

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



**IN THE MATTER OF THE
APPLICATION FOR
APPROVAL OF RATE
ADJUSTMENT IN
ACCORDANCE WITH R.A.
9136 WITH PRAYER FOR
PROVISIONAL AUTHORITY,**

ERC CASE NO. 2015-010 RC

**FIRST CATANDUANES
ELECTRIC COOPERATIVE,
INC. (FICELCO),**

Applicant.

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D O C K E T E D
Date: AUG 30 2017
By: [Signature]

DECISION

Before the Commission for resolution is the *Application* dated 22 December 2014 (Application) filed on 20 January 2015 by First Catanduanes Electric Cooperative, Inc. (FICELCO) for the approval of its rate adjustment in accordance with Republic Act No. 9136, otherwise known as, the Electric Power Industry Reform Act (EPIRA) of 2001, with prayer for Provisional Authority.

FACTS

In the its *Application*, FICELCO alleged the following:

1. FICELCO is a non-stock, non profit cooperative duly organized and existing under Philippine law, with principal office address at Brgy. Marinwawa, Bato, Catanduanes.
2. It has an exclusive franchise issued by the National Electrification Commission (NEC) to operate an electric light and power distribution service in the municipalities of Bagamanoc, Baras, Bato, Caramoran, Gigmoto, Panganiban, Pandan, San Andres, San Miguel, Viga, and Virac, all in the province of Catanduanes.
3. On 26 December 2001, FICELCO filed with the Honorable Commission an application for approval of adjustment in its rates, docketed as ERC Case No. 2001-1008 RC, utilizing year 2001 as test year.

4. On July 25, 2003, the Honorable Commission approved the adjusted unbundled rates of FICELCO, as follows:

UNBUNDLED RATE

	Unit	Res.	Com.	Public Bldg.	Steet Lights
Distribution Charges:					
Distribution System Charge	PhP/kWh	2.6381	2.0632	1.9369	4.6463
Supply Charges:					
Retail Customer Charge	PhP/Cust./mo.				
Supply System Charge	PhP/kWh	0.7976	0.1763	0.0783	2.7719
Metering Charges:					
Retail Customer Charge	PhP/Cust./mo.	5.00	18.15	22.97	13.80
Metering System Charge	PhP/kWh	0.2634			

5. The Cooperative made a thorough review of its operations and has determined that its existing rates can no longer cope with the increasing demands of its operations.
6. The insufficiency of the rates is attributable to the following factors, to wit:
- 6.a Increases in the cost of FICELCO's operations over the years due to the expansion of its distribution system and the effects of inflation and other governmental requirements which are not provided for in its current unbundled rates.
- 6.b The present 5% Reinvestment Fund is no longer sufficient to cover its capital expenditure requirement and the amortization of its loans with the National Electrification Administration (NEA) and other private banks after 2003. The cooperative has secured an additional loan from NEA in the amount of PhP2,454,776.08 and PhP20,520,1111.59 last 2005, 2010 and 2011 respectively and PhP40,000,000 in 2013-2014 from Security Bank to cover for the improvement of its distribution network.
- 6.c On May 14, 2013, NEA approved FICELCO's Board of Directors' Resolution No. 11, s. 2013, "Resolution Approving the Plan on the Re-alignment of the Cooperative's Workforce, that the Coop's Committee on Re-alignment Prepared". The approval had included the salary upgrading and the adoption of thee maximum salary from Ph24,000 for Rank 20 and minimum monthly salary of PhP11,000 for Rank 1.

LEGAL BASIS

7. FICELCO is filing the instant application for rate adjustment pursuant to the provisions of the Republic Act No. 9136, to wit:

SEC. 24. Distribution Wheeling Charge. – The distribution wheeling charges of distribution utilities shall be filed with and approved by the ERC pursuant to Paragraph (f) of Section 43 hereof.

SEC. 25. Retail Rate. – The retail rates charged by distribution utilities for the supply of electricity in their captive market shall be subject to regulation by the ERC based on the principle of full recovery of prudent and reasonable economic costs incurred, or such other principles that will promote efficiency as may be determined by the ERC.

THE PROPOSED RATE ADJUSTMENT

8. FICELCO prepared its proposed rate adjustment utilizing the Uniform Filing Requirements (UFR);
9. The proposed rates are designed and presented similar to the existing presentation of rates.
10. The proposed rate adjustment follows the cooperative's existing customer classification to avoid cost relative to re-programming of the existing software used in its operation.
11. The Distribution, Supply and Metering (DSM) Rates includes the 5% Reinvestment Fund to be used for capital expenditures of the cooperative. Presented below is the proposed rate and revenue of FICELCO:

Table 1. Proposed Rate And Revenue.

		Proposed Rate	Proposed Revenue	
Residential				
kWh Sold	22,346,373	Distribution Charge(PhP/kWh)	3.0852	68,943,031
Customers	40,511	Supply Charge (PhP/kWh)	1.0129	22,635,042
		Metering Charge		
		PhP/meter/month	5.00	2,430,660
		PhP/kWh	0.7409	16,556,542
Total Revenue-Residential			110,565,275	
Commercial				
kWh Sold	7,033,486	Distribution Charge(PhP/kWh)	0.9108	6,406,170
Customers	2,030	Supply Charge (PhP/cust./mo.)	46.56	1,134,238
		Metering Charge (PhP/meter/mo.)	39.06	951,446
Total Revenue-Commercial			8,491,854	
Public Buildings				
kWh Sold	4,492,214	Distribution Charge (PhP/kWh)	0.8742	3,926,944
Meters	1,169	Supply Charge (PhP/cust./mo)	46.56	653,165
		Metering Charge (PhP/meter/mo.)	39.06	547,902
Total Revenue-Public Buildings			5,128,011	
Street Lights				
kWh Sold	650,454	Distribution Charge (PhP/kWh)	2.1466	1,396,241
Meters	384	Supply Charge (PhP/cust./mo)	46.56	214,555
		Metering Charge (PhP/meter./mo.)	39.06	179,978
Total Revenue-Street Lights			1,790,774	
kWh Sold	34,522,527	TOTAL REVENUE		125,975,913
Customers	44,094			

12. Based on the above proposed rates and revenue, FICELCO is seeking approval of the proposed revenue requirement for its unbundled rates per cost component presented below, as follows:

Table 2. Summary of Proposed Revenue Requirement Per Cost Component.

