

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

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

**ERC CASE NO. 2004-456**

**PUBLIC UTILITIES DEPARTMENT – OLONGAPO CITY**  
Applicant

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

Before this Commission for resolution is the application filed on December 9, 2004 by applicant Public Utilities Department – Olongapo City (PUD-Olongapo) which is a re-submission of its Uniform Rate Filing Requirements (UFR) for the unbundling of its rates. In the instant application, PUD-Olongapo prayed that its Over-all Average Tariff Adjustment (OATA) of PhP0.9882/kWh and its appraisal of properties be approved.

Having found the said application sufficient in form and substance with the required fees having been paid, an Order and a Notice of Public Hearing, both dated January 10, 2004, were issued setting the same for hearing on February 22, 2005

In the same Order, PUD-Olongapo 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 nationwide circulation in the country, the last day of publication to be made not later than two (2) weeks before the scheduled date of initial hearing.

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

Likewise, the Mayor of Olongapo City was furnished with copies of the Order and the Notice of Public Hearing for the appropriate posting thereof on its bulletin board.

During the February 22, 2005 initial hearing, only PUD-Olongapo appeared. No oppositor appeared nor was there any opposition registered. PUD-Olongapo presented its proofs of compliance with the Commission's publication and posting requirements and had these marked as Exhibits "A" to "E", inclusive.

Thereafter, PUD-Olongapo presented its witnesses: Ms. Julie Reyes, PUD-Olongapo's General Manager; Engr. Ruel Famisan, PUD-Olongapo's Technical Consultant; and Mr. Federico Cuervo, President of Cuervo Appraisers. Mr. Cuervo testified on the appraisal conducted by his company on the properties of PUD-Olongapo. In the course thereof, documents were presented and marked as Exhibits "F" to "H", inclusive.

PUD-Olongapo then moved that it be given fifteen (15) days from said date of hearing within which to submit its formal offer of exhibits. Said motion was granted.

On March 4, 2005, PUD-Olongapo filed its formal offer of exhibits.

## I. PUD-OLONGAPO'S PROPOSAL

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

**TABLE 1**

Residential Service
Residential Distribution Wheeling Service
Commercial Service
Commercial Distribution Wheeling Service
Industrial Service
Industrial Distribution Wheeling Service
Government Building
Hospital
Street Lighting

### I.A. Revenue Requirement

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

On the basis of the submitted schedule (Schedule B), the proposed total Revenue Requirement amounted to PhP485,560,000 computed as follows:

**TABLE 2**

<b>Account Name</b>	<b>Total Company (PhP)</b>
Purchased Power	401,852,000
Payroll	13,789,000
O & M (net purchased power and payroll)	17,251,000
Depreciation and Amortization	12,568,000
Other Expenses	2,104,000
Return on Rate Base	37,996,000
<b>Total Revenue Requirement</b>	<b>485,560,000</b>

### I.A.1. Operating Revenue

PUD-Olongapo reported a total operating revenue of PhP398,652,000 for the year 2000, computed as follows:

**TABLE 3**

<b>Customer Type</b>	<b>Revenue (PhP)</b>
Residential	197,236,000
Commercial	171,273,000
Industrial	3,907,000
Government Building	8,827,000
Hospital	2,085,000
Streetlights	15,324,000
<b>TOTAL</b>	<b>398,652,000</b>

### I.B. RATE BASE

PUD-Olongapo proposed that Schedule B (Restated Value of Assets) be used as basis in the determination of its Rate Base. Thus, PUD-Olongapo utilized the appraised value of assets as reported by an independent appraiser, Cuervo Appraisers, Inc., as of December 31, 2000. It must be noted that Cuervo Appraisers, Inc., was granted a Certificate of Accreditation by ERC on October 6, 2004 pursuant to the requirements set forth in Part II, paragraph 5 of the Guidelines for the Appraisal of Property, Plant and Equipment for Rate Fixing purposes of ERC.

The proposed rate base is as follows:

**TABLE 4**

	<b>Adjusted Electric (PhP)</b>
Distribution Plant	447,244,000
General Plant	5,289,000
<b>Total Plant in Service</b>	<b>452,533,000</b>
Less: Accumulated Depreciation	
Distribution Plant	144,640,000
General Plant	433,000
<b>Total Accumulated Depreciation</b>	<b>145,073,000</b>
<b>Net Plant in Service</b>	<b>307,460,000</b>
Other Rate Base Item:	
Cash Working Capital	72,499,000
<b>TOTAL RATE BASE</b>	<b>379,959,000</b>

## **I.B.1 Plant in Service**

### **I.B.1.a Asset Valuation as of December 31, 2000**

PUD-Olongapo submitted for ERC's approval the appraisal conducted by Cuervo Appraisers, Inc. Based on its report dated May 26, 2005, PUD- Olongapo's assets as of December 31, 2000 has a total cost of reproduction, new of PhP 452,533,000 and sound value of PhP 307,460,000, to wit:

**TABLE 5**

<b>Particulars</b>	<b>Cost of Reproduction, New (PhP)</b>	<b>Sound Value (PhP)</b>
Land	112,140,000	112,140,000
Buildings	4,788,000	2,908,000
Machinery & Equipment	330,365,000	187,596,000
Transportation Equipment	3,376,000	3,376,000
Furniture & Office Equipment	1,864,000	1,440,000
<b>TOTAL</b>	<b>452,533,000</b>	<b>307,460,000</b>

## **I.C. Rate Design**

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

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

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

### **I.C.2. Generation Charge**

PUD-Olongapo proposed the adoption of a Generation Charge for the proposed customer classes in order to recover its power cost, system losses and company use, as follows:

$$GC = \left[ \frac{A}{(B - (C+D))} \right] - [E]$$

Where:

- GC = Generation Charge per kWh billed
- A = Generation Costs incurred by the company from its generation suppliers including NPC facility operations and maintenance cost.
- B = kWh input to the system from all supply sources
- C = % power losses expressed decimally for last 12 months
- D = Actual Company Use in kWh but not to exceed 1% of total kWh
- E = NPC Average Power Cost as of February 1992

### **I.C.3. System Loss**

PUD-Olongapo proposed to recover its 2000 actual system loss of 31.20% through the proposed Generation Charge formula set forth in Section I.C.2. above.

