065,346
Total	PhP 764,136,808

ZAMCELCO's approved generation charge shall remain fixed until changes in NPC's generation rate are approved and authorized by the Commission pursuant to its Order dated February 23, 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)]. In which case, ZAMCELCO shall bill its end-users the new generation rate charged by NPC. In the meantime, ZAMCELCO shall discontinue charging the Purchased Power Adjustment (PPA) upon effectivity of the unbundled rates.

II.A.3. PAYROLL

The Commission made a net downward adjustment of PhP 16,766,918 to the payroll account resulting to an adjusted amount of PhP 63,332,757. The adjustments were due to: (a) the reclassification to Employees Pensions, Allowances & Benefits Account of certain items charged under Payroll, such as rice, clothing and medical allowances and SSS, E.C., PhilHealth and PAG-IBIG Employer's Premium Contributions amounting to PhP 22,855,409; and (b) updating of payroll to the salary level of year 2002.

The Commission reviewed the Wage Adjustment Clause (WAC) Formula authorized by the then Energy Regulatory Board through ERB Case No. 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 wage orders.

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

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

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

The Commission enjoins ZAMCELCO 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 cost 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 ZAMCELCO to institute and report to the Commission its policies and procedures for cost-cutting and for the transparent and competitive procurement of goods and services. ZAMCELCO’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 ZAMCELCO’s viability. To this end, ZAMCELCO should view a petition for an increase in rates to be the last recourse. In future filings, ZAMCELCO should bear in mind that it has the burden of proving that all reasonable and appropriate cost-cutting measures have been taken, before resorting to a request to increase rates.

The Commission made a net downward adjustment to ZAMCELCO’s Operation and Maintenance (O & M) Expenses as follows:

Particulars	Amount
Reduction to O & M	
Disallowed Expenses	PhP (29,767,925)
Consumer Prompt Payment Discount Reclassified to Other Revenues	(7,110,927)
Adjustments to O&M of Reclassified Payroll Accounts	22,855,409
Net Adjustments	Php (14,023,443)

The disallowed expenses of PhP 29,767,925, which were charged to various expense accounts under the Distribution, Customer & Information, and Administrative & General Expenses, pertain to meals, donations, unaccounted disbursements, foreign travels and other employees' benefits that were found to have gone beyond the need by which these accounts were meant for. This included ZAMCELCO's Retirement Fund charged under Employees' Pensions and Benefits account that was limited to an amount equivalent to one month's basic salary of its employees, thus resulting into [the](#) disallowance of the excess over the limit.

The Commission rules that these expenses did not fall under the qualification heretofore cited, hence, were not allowed for revenue requirement determination. These expenses translate to PhP 0.0935/kWh, which the Commission considers material.

For future rate cases, ZAMCELCO will continually be required to make full disclosure of all its O & M Expenses for the Commission to determine the prudence of all its expenditures. ZAMCELCO should ensure that procedures are put in place so that all expenditures that are included in the determination of revenue requirements are adequately documented and that such documentation is reasonably accessible to the ERC.

II.A.5 OTHER REVENUES ITEMS

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

The Commission encourages ZAMCELCO to improve its financial condition through the development of other related sources of revenue. However, in order to balance the interests of ZAMCELCO and its end-users and in recognition of the fact that some of the costs incurred in providing certain services classified under ORI had already been included in the revenue requirement, the Commission is reducing the total revenue requirement by 50% of the total ORI. This reduction of 50% amounts to PhP 12,752,710 and is computed as shown below:

Other Revenue Items	Amount
Other Revenues:	
312-451-10 Rent from Electric Property-Poles	PhP 1,505,108
312-451-20 Rent from Electric Property- Transformers	164,558
312-457-00 Surcharges-Power Factor Correction	3,393,882
312-452-00 Prompt Payment Discount	15,925,217
312-458-00 5% Surcharges for Late Payment	10,382,308
312-456-00 Other Electric Revenue	1,214,560
321-421-00 Misc. & Non-Operating Income	106,973
Total Other Revenues	PhP 32,692,606
Other Expenses:	
420-907-00 Customer Prompt Payment	(7,110,927)
321-421-00 Misc. & Non-Operating Expenses	(76,259)
Total Other Revenues, net	PhP 25,505,420
50% of Total Other Revenues, Net	PhP 12,752,710

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

II.A.6. DEBT SERVICE

The Commission made a downward adjustment of PhP 3,046,194 to assure that the debt service included in ZAMCELCO's revenue requirement is consistent with NEA's records. The details of the adjustment are shown below.