PARTICULARS	TOTAL COMPANY (PhP)	ELECTRIC ADJUSTMENT (PhP)	PROPOSED REVENUE REQUIREMENT (PhP)
	(1)	(2)	(1 + 2)
Payroll	34,981,049	6,097,040	41,078,089
Operation & Maintenance (less Fuel, PP & Payroll)	45,151,996	2,883,009	48,035,005
Debt Service	19,108,554		19,108,554
Reinvestment	19,396,472		19,396,472
SUB-TOTAL	118,638,071		127,618,120
Less: Other Revenue Items (ORI)	1,642,206		1,642,206
TOTAL REVENUE REQUIREMENT	116,995,865	8,980,049	125,975,914

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13. Explanations on the cost components presented above are as follows, to wit:

13.a Payroll

The payroll is comprised of the basic salary of existing employees including the employer's share for SSS, PhilHealth and PAG-IBIG, and 13th month pay. The adjustment of represents the normalization of the salary increase that was implemented in last May 2013 as well as the salaries of additional employees who were hired after the 2013 test year pursuant to the 2013 NEA approved plantilla/positions.

13.b Operations and Maintenance

The operations and maintenance cost represents cost incurred in the ordinary repairs and maintenance of distribution lines, equipment, general plant and other administrative - related expenses that are necessary in the normal operation of the cooperative.

The adjustment represents the annual retirement provision equivalent to one (1) month total salary as adjusted.

13.c Uncollectible Accounts

There was no provision for uncollectible accounts as of 2013. The adjustment represents 1% of the total outstanding consumer accounts receivable and reinvestment fund.

13.d Debt Service

Details of the loans acquired from NEA and Security Bank are as follow:

Table 3. LOAN SUMMARY

Type of loan	Outstanding Balance	LOAN AMORTIZATION	
		EQA	TOTAL
RE-Loan – F	3,182,960	163,036	652,144
RE-Loan – G	8,004,959	410,024	1,640,096
RE-Loan – H	1,344,541	68,870	275,480
RE-Loan – I	3,749,026	173,202	692,808
OECF RE	60,980	3,077	12,308
CALAMITY RESTRUCTURED LOANS	23,841,870	2,457,199	9,828,796
	40,184,336	3,275,408	13,101,632
Bank Loan-	20,000,000	750,865	3,003,461
	20,000,000	750,865	3,003,461
GRAND TOTAL		4,777,139	19,108,554

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13.e Reinvestment Fund

The 5% Reinvestment Fund shall be utilized to finance line expansion, rehabilitation and upgrading of the existing electric distribution system of FICELCO. The table below shows the computation of the Reinvestment Fund, to wit:

Table 4. Reinvestment Computation.

<i>Actual Sales-kwh</i>	34,212,225	
<i>Annualized Sales-kwh</i>	34,522,526	
Power Cost-December 31, 2013 AGRA		6.4810
System Loss Rate		1.0309
Payroll	41,078,089	1.201
O&M Less Payroll	48,035,005	1.4040
Debt Service	19,108,554	0.5585
Total	108,221,648	10.6751
Divided by 95% of Total		11.2370
Less: Total		10.6751
Reinvestment Rate Per kwh		0.5618
Reinvestment Rate Revenue		19,396,472
5% Reinvestment Rate		0.5618

13.f Other Revenue Items (ORI)

The Other Revenue Items at the end of Year 2013 totaling Php2,971,755 represent reconnection fees, penalties on late payments of power bills, service charges, penalties on illegal reconnection and others. 50% of the ORI derived from electric-related assets were deducted in computing the total revenue requirement following previous treatments of said account.

14. Lifeline Rate and Level. The Cooperative shall maintain the current graduated scale for marginalized residential customers to be applied to Generation, System Loss, Distribution, Supply and Metering Charges, as follow:

Table 5. Lifeline Discount Rate.

KWH	DISCOUNT RATE (%)
-15kWh and below	20
16	15
17	10
18	10
19	5
20	5

The said discount shall be implemented following the prescribed formula in computing lifeline subsidy rate to be charged to non-lifeline customers.

15. Other Charges. The cooperative shall continue to implement the existing Other Charges per its approved unbundled rates.

Further, it shall adopt the charges imposed under R.A. 7832 otherwise known as the Anti-Pilferage Act.

SUPPORTING DATA AND DOCUMENTS

16. In support of all foregoing allegations, FICELCO is submitting herewith the following data and documents, which are being made integral parts hereof, as follows:

Annex	Nature of Document
"E 1-2"	Volume I -Rate Computations Using UFR Model
"F 1-5"	Volume II-VI - Supporting Documents and Schedules consisting of Working Trial Balance as of December 31, 2013; Expense Schedules; Frequency Distribution; Loan Profile as of 2013 and other pertinent documents.