LOANS	LOAN PROFILE		ADJUSTMENT (PhP)
	PER ZAMCELCO (PhP)	PER NEA (PhP)	
Rural Electrification:			
A	604,079	604,079	
B2	469,582	469,582	
C2	149,961	149,961	
D	733,919	733,919	
E1	471,640	471,640	
E2	1,434,780	1,434,780	
FR/G	20,244	20,244	
F/H	7,593,072	7,593,072	
OD/F	192,132	192,132	
Compac:			
Brazil	61,484	61,484	
USA	1,689,728	1,689,728	
Local	15,920	15,920	
Local	11,797	11,797	
GSIS-Insurance ²	913,900		913,900
WB-RERP-Logistical ³	2,070,136		2,070,136
WB-RERP-RE	5,229,154	5,166,996	62,158
Annual Amortization	21,661,528	18,615,334	3,046,194

² Insurance Loan Amortization was fully paid in year 2000

³ WB-RERP-Logistical Quarterly amortization was fully paid in March 2002.

Thus, the total allowable amount for debt service in the determination of the revenue requirement should be PhP 18,615,334.

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 the ECs' end-users. ZAMCELCO 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 will resolve this issue in a separate Decision.

II.A.7. REINVESTMENT FUND

ZAMCELCO made a proposal for the provision for reinvestment fund in its unbundling of rates application in the amount of PhP 73,978,190.

ZAMCELCO incurred capital investment for the initial preparation of the rural electrification project in Sacol Island in year 2000, amounts for which they proposed to include in the calculation of reinvestment fund. The Commission did not include these amounts in the revenue requirement determination due to the following: (a) Capital necessary for expansions and rehabilitations should be financed, drawn from the reinvestment fund, or from other sources; (b) Sacol Island is not yet operational during the test year; (c) the full cost for the generation and distribution of electric

services to said island were not part of the 2000 test year; and (d) the NPC will take over the generation operation on Sacol Island once its viable.

ZAMCELCO should make a formal application with the Commission for the approval of unbundled rates. Said application shall include a proposal specifying a methodology for inclusion of costs related to Sacol Island into electricity rates. The filing should also be consistent with the ERC prescribed Uniform Filing Requirement.

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 a submitted System Rehabilitation/Upgrading and/or System Loss Reduction Plan. This resulted in a downward adjustment of PhP 27,706,951 on the reinvestment fund account, resulting in an adjusted amount of PhP 46,271,239.

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

The Reinvestment Fund is authorized subject to the following conditions:

- (a) This reinvestment fund shall not be used, even temporarily, for any purpose other than for those projects specified in the submitted plan;

- (b) The amounts collected for the reinvestment fund, [including interest income](#), shall be placed in a separate account and shall be disbursed in accordance with the plan submitted by ZAMCELCO;
- (c) ZAMCELCO is further required to submit a progress report not 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 ZAMCELCO to appear and show cause why it should continue collection for the reinvestment fund; and

- (d) ZAMCELCO shall submit a new System Rehabilitation/Upgrading and/or System Loss Reduction Plan covering the period 2004-2008, 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 the comparison of approved revenue requirement with that proposed by ZAMCELCO:

ACCOUNT NAME	ZAMCELCO PROPOSAL	ADJUSTMENT	ERC APPROVAL
Purchased Power	739,201,654	24,935,154	764,136,808
Payroll	80,099,675	(16,766,918)	63,332,757
Operating & Maintenance (less of PP & Payroll)	59,844,791	(14,023,443)	45,821,348
Debt Service Cost	21,661,528	(3,046,194)	18,615,334
Reinvestment Fund ⁴	73,978,190	(27,706,951)	46,271,239
Other Revenues (Net Of Other Expenses)	0	(12,752,710)	(12,752,710)
Total Revenue Requirement PhP	974,785,838	(49,361,062)	925,424,776

ZAMCELCO proposed an OATA of PhP 0.6067/kWh using rates of 2000. The OATA is a measurement tool based on the formula: (Total Revenue Requirement less Existing Revenue) divided by kWh sales. This measurement is not meant to refer to any specific customer class.

The Commission, after considering adjustments of PhP 49,361,062 approves a total revenue requirement of PhP 925,424,776 for ZAMCELCO equivalent to an OATA⁵ of **PhP 0.0267/kWh**. The actual impact to end-users will depend on the level of rates currently being charged. This impact is illustrated in Section II.B.6. of this Decision.

II.B. RATE STRUCTURE/DESIGN DETERMINATION

II.B.1. FUNCTIONALIZATION, CLASSIFICATION and ALLOCATION

The functionalization and allocation factors used by ZAMCELCO were the default factors provided for in the UFR issued by the Commission on October 30,

⁴ This item is reflected as "Plus Percentage for Cooperative Investment".

⁵ The OATA was computed using the existing approved distribution rates (inclusive of current WAC, if any) and unbundled power cost as of May 2003.

2001. In the case of ZAMCELCO, the default factors were found not to represent the best alternative among possible factors. Thus, the following three (3) default factors used by ZAMCELCO for functionalization and allocation were modified, to wit:

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

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

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

Factor Name	Functionalization Factor Description	Total Check	Generation	Transmission	Distribution	Supply	Metering
ORI	Other Revenue Items	1.0000	0.0000	0.0000	0.6161	0.1842	0.1997

ZAMCELCO submitted its allocation of distribution cost into demand-and customer-related cost using the *Minimum Plant Method*. This method resulted in a 29%-71% allocation on the average.

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 Benefits to Host Communities and Franchise Charge and Foreign Exchange Rate Adjustment (FOREX). The FOREX component of NPC’s Generation Rate used pertains to the supply month of May 2003 amounting to PhP 0.2506/kWh. The NPC’s approved rate will remain fixed until changes are authorized by the Commission pursuant to its Order dated February 24, 2003 as discussed in Section II.A.2. of this Decision. This allows ZAMCELCO’s Generation Charge to remain fixed until such time that NPC’s approved rates is adjusted, thus, eliminates the need for future Purchased Power Adjustment (PPA).

II.B.2.b. TRANSMISSION CHARGE

The Commission’s Decision in ERC Case No. 2001-901 dated June 26, 2002 and Order dated September 20, 2002 set the transmission charges for the National

Transmission Corporation (TRANSCO) without automatic adjustments. Since the transmission rates to be paid by ZAMCELCO 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 ZAMCELCO have been calculated based on the approved TRANSCO rates which include cross subsidy elements to be phased out over a three-year period.

	Residential	Comml.	Industrial	Public Bldg.	Street Lights	Large Load
Year 1						
Demand Charge (PhP/kW)			15.51			21.78
Transmission System Charge (PhP/kWh)	0.6935	0.7027	1.1558	0.7197	0.7032	0.4940
Year 2						
Demand Charge (PhP/kW)			15.51			21.78
Transmission System Charge (PhP/kWh)	0.6811	0.6901	1.1342	0.7068	0.6906	0.4845
Year 3						
Demand Charge (PhP/kW)			15.51			21.78
Transmission System Charge (PhP/kWh)	0.6685	0.6774	1.1125	0.6938	0.6779	0.4749
Year 4						
Demand Charge (PhP/kW)			15.51			21.78
Transmission System Charge (PhP/kWh)	0.6561	0.6648	1.0909	0.6809	0.6653	0.4655

The Commission utilized the Coincident Peak Allocation Method on the transmission costs, considering that it yielded the most reasonable results for ZAMCELCO's end-users.

II.B.2.c. SYSTEM LOSS CHARGE

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

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

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

The Commission believes that the present cap on Technical and Non-Technical System Loss of 14% should continue to be used. This would, however, be subject to change upon the approval of a new policy by the Commission. The actual Technical and Non-Technical System Loss or cap of 14% plus 1% cooperative own use (which should not include personal consumption of ZAMCELCO'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.

II.B.2.d DISTRIBUTION CHARGE

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

ZAMCELCO did not propose for distribution wheeling rates. 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 ZAMCELCO's facilities shall pay wheeling charges equivalent to Distribution Wheeling Charges for Industrial customers.