PRAYER FOR PROVISIONAL AUTHORITY

17. As indicated in Paragraphs 5 and 6 above, the cooperative's rates which were based on 2013 as test year, are no longer responsive to the demands of its operations as manifested by the losses it incurred from 2005-2013 except for 2010 where it posted a very minimal net income;
18. The issuance of the final decision on loan condonations had further aggravated the financial viability of the cooperative to cope the required operational standards as mandated by the industry;
19. Furthermore, the cooperative is currently implementing the approved capital expenditures plan to improve the reliability of the distribution had encountered delays in the implementation due to insufficient reinvestment fund to finance the labor cost in the rehabilitation of distribution lines;
20. In view thereof, FICELCO respectfully prays of this Honorable Commission for issuance of a provisional authority, allowing the cooperative to implement the rates proposed in the instant application immediately upon filing and initial evaluation hereof and while the case is pending, to enable the cooperative to viably pursue and sustain its operations.

COMPLIANCE WITH PRE-FILING REQUIREMENTS

21. Finally, in compliance with the pre-filing requirements for the instant application, FICELCO is submitting herewith the following documents which are being made integral parts hereof, to wit:

Annex	Nature of Document
"A"	FICELCO Board Resolution authorizing the filing of the application
"B"	Judicial Affidavit in Support of the Prayer for Provisional Authority
"C 1 & 2"	Proof of furnishing copies of the application to the Sangguniang Bayan of Bato and Sangguniang Panlalawigan of the Province of Catanduanes
"D 1 & 2"	Publication of the Application in a newspaper of general circulation in FICELCO's franchise area, with Affidavit of Publication

PRAYER

WHEREFORE, premises considered, it is most respectfully prayed of this Honorable Commission that upon initial review or pending evaluation of the instant application, FICELCO be allowed to implement the proposed Distribution, Supply and Metering (DSM) Rates presented in the table below, for all types of customers, and after due notice and hearing, said rates be approved accordingly:

Rate Charges (PhP)	Unit	Residential	Commercial	Public Bldg.	Street Light
Distribution Charges Distribution System Charge	PhP/kWh	3.0852	0.9108	0.8742	2.1466
Supply Charges Retail Customer Charge	PhP/ customer/mo.		46.56	46.56	46.56
Supply System Charge	PhP/kWh	1.0129			
Metering Charge Retail Customer Charge	PhP/ Meter/mo.	5.00	39.06	39.06	39.06
Metering System Charge	kWh	0.7409			

Other relief, just and equitable in the premises are likewise prayed for.

Subsequently, having found its *Application* to be sufficient in form, with the required fees having been paid, the Commission issued an Order and a Notice of Public Hearing, both dated 16 February 2015, setting the case for initial hearing on 12 March 2015.

On 05 March 2015, FICELCO filed its *Pre-trial Brief* dated 04 March 2015 with the *Judicial Affidavit* of Mr. Jonathan O. Valles

During the hearing on 12 March 2015, only the Applicant FICELCO appeared. Likewise, Mr. Eddie Rodulfo (Mr. Rodulfo), the President of the Consumers Association of Catanduanes, manifested his opposition to the *Application*.

During the said hearing, Applicant submitted its proof of compliance with the Commission's publication and posting requirements, which were duly marked as Exhibits "G" to "M". Finding the same to be compliant with the Commission's Order dated 16 February 2015, the Commission acquired jurisdiction over the instant case.

Thereafter, the expository presentation commenced. FICELCO delivered the same under oath through its Corporate Planning Manager, Jonathan O. Valles (Mr. Valles). At the conclusion of Mr. Valles presentation, Mr. Rodulfo, the oppositor, asked questions, which were duly addressed by FICELCO. Likewise, the Commission propounded questions relative to its *Application*. Thereafter, the pre-trial conference and presentation of evidence commenced.

During the presentation of evidence, FICELCO called its sole witness, Mr. Valles, who testified in support of the instant *Application*. In the course of his direct testimony, Mr. Valles identified various documents, which were duly marked as exhibits. At the termination thereof, the Commission directed FICELCO to submit its Formal Offer of Evidence and additional documents to aid the Commission in the evaluation of the instant case.

On 16 April 2015, FICELCO filed its *Compliance* dated 11 April 2015.

On 19 May 2015, FICELCO filed its *Formal Offer of Evidence* dated 18 May 2015.

On 25 April 2017, the Commission issued an Order admitting FICELCO's marked exhibits contained in its *Formal Offer of Evidence* and submitting the instant case for resolution.

ISSUE

The issue to be resolved is whether the instant *Application* of FICELCO should be approved.

THE COMMISSION'S RULING

The Commission approved the instant *Application*, subject to certain modification.

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I. THE LAW EMPOWERS THE COMMISSION TO APPROVE THE RATE ADJUSTMENT APPLICATION.

Republic Act No. 9136 (R.A. 9136), otherwise known as the *Electric Power Industry Reform Act of 2001* (EPIRA) provides that the retail rate¹ charged by DUs is subject to regulation by the Commission based on the principle of full recovery of prudent and reasonable economic costs incurred, or such other principles that will promote efficiency².

Likewise, to promote efficiency and non-discrimination, the Commission, after the conduct of public hearings, shall determine, fix and approve retail rates through the Commission's established and enforced methodologies setting the same³.

The instant *Application* seeks the Commission's approval of the proposed rate adjustment by FICELCO for its unbundled rates per cost component. As such, the Commission is empowered to exercise jurisdiction over the instant *Application*.