The Commission's decision to allow a distribution utility to avail of the Distribution Wheeling Charges of another distribution utility is based on the general intent of R.A. 9136 to promote a competitive generation market. Distribution utilities

that currently or in the future shall rely in full or in part on the distribution facilities of another distribution utility should not be held captive by the other distribution utility in the purchase of unbundled generation. Therefore, distribution utilities are prohibited from bundling or tying the sale of generated or purchased power with the sale of unbundled distribution wheeling service.

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

The Commission acknowledges that cost-causation rate design principle suggests the recovery of customer-related costs associated with the metering and supply functions through fixed monthly charges. Along with this cost of service principle, however, the Commission also considers rate design impacts across the spectrum of end-users within each rate class. Although R.A. 9136 requires the removal of inter-class cross subsidies, the law does not require 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 ZAMCELCO to use a PhP 5.00 per meter per month and a PhP 0.2321/kWh rate for the metering function and orders ZAMCELCO to use a PhP 0.1548/kWh rate for the supply function. The lone Street Light consumer (City Government of Zamboanga) of ZAMCELCO shall be billed a combination of fixed monthly consumer charge and PhP/kWh for supply function. Furthermore, the Commission likewise orders ZAMCELCO to use a fixed monthly meter and customer charge for the meter and supply functions, respectively, applicable to other end-users.

II.B.2.f. SACOL ISLAND RATES

The Commission acknowledges that the unbundled rates computed for ZAMCELCO are specifically for the customer type in its mainland franchise area only, since the revenue requirement for the operation of Sacol Island was not included in this application for unbundling of rates as per reasons discussed in Section II.A.7. Reinvestment Fund, the same rate may not yield a viable return on the cost incurred to service said franchise area. At present, ZAMCELCO appears to be incurring losses since it is shouldering the fuel and overhead expenses.

Since Sacol Island is an electrification project through assistance from NPC and NPC-Small Power Utilities Group (SPUG) is expected to take over operations, ZAMCELCO is authorized to bill an unbundled generation charge not to exceed the NPC-SPUG Generation rate of PhP 4.8024/kWh to customers of Sacol Island. However, since the system of Sacol Island is not linked to the mainland, its customers shall not be billed the Transmission Charge. As for all other charges, it shall apply the same unbundled rates specified for each customer class in this Decision. This will only apply until such time that new unbundled rates for Sacol Island have been approved by this Commission.

ZAMCELCO shall have the burden to apply to this Commission and submit an application for the unbundling of rates incorporating the cost of service of Sacol

Island as well as the rate design methodology consistent with the ERC prescribed Uniform Rate Filing Requirement not later than February 28, 2004.

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	Comml.	Industrial	Public Bldg.	Street Lights	Large Load
New Cost-Based Rev. Requirement (PhP)	925,424,776	322,890,774	227,538,814	175,133,363	52,265,555	16,262,101	131,334,169
Existing Rates Revenue (PhP)	916,922,256	290,968,061	237,868,211	195,043,021	57,255,918	18,274,701	117,512,344
Total Change in Revenue (PhP)	8,502,520	31,922,713	(10,329,397)	(19,909,658)	(4,990,363)	(2,012,600)	13,821,825
Percentage Change In Revenue	-0.93%						
Normalized Existing Revenue (PhP)	925,424,776	293,666,176	240,073,937	196,851,634	57,786,845	18,444,161	118,602,023
Inter-Class Cross Subsidy Amts. (PhP)		(29,224,598)	12,535,123	21,718,271	5,521,290	2,182,060	(12,732,146)
Class Billing Determinants (in kWh)	318,387,756	100,705,215	79,862,041	56,772,159	19,638,388	6,303,763	55,106,190
Inter-Class Cross Subsidy Rates (PhP/kWh)		(0.2902)	0.1570	0.3826	0.2811	0.3462	(0.2310)

II.B.3.b. CROSS SUBSIDY REMOVAL

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

The Commission approved the cross subsidy removal scheme for TRANSCO in its Decision dated June 26, 2002, Case No. 2001-901, which impacts the unbundled transmission rate for ZAMCELCO'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, ZAMCELCO will continue to charge the inter-class cross subsidy rates set forth in Section II.B.3.a above.