II. FICELCO'S PROPOSED REVENUE REQUIREMENT

Based on FICELCO's Audited Financial Statement (AFS) for the year 2013, FICELCO proposed a total Revenue Requirement of One Hundred Twenty Five Million Nine Hundred Seventy Five Thousand and Nine Hundred Fourteen Pesos (PhP125,975,914.00), as shown in the table below:

FICELCO's Proposed Revenue Requirement

ACCOUNT NAME	PER APPLICATION IN PHP	ADJUSTMENT IN PHP	PER ADJUSTED APPLICATION IN PHP
PAYROLL	34,981,049	6,097,040	41,078,089
OPERATION & MAINTENANCE	45,151,996	2,883,009	48,035,005
DEBT SERVICE	19,108,554		19,108,554
OTHER REVENUE ITEMS (ORI)	(1,642,206)		(1,642,206)
REINVESTMENT FUND	19,396,472		19,396,472
TOTAL REVENUE EQUIREMENT	116,995,865	8,980,049	125,975,914

¹ Paragraph uuu, Rule 4 of the EPIRA-IRR defines Retail Rate as the total price paid by end-users consisting of the charges for generation, transmission and related Ancillary Services, distribution, supply and other related charges for electric service.

² Section 25, EPIRA.

³ Section 4(d), Rule 3, EPIRA-IRR

Upon evaluation of the revenue requirement of FICELCO, the Commission made a downward adjustment thereof in an amount of Twenty Two Million Two Hundred Forty Nine Thousand and Nine Hundred Four Pesos (PhP22,249,904.00). Hence, the Commission arrived at an adjusted revenue requirement in the amount of One Hundred Three Million Seven Hundred Twenty Six Thousand and Ten Pesos (PhP103,726,010.00).

Each of the items in the revenue requirements of FICELCO shall be discussed herein below:

a. Payroll Expense

In the instant *Application*, FICELCO proposed a Payroll Expense of Forty One Million Seventy Eight Thousand and Eighty Nine Pesos (PhP41,078,089.00). It would show that the proposed Payroll Expense of FICELCO had increase by 89.98% compared to the previously approved unbundled rate application of FICELCO in the amount of Twenty One Million Six Hundred Twenty Two Thousand and Three Hundred Forty Four Pesos (PhP21,622,344.00) under ERC Case No. 2001-1008⁴.

FICELCO's payroll expense includes the following items: a) Basic Salaries; b) Employer's Share in Social Security System (SSS); c) Employer's Share in Home Mutual Development Fund (PAG-IBIG); d) Employer's Share in Philippine Health Insurance Corporation (Philhealth); and e) 13th Month Pay.

During the test year 2013, FICELCO's plantilla position is composed of 139 regular employees and 69 casual employees who are serving a total of 44,094 customers.

The proposed adjustment in FICELCO's Payroll Expense is a result of the salary upgrading of the employees and the adoption of the new salary rate of FICELCO. Pursuant to FICELCO's Board Resolution No. 11, Series of 2013 duly approved by the National Electrification Administration (NEA), FICELCO approved and adopted a maximum monthly salary of PhP24,000.00 for Rank 20 and a minimum monthly salary of PhP11,000.00 for Rank 1.

⁴ Entitled, "In the Matter of the Application for Approval of the Unbundled Rates Pursuant to the Provisions of R.A. No. 9136 – First Catanduanes Electric Cooperative, Inc. – Applicant"

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The Commission finds acceptable and in order the salary adjustment of FICELCO that was made pursuant to the NEA Salary Guide. Likewise, the Commission finds the calculation of FICELCO's corresponding employer's shares in the premium payment for SSS, PAG-IBIG and Philhealth acceptable and in order.

On the other hand, the Commission disallows the amount of Two Million Seven Hundred Sixty Three Thousand and Three Hundred Thirty Four Pesos (PhP2,763,334.00) representing the difference in the calculations of basic salaries of employees who were promoted from casual to permanent positions. Currently, FICELCO has 184 approved plantilla positions. However, the Commission only considered FICELCO's 141 regular employees, 14 probationary employees and 17 casual employees.

Accordingly, the Commission approves a Payroll Expense of Thirty Eight Million Three Hundred Fourteen Thousand and Seven Hundred Fifty Five Pesos (PhP38,314,755.00).

b. Operation and Maintenance (O & M) Expenses

Based on its 2013 data, FICELCO proposed an Operation and Maintenance (O&M) Expense of Forty Eight Million Thirty Five Thousand and Five Pesos (PhP48,035,005.00).

In the evaluation of FICELCO's O&M Expenses, the Commission disallowed: (1) those amount in excess of, the allowable level provided in the NEA Guidelines on Allowances and Other Incentives for Electric Cooperative (EC) Officials and Employees (NEA Guidelines); (2) those amount which were disallowed in the previously issued decisions issued by the Commission on various EC rate adjustment applications; and (3) those amount, which are required to be sourced from the savings of EC.

For its retirement allowance, FICELCO proposed an actual retirement payment including proposed adjustment in an amount of Six Million Eight Hundred Seventy Eight Thousand Four Hundred Seventy Four and 09/100 Pesos (PhP6,878,474.09). The Commission adjusted the retirement allowance of FICELCO's employee and allocated a retirement allowance for each 141 regular employees of FICELCO in the amount equivalent to one-month salary, or a total of Two

Million Four Hundred Twenty Thousand and Four Hundred Fifty Five Pesos (PhP2,420,455.00). Accordingly, the Commission makes a disallowance in the amount of Four Million Four Hundred Fifty Eight Thousand Nineteen and 09/100 Pesos (PhP4,458,019.09) on the proposed retirement payment of FICELCO.

For its leave allowance, FICELCO proposed an actual leave monetization amounting to Six Hundred Thirty Five Thousand One Hundred Eighty Four and 24/100 Pesos (PhP635,184.24). The Commission allocated a leave allowance equivalent to one-month salary for each 141 regular employees, or a total of Two Million Four Hundred Twenty Thousand and Four Hundred Fifty Five Pesos (PhP2,420,455.00). Accordingly, an additional adjustment was made on the proposed leave allowance of FICELCO in the amount of One Million Seven Hundred Eighty Five Thousand Two Hundred Seventy and 76/100 Pesos(PhP1,785,270.76).