II.B.4. LIFELINE RATE and LEVEL

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

In determining the minimum lifeline level of consumption to be provided to the marginalized end-users, the Commission calculated the probable load requirement of typical low-income end-user by considering two (2) lighting facilities at 20 watts each and a 50-watt radio that are being used for a reasonable number of hours. In setting the maximum level of lifeline consumption, the Commission may adjust the minimum level of consumption and/or level of the lifeline discount so as to maximize the benefit to low-income end-users while keeping the costs associated with such subsidy between PhP 0.05 and PhP 0.10 per kWh. Thus, the Commission sets the

lifeline consumption maximum level of 80 kWh for ZAMCELCO. 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 ZAMCELCO. The graduated scale is also based on the recognition that individual end-user consumption may likely vary from month to month.

50 kWh and below	-	50%
51-60 kWh	-	45%
61-65 kWh	-	40%
66-70 kWh	-	35%
71-75 kWh	-	30%
76-80 kWh	-	25%

ZAMCELCO 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 80 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 ZAMCELCO, the lifeline discounts result in a Lifeline Rate Subsidy to be collected from other end-users equal to PhP 0.0513/kWh.

II.B.5. OTHER CHARGES

ZAMCELCO's additional submissions to this Commission of its existing Other Charges as previously presented was considered in the determination of its revenue requirement. Fifty percent (50%) of the revenues derived from these charges were appropriately deducted from the determination of the revenue requirement allowed to ZAMCELCO. 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 ZAMCELCO are hereby pegged at their existing levels and not ZAMCELCO's proposed levels until such time that the Commission sets new rates on the same. Further, ZAMCELCO is ordered to make a compliance filing on its Other Charges one (1) year from the date of this Decision using a format to be prescribed by the Commission.

The compliance filing for the approval of Other Charges shall include rates that are cost-based, as well as all supporting cost justifications for the rates, including but 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 END-USER

A comparison of the estimated impact of all adjustments to the revenue requirement on the monthly bill of an average residential end-user consuming 125

kWh a month using rates based on ZAMCELCO's actual existing rates as of May 2003 against the unbundled rates approved by the Commission is shown below:

Based on Actual Existing Rate			Based on ERC Approved Unbundled Rates		
	PhP/kWh	PhP		PhP/kWh	PhP
Basic Rate	2.2531	281.64	Generation Charges		
(FPCA/FOREX) PPA	0.7590	94.88	Generation System Charge	1.0217	127.71
			Franchise & Benefits to Host Communities Charge	0.0282	3.53
			FOREX	0.2506	31.33
Power Act Rate			Transmission System Charge	0.6935	86.69
Reduction	(0.3000)	(37.50)	System Loss Charge	0.3394	42.43
			Distribution Charge	0.4528	56.60
Universal Charge: Missionary Electrification	0.0168	2.10	Supply Charge	0.1548	19.35
Environmental Charges	0.0025	0.31	Metering Charges:		
			Retail Customer Charge/Month		5.00
			Metering System Charge	0.2321	29.02
			Inter-class Cross Subsidy Charge	(0.2902)	(36.27)
			Universal Charge:		
			Missionary Electrification Charge	0.0168	2.10
			Environmental Charge	0.0025	0.31
			Lifeline Rate(Discount)/Subsidy	0.0513	6.42
			Power Act Rate Reduction	(0.3000)	(37.50)
TOTAL BILL		<u>341.43</u>	TOTAL BILL		<u>336.72</u>
PhP/kWh		<u>2.7314</u>	PhP/kWh		<u>2.6938</u>