Likewise, the Commission adjusts the 13th month pay of FICELCO to cover its 172 employees comprising of regular, probationary, casual and project employees in the amount of Two Million Seven Hundred Twenty Six Thousand and Two Hundred Seventy Three Pesos (PhP2,726,273.00). This is instead of FICELCO's actual 13th month pay benefits paid to its employees during the year. Hence, a disallowance in the amount of Three Hundred Twenty Four Thousand Two Hundred Seventy One and 68/100 Pesos (PhP324,271.68) was made on the 13th pay of FICELCO.

The Commission also disallows the total amount of Five Million Nine Hundred Twenty Two Thousand Seven Hundred Seventeen and 82/100 Pesos (PhP5,922,717.82), in excess of the allowable level, related to FICELCO's Rice Allowance/Representation and Transportation Allowance (RATA)/Hazard Pay, Medical Allowance, Clothing Allowance, Cash Gift, Per Diems and Fuel expenses costs.

Moreover, the Commission disallows the additional benefits/costs in the total amount of One Million Two Hundred Seventy Nine Thousand Three Hundred Twenty One and 04/100 Pesos (PhP1,279,321.04), representing the amount for Loyalty Incentives, Anniversary Bonus, Employees Benefit, Retirement Ring, Board of Directors' (BOD) Snacks and Incentives during BOD Meeting, Incentive Pay on System Loss and Collection,

Christmas Gift Packs for employees, Cakes for EC employee's birthday, BAPA Incentive and Incentive Pay on Apprehension. Although the foregoing items could be given by FICELCO, the same are consistently being disallowed by the Commission to be recovered through rate adjustments as in the instant case.

The Commission also disallows the consumer Prompt Payment Discount (PPD) of FICELCO in the amount of One Million Seven Hundred Eighty Thousand and Eleven Pesos (PhP1,780,011.00). PPD should be considered in the calculation of the generation charge of FICELCO based on the approved Automatic Generation Rate Adjustment (AGRA) mechanism set by the Commission.

Similarly, the Commission disallows the Business Tax of FICELCO in the amount of One Million Eight Hundred Seventy Thousand One Hundred Ninety Five and 83/100 Pesos (PhP1,870,195.83). Business Tax is recoverable using a separate recovery mechanism under the Commission's approved Tax Recovery Adjustment Clause (TRAC).

For the Professional Fee (Rate Filing), FICELCO proposed the amount of Two Hundred Fourteen Thousand Six Hundred Sixty Nine and 28/100 Pesos (PhP214,669.28) to be amortized for a period of three (3) years. However, the Commission allowed the amortization payment only for one third (1/3) of the proposed Professional Fee in the amount of Seventy One Thousand Five Hundred Fifty Six and 43/100 Pesos (PhP71,556.43). Accordingly, the Commission disallows the remaining amortization payment in the amount of One Hundred Forty Three Thousand One Hundred Twelve and 85/100 Pesos (PhP143,112.85).

Moreover, FICELCO proposed an actual one-time cost, related to its loans with Security Bank in the amount of Eight Hundred Fourteen Thousand Eight Hundred Twenty One and 11/100 Pesos (PhP814,821.11), which is supposed to be amortized for a period of ten (10) years. Thus, the Commission only allows one tenth (1/10) of the amount of loan equivalent to Eighty One Thousand Eighty Two and 11/100 Pesos (PhP81,082.11). While the Commission disallows the remaining amount of loan equivalent to Seven Hundred Thirty Three Thousand and Three Hundred Thirty Nine Pesos (PhP733,339.00).



The Commission also disallows the total amount of One Million Six Hundred Thirty Nine Thousand Five Hundred Eighty and 81/100 Pesos (PhP1,639,580.81) for the following expenses, which are considered as either non-recurring or unnecessary expenses for the operations of the EC, hence, are not recoverable from rate adjustments, to wit:

- 1) Financial Assistance/Cooperative Encounter;
- 2) Task Force Kapatid Allowance;
- 3) Penalty for late payment of fees of the Commission;
- 4) Supervision and Regulation Fees;
- 5) Complimentary benefit for the previous General Manager;
- 6) Mass stipend;
- 7) Medical assistance (accident);
- 8) Professional Fee (NEA Personnel);
- 9) Meal and snacks (linemen/visitors); and
- 10) Wreath.

Consequently, the adjustments and disallowances in the proposed Operations and Maintenance (O&M) Expense of FICELCO, amounts to a total of Sixteen Million Three Hundred Sixty Five Thousand and Two Hundred Ninety Eight Pesos (PhP16,365,298.00).

Accordingly, the Commission approves FICELCO's adjusted O&M Expense in the amount of Thirty One Million Six Hundred Sixty Nine Thousand and Seven Hundred Seven Pesos (PhP31,669,707.00).

c. Debt Service

For its Debt Service, FICELCO proposed an amount of Nineteen Million One Hundred Eight Thousand and Five Hundred Fifty Four Pesos (PhP19,108,554.00) representing



FICELCO's loans that are still due and payable to NEA as of December 2013, and its outstanding loans with Security Bank.

The table below shows the loan obtained by the Applicant and the corresponding adjustments made by the Commission:

Type of Loan	Per FICELCO	AS APPROVED BY THE COMMISSION	Variance
RE-Loan - F	652,144.00	652,144.00	
RE-Loan - G	1,640,096.00	1,640,096.00	
RE-Loan - H	275,480.00	275,480.00	
RE-Loan - I	692,808.00	692,808.00	
OECF RE	12,308.00	9,468.00	(2,840.00)
CALAMITY RESTRUCTURED LOANS	9,828,796.00	9,333,864.00	(494,932.00)
SUB-TOTAL	13,101,632	12,603,860.00	(497,772.00)
ADD: Loan from Security Bank 1 (2013)	3,003,461	2,727,190.32	(276,270.68)
Loan from Security Bank 2 (2014)	3,003,461	2,688,602.64	(314,858.36)
TOTAL	19,108,554.00	18,019,652.96	(1,088,901.04)

The Commission makes downward adjustments in the amount of One Million Eighty Eight Thousand and Nine Hundred One Pesos (PhP1,088,901.00) representing the difference in the annual amortizations for the following: 1) Loan Overseas Economic Cooperation Fund (OECF RE); 2) Calamity Restructured Loans; and 3) Loans from Security Bank.

Accordingly, upon verification of FICELCO's loans, the Commission approves the adjusted Debt Service of FICELCO in the amount of Eighteen Million Nineteen Thousand and Six Hundred Fifty Three Pesos (PhP18,019,653.00).

d. Reinvestment Fund

In the instant *Application*, FICELCO proposed a reinvestment fund of Nineteen Million Three Hundred Ninety Six Thousand and Four Hundred Seventy Two Pesos (PhP19,396,472.00).

The Reinvestment Fund was provided as a component of the revenue requirement to finance the expansion, rehabilitation or upgrading of the existing electric power system of ECs in accordance with their submitted System Reliability upgrading and or System Loss Reduction Plan.

The Commission recognizes that the present Reinvestment Fund of ECs may not be enough to support their expansion and rehabilitation programs in order to provide continuous and efficient service to their consumers in their respective franchise areas. Consequently, the Commission allowed ECs to propose in their rate applications either a Reinvestment Fund or Capital Expenditure (CAPEX) fund that would be appropriate to support the ECs' CAPEX Projects.

In the instant case, FICELCO did not submit a proposal for its separate CAPEX fund. Hence, the Commission considered the resetting of the five percent (5%) reinvestment fund provided to FICELCO in its rate unbundling application, by calculating five percent (5%) of the sum of FICELCO's calculated Distribution Revenue Requirement and its updated power cost for its July 2016 billing period. The resetting would allow FICELCO to reflect its most current power cost and billing determinants for its rates to be applied prospectively.

Accordingly, the Commission approves a Reinvestment Fund of Eighteen Million Eight Hundred Six Thousand and One Hundred Twenty Eight Pesos (PhP18,806,128.00).

e. Other Revenue Items (ORI)

As reflected in FICELCO's Audited Financial Statement (AFS) for the year 2013, the Other Revenue Items (ORI) proposed to be deducted from FICELCO's revenue requirement amount to One Million Six Hundred Forty Two Thousand Two Hundred Six Pesos (PhP1,642,206.00) representing fifty percent (50%) of regulated and non-regulated other revenues.

During the unbundling process of the Commission, the items considered as ORI are those known as asset-based items or revenues pertaining to non-electric activities, which are not regulated by the Commission. These include pole rental, gain from disposition of utility plant and miscellaneous non-operating income, among others. Fifty percent (50%) of the income from these items would be considered as part of the ORI to be deducted from the total revenue requirement. This is consistent with the law mandating the 50-50 sharing of other income between the EC/Distribution Utility (DU) and the consumers.



On the other hand, the Commission maintains that the ORI earned by the EC/DU using the resources of its regulated business or those known as regulated items such as: revenue from merchandising, jobbing, and contract works (MJCW), transformer rental, other electric revenue and the like, should be one hundred percent (100%) deductible from its revenue requirement. Regulated items may include revenues arising from the regular functions of the EC/DU and performed by its own personnel. The costs of said activity, such as salaries, supplies and other miscellaneous expenses, are already considered in the revenue requirement in either the payroll, or operation and maintenance expenses, or both. Thus, any income derived by the EC/DU from the foregoing activities should be deducted from the EC's/DU's revenue requirement. Otherwise, the EC/DU would be doubly compensated for such activities.

Upon verification, the Commission determines that the other revenue of FICELCO in the total amount of Three Million Eighty Four Thousand and Two Hundred Thirty Three Pesos (PhP3,084,233.00) must be deducted from FICELCO's revenue requirement.

The table below shows in detail these deductible Other Revenue Items of FICELCO:

Other Revenue Items

OTHER REVENUE ITEMS	Per AFS	Per Application	Regulated Items 100%	Non-Regulated Items 50%
Revenue from MJCW*	142,456.86		142,456.86	
Cost for MJCW	(543,855.00)		(543,855.00)	
Other Electric Revenues	2,732,755.00	1,366,377.50	2,732,755.00	
Rental Income				
Transformer Rental	44,951.07	22,475.54	44,951.07	
NPC 69 KV	147,246.33	73,623.17	147,246.33	
Pole Rental	120,460.00	60,230.00		60,230.00
Mark up on sale of electrical hardware materials (new connection/others)	761,897.00			380,948.50
Gain on Disposition of Utility Plant	239,000.00	119,500.00		119,500.00
ROS Recommended ORI			2,523,554.26	560,678.50
Total ORI		1,642,206.20		3,084,232.76

*MJCW – Merchandising, Jobbing and Contract Works

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Considering the foregoing discussion on the items under the revenue requirement of FICELCO, the Commission approves the total revenue requirement of FICELCO in the amount of One Hundred Three Million Seven Hundred Twenty Six Thousand and Ten Pesos (PhP103,726,010.00).