DISPOSITION

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

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

	Residential	Commercial	Industrial	Large Load	Public Bldgs.	Street Lights
Generation Charges:						
Generation System Charge (PhP/kWh)	1.0217	1.0217	1.0217	1.0217	1.0217	1.0217
Franchise & Benefits to Host Communities Charge (PhP/kWh)	0.0282	0.0282	0.0282	0.0282	0.0282	0.0282
FOREX Adjustment Charge (PhP/kWh)	0.2506	0.2506	0.2506	0.2506	0.2506	0.2506
Transmission Charges:						
Demand Charge (PhP/kW)			15.51	21.78		
Transmission System Charge (PhP/kWh)	0.6935	0.7027	1.1558	0.4940	0.7197	0.7032
System Loss Charge (PhP/kWh)	0.3394	0.3394	0.3394	0.3394	0.3394	0.3394
Distribution Charges:						
Demand Charge (PhP/kW)			15.51	21.78		
Distribution System Charge (PhP/kWh)	0.4528	0.1936	0.1728	0.1776	0.1604	0.1739
Supply Charges:						
Retail Customer Charge (PhP/Customer/Month)		103.01	266.97	266.97	104.05	300.00
Supply System Charge (PhP/kWh)	0.1548					0.0229
Metering Charges:						
Retail Customer Charge (PhP/Meter/Month)	5.00	130.41	312.87	312.87	130.41	41.85
Metering System Charge (PhP/kWh)	0.2321					
Inter-Class Cross Subsidy Charge (PhP/kWh)	(0.2902)	0.1570	0.3826	(0.2310)	0.2811	0.3462
Universal Charge:						
Missionary Electrification Charge (PhP/kWh)	0.0168	0.0168	0.0168	0.0168	0.0168	0.0168
Environmental Charge (PhP/kWh)	0.0025	0.0025	0.0025	0.0025	0.0025	0.0025
Lifeline Rate (Discount)/Subsidy (PhP/kWh)	0.0513	0.0513	0.0513	0.0513	0.0513	0.0513
Power Act Rate Reduction (PhP/kWh)	(0.3000)					
Lifeline Rate (Discount)/Subsidy	To be based on Residential Rate in a graduated scale as provided in Section II.B.4. of this Decision					

2. To direct ZAMCELCO to comply with the following:
 - a. Discontinue charging the PPA upon effectivity of the approved unbundled rates; ZAMCELCO shall automatically bill its end-users the new Generation Rate charged by NPC as approved and authorized by the Commission;
 - b. Bill PhP 0.0168/kWh representing the missionary electrification portion of the Universal Charge in accordance with the [Order](#) of the Commission in ERC Case No. 2001-165 (In the Matter of the Petition for the Availments from the Universal Charge the Share for Missionary Electrification, NPC-SPUG, Applicant);
 - c. Bill PhP 0.0025/kWh representing the environmental portion of the Universal Charge in accordance with the [Decision](#) on of the Commission in ERC Case No. 2002-194 (In Matter of the Petition for the Availment from the Universal Charge the Environmental Share/Charge for the Rehabilitation and Management of Watershed Areas, NPC, Applicant);
 - d. Bill its respective end-users using a billing format which contains at least the rate elements provided in Annex “A” of this Decision upon the effectivity of the approved unbundled rates. [The rate elements provided in Annex “A” should appear on the end-users bill even if the rate elements currently have a zero or have not yet been determined by the Commission;](#)

- e. Bill its Sacol Island end-users the Generation Charge of PhP 4.8024/kWh based on NPC-SPUG generation rate and all other unbundled charges stated in this decision except for Transmission Charges;
- f. Make a formal application with the Commission for the approval of unbundling of rates incorporating the cost of service of Sacol Island not later than February 28, 2004. Said application shall include a proposal specifying a methodology for the inclusion of costs related to Sacol Island into electricity rates. The filing should also be consistent with the ERC prescribed Uniform Filing Requirement;
- g. 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;
- h. Submit for verification and confirmation purposes on or before the twentieth (20th) day of the month following the effectivity of the approved unbundled rates and every month thereafter: a) five (5) sample bills for each end-user class; b) copy of the bills from the generation and transmission companies; and c) Monthly Financial Statistical Reports (MFSRs), complete with all related schedules;

- i. 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;
- j. 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;
- k. File a progress report on the reinvestment fund 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;
- l. Submit a new System Rehabilitation/Upgrading and/or System Loss Reduction Plan covering the period 2004 to 2008, one (1) year after the date of this Decision using a format to be prescribed by the Commission; and

- m. 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, June 25, 2003

(Sgd) MANUEL R. SANCHEZ
Chairman

(Sgd) OLIVER B. BUTALID
Commissioner

(Sgd) MARY ANNE B. COLAYCO
Commissioner

(Sgd) CARLOS R. ALINDADA
Commissioner

(Sgd) LETICIA V. IBAY
Commissioner

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