The table below shows the summary of the revenue requirement of FICELCO with the corresponding adjustment:

Summary of Revenue Requirement

	Approved 1st Rate Adjustments⁵	Instant Application of FICELCO	Percentage of Increase / (Decrease)	Commission's Adjustments	Commission's Approved Amount
Payroll	21,622,344	41,078,089	89.98%	(2,763,334)	38,314,755
Operation and Maintenance	9,833,451	48,035,005	388.49%	(16,365,298)	31,669,707
Debt Service	18,458,925	19,108,554	3.52%	(1,088,901)	18,019,653
Less: Other Revenue Items	(664,673)	(1,642,206)	147.07%	(1,442,027)	(3,084,223)
Reinvestment Fund	6,879,749	19,396,472	181.94%	(590,344)	18,806,128
TOTAL REVENUE REQUIREMENT	56,129,796	125,975,914	124.44%	(22,249,904)	103,726,010

**III. FUNCTIONALIZATION,
CLASSIFICATION AND
CUSTOMER ALLOCATION**

The Commission sees no reason to deviate from the functionalization and the allocation factors used by FICELCO as they were the default factors used in the evaluation of FICELCO's unbundling application.

The table below provides the allocated revenue by function and customer category based on the functionalization, classification and allocation of the approved revenue requirement for FICELCO:

Revenue Requirement By Function and By Customer Class

Account Name	TOTAL REVENUE (PhP)	DISTRIBUTION REVENUE (PhP)	SUPPLY REVENUE (PhP)	METERING REVENUE (PhP)
Residential	91,372,448	57,936,055	17,049,832	16,386,561
Commercial	6,854,756	5,179,263	854,365	821,128
Public Building	4,130,838	3,165,985	491,997	472,856
Street Lights	1,367,968	1,051,027	161,614	155,327
TOTAL REVENUE	103,726,010	67,332,330	18,557,808	17,835,872

⁵ Ibid.

C

Billing Determinants by Customer Class

CUSTOMERTYPE	Residential	Commercial	Public Building	Street Lights	TOTAL
kWh Sales	22,346,374	7,033,486	4,492,214	650,453	34,522,527
No. of Customers	40,511	2,030	1,169	384	44,094

As shown in the above table, FICELCO has a total number of 40,511 Residential Customers as of the date of filing of the instant *Application*. The same customer class composed the majority of FICELCO's customers.

IV. RATE DESIGN

Based on the functionalization, classification and customer allocation, the Commission arrived at the following approved rate design:

Commission's Approved Rates

Particulars	Unit	Residential	Commercial	Public Building	Street Lights
Distribution Charges:					
Distribution System Charge	PhP/kWh	2.5926	0.7364	0.7048	1.6158
Supply Charges:					
Retail Customer Charge	PhP/cust/mo	-	35.0700	35.0700	35.0700
Supply System Charge	PhP/kWh	0.7630	-	-	-
Metering Charges:					
Retail Customer Charge	PhP/meter/mo	5.0000	33.7100	33.7100	33.7100
Metering System Charge	PhP/kWh	0.6245	-	-	-
TOTAL	PhP/kWh	3.9801	0.7364	0.7048	1.6158
	PhP/cust/mo	0.0000	35.0700	35.0700	35.0700
	PhP/meter/mo	5.0000	33.7100	33.7100	33.7100

a. Distribution Charge

FICELCO proposed to bill a Distribution Charge based on a fixed rate per kiloWatt-hour (kWh) for Residential, Commercial, Public Building and Street Lights.

The Commission adopted the same rate design since it is consistent with the approved unbundled rates of FICELCO.

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b. Supply Charge

FICELCO proposed to bill a Supply Charge using a monthly rate per kiloWatt-hour (kWh) for its Residential customers. While for all other customer classes, namely, Commercial, Public Building and Street Lights, FICELCO proposed to bill them based on a fixed monthly customer charge.

The Commission adopts the same rate design since it is consistent with the approved unbundled rates of FICELCO.

c. Metering Charge

FICELCO proposed to bill a metering charge based on a fixed monthly rate per meter for all its customer classes, except its Residential Customer Class. The Residential Customer Class is proposed to be billed using a combination of a fixed monthly rate per meter of Five Pesos (PhP5.00) and a fixed monthly rate per kilowatt-hour (PhP/kWh).

The Commission adopts the same rate design since it is consistent with the approved unbundled rates of FICELCO.

**V. ESTIMATED RATE IMPACT
ON AVERAGE RESIDENTIAL
CUSTOMER**

The approved rate design of FICELCO would have the following estimated rate impact on a Residential Customer with an average consumption of 46 kWh:

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Estimated Impact on a Residential Customer

Basic Charges	Based on Actual Existing Rates		Based on the Commission's Approved Rates		Variance Increase/ (Decrease)
	PhP/kWh	Amount (PhP)	PhP/kWh	Amount (PhP)	
Distribution System Charge	2.6381	121.35	2.5926	119.26	-0.0455
Supply Charge	0.7976	36.69	0.763	35.10	-0.0346
Metering Charges:					
Retail Metered Charge		5.00		5.00	-
Metering System Charge	0.2634	12.12	0.6245	28.73	0.3611
Loan Condonation	-1.0998	(50.59)			1.0998
TOTAL	-	124.57	-	188.08	63.52
Effective PhP/kWh		2.7080		4.0888	1.3808

VI. OTHER RELATED ITEMS

a. Removal of Inter-Class Cross Subsidy Lifeline Rate Discount and Subsidy

In its Order dated 05 July 2005 under ERC Case No. 2001-1008⁶, the Commission directed FICELCO to completely remove its inter-class cross subsidies effective September 2005.

The Commission has determined that FICELCO has already completely removed its inter-class cross subsidy as of August 2007.

b. Lifeline Rate Discount and Level

FICELCO maintained its current graduated scale for marginalized residential customers.

The Commission modified the level of lifeline discount after a simulation on FICELCO's proposed level of discount to be shouldered by FICELCO's non-lifeline customers.

⁶ See, *supra* note 4.

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The table shows the modification made by the Commission on the Lifeline Rate Discount and Subsidy to be implemented based on the prescribed formula in computing lifeline subsidy to be charged to non-lifeline customers:

Lifeline Rate Discount and Subsidy

kWh Consumption	Per Approved Unbundled Rates⁷	Proposed in the Instant Application	Commission's Approved Level of Discount
10 KWh and below	20%	20%	15%
11-15			
16	15%	15%	10%
17	10%	10%	
18	10%	10%	
19	5%	5%	5%
20	5%	5%	
Subsidy Charge to Non-Lifeline Customers	PhP 0.0779/ kWh		PhPo.0865/kWh

Based on the above table, the modified level of lifeline discount to be shouldered by FICELCO's non-lifeline customers would be a subsidy charge in the amount of PhPo.0865/kWh. The revised consumption threshold and discounts would benefit a total of 16,415 customers, or 40.5% of the total number of Residential customers of FICELCO.

Applicant FICELCO shall apply the discounts to the Generation, Distribution, Supply, Metering and System Loss charges for the Residential Customer Class. In a given billing period, end-users shall be given a discount on each of these rate components corresponding to their consumption. An end-user with a level of consumption exceeding 20kWh in a particular billing period shall not be entitled to the lifeline rate discount for that particular billing period.

The lifeline rate subsidy shall be shouldered by all non-lifeline end-users of FICELCO. Residential customers consuming 15kWh and below shall be given a Lifeline Rate Discount of fifteen percent (15%); those consuming 16kWh to 18kWh shall have a discount of ten percent (10%); and those consuming 19kWh to 20kWh shall have a discount of five percent (5%). All customers that are not eligible for Lifeline Rate Discount shall bear the Lifeline Rate Subsidy.

⁷ See, *supra* note 4.



The Commission sets the Lifeline Level for FICELCO at a maximum of 20kWh in order to maintain its Lifeline Subsidy Rate within the level determined by the Commission in FICELCO's unbundling rate application. Thus, the Lifeline Subsidy Rate should not exceed PhP0.10/kWh for the subsidizing customers.

VII. SCHEDULE OF RATES

After considering all the adjustments made on FICELCO's *Application*, the Commission arrived at a revised schedule of rates of FICELCO, as shown in the table below:

FICELCO's Revised Schedule of Rates

Particulars	Unit	Residential	Commercial	Public Building	Street Lights
Distribution Charges:					
Distribution System Charge	PhP/kWh	2.5926	0.7364	0.7048	1.6158
Supply Charges:					
Retail Customer Charge	PhP/cust/mo	-	35.0700	35.0700	35.0700
Supply System Charge	PhP/kWh	0.7630	-	-	-
Metering Charges:					
Retail Customer Charge	PhP/meter/mo	5.0000	33.7100	33.7100	33.7100
Metering System Charge	PhP/kWh	0.6245	-	-	-
TOTAL	PhP/kWh	3.9801	0.7364	0.7048	1.6158
	PhP/cust/mo	0.0000	35.0700	35.0700	35.0700
	PhP/meter/mo	5.0000	33.7100	33.7100	33.7100

WHEREFORE, the foregoing premises considered, the *Application* of First Catanduanes Electric Cooperative, Inc. (FICELCO) for Rate Adjustment is hereby **APPROVED WITH MODIFICATION**, subject to the following conditions:

1. The approved Total Revenue Requirement of FICELCO is One Hundred Three Million Seven Hundred Twenty Six Thousand and Ten Pesos (PhP103,726,010.00), or an equivalent average rate adjustment of PhP0.7137/kWh.

2. The following revised Schedule of Rates should be effective beginning on the next billing cycle from receipt of this Decision:

Particulars	Unit	Residential	Commercial	Public Building	Street Lights
Distribution Charges:					
Distribution System Charge	PhP/kWh	2.5926	0.7364	0.7048	1.6158
Supply Charges:					
Retail Customer Charge	PhP/cust/mo	-	35.0700	35.0700	35.0700
Supply System Charge	PhP/kWh	0.7630	-	-	-
Metering Charges:					
Retail Customer Charge	PhP/meter/mo	5.0000	33.7100	33.7100	33.7100
Metering System Charge	PhP/kWh	0.6245	-	-	-
TOTAL	PhP/kWh	3.9801	0.7364	0.7048	1.6158
	PhP/cust/mo	0.0000	35.0700	35.0700	35.0700
	PhP/meter/mo	5.0000	33.7100	33.7100	33.7100

3. The following lifeline rate discounts and subsidy should be applied by FICELCO beginning on the next billing cycle from receipt of this Decision:

kWh Consumption	Level of Discount
10 KWh and below	15%
11-15	
16	10%
17	
18	
19	5%
20	
Subsidy Charge to Non-Lifeline Customers	PhPo.0865/kWh

SO ORDERED.

09 May 2017, Pasig City.

JOSE VICENTE B. SALAZAR*
Chairman and CEO

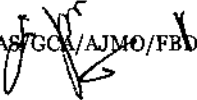

ALFREDO J. NON
Commissioner


GLORIA VICTORIA C. YAP-TARUC
Commissioner


JOSEFINA PATRICIA A. MAGPALE-ASIRIT
Commissioner

(on-leave)
GERONIMO D. STA. ANA
Commissioner

LS: /APV

ROS: EAS/GCM/AJMO/FBD


* The Chairman was placed on preventive suspension as per Order of the Office of the President (OP-DC Case No. 17-D-094) dated 2 May 2017 and received on 04 May 2017.

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