### **I.C.4. Distribution Charge**

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

### **I.C.5. Supply and Metering Charges**

PUD-Olongapo proposed a Peso per kilowatt-hour charge for the supply and metering services.

### I.C.6. Interclass Cross Subsidy

PUD-Olongapo indicated the amount of cross subsidies for each type of customers as follows:

**TABLE 6**

<b>Customer Classes</b>	<b>Existing Rates</b>	<b>Rates per Revenue Requirement</b>	<b>Cross Subsidy</b>
Residential	4.5797	5.5616	(0.9819)
Commercial	4.5476	5.4872	(0.9396)
Industrial	4.5338	5.4553	(0.9215)
Gov't Bldg./Hospital	4.5338	5.4669	(0.9331)
Streetlights	3.6731	5.4544	(1.7813)
<b>AVERAGE</b>	<b>4.5331</b>	<b>5.5213</b>	<b>(0.9882)</b>

### I.C.7. Lifeline Rate and Level

PUD-Olongapo proposed a rate of PhP5.5213 per kWh for its lifeline customers using consumption level of 15 kWh. This is sufficient to cover the consumption of two (2) 25 watt incandescent bulb, one (1) 35 watt electric fan and one (1) 5 watt transistor radio operated at an average of six (6) hours per day. The assumed connected loads as basis for the 15 kwh are as follows:

**TABLE 7**

<b>Quantity</b>	<b>Type of Load</b>	<b>Watts</b>	<b>kWh/Month</b>
2	Incandescent bulb	25	6.0
1	Electric Fan	35	8.0
1	Transistor Radio	5	1.0
		<b>TOTAL</b>	<b>15.0</b>

### I.C.8. Other Charges and Non-Recurring Rates

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

**TABLE 8**

ITEM	CLASSIFICATION	CHARGES
1	Revenue Loss  Amount of Power Transformer Loss	= $\frac{1.732 (\text{Imaxsubstation}) (\text{Primary Voltage}) (\text{No. of Hours})}{1000}$ = x kWh = (PUD rates – NPC Rates) * PT Loss
2	Transformer Installation a. 10-100 KVA b. 167 and above	PhP2,550.00 (includes equipment & labor cost) PhP2,850.00 (includes equipment & labor cost)
3	Equipment Rental	PhP300 per hour
4	Disconnect/Reconnection Charge Residential Commercial/Industrial	Disconnect = PhP0.00 Reconnect = PhP50.00 Disconnect = PhP0.00 Reconnect = PhP100.00
5	Requested Service Interruption Charge	Actual Cost
6	Facilities Relocation/ Removal Charge	Actual Cost
7	Requested Meter Test Charges Single Phase Self Contained Three Phase Self Contained Single Phase Instrument Rated Three Phase Instrument Rated	PhP50.00 100.00 100.00 100.00
8	Tampering Charge	According to R.A. 7832

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

In reaching the conclusions herein, the Commission took into consideration the documents as well as the comments and issues submitted by the applicant.

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

#### **II.A.1. Test Year**

The Commission finds PUD - Olongapo’s proposal to use the test year 2000 in its unbundled rate application acceptable since it is consistent with Rule 15 Section 6 (c) of the Implementing Rules and Regulations (IRR) of R.A. 9136. Therefore, the discussions and conclusions that follow are based on Schedule B, “Revalued Cost by Function” (Cost of Service by Function-Historical Test Year).

## **II.A.2. Generation and Transmission Costs**

### **Generation Cost**

The Commission updated the generation cost based on the most recent approved NPC rate, i.e. ERC Case No. 2004-178, (In the Matter of the Application for the Approval of the Proposed Generation Rates for Luzon, Visayas and Mindanao Grids, National Power Corporation (NPC) and Power Sector Assets and Liabilities Management (PSALM) – Applicants) Decision dated April 13, 2005.

The total cost of power as presented in the application amounting to PhP401,852,000 was adjusted to reflect the following:

- a) The Commission decided to retain the system loss cap prescribed under Rule IX Section 1 of the Implementing Rules of Republic Act No. 7832 pending the conduct of a comprehensive study on the matter. Hence, the Commission used the maximum allowable cap for system loss at 9.5% instead of the 31.20% proposed herein by PUD-Olongapo and actual company use of 0.2% for the year 2000. (See further discussion on Section II.G.3.c)
- b) The Commission also used annualization in calculating the kilowatt-hour sales. This is calculated as the sum of the products of the average kilowatt-hour consumption for each rate class and the year-end number of customers for each rate class.

Based on data submitted by PUD-Olongapo to the Commission, PUD-Olongapo buys 100% of its power requirements from NPC. The Commission calculated PUD's Generation Cost based on the approved NPC rate for Luzon. (As such, the generation cost as computed by the Commission reflects the approved cost of electric power per ERC Decision dated April 13, 2005), computed as follows:

**TABLE 9**

	<b>PhP/kWh</b>
RORB-TOU-Luzon	3.8966
DAA - GRAM	0.3048
- ICERA	0.1821
FBHC	0.0245
<b>Total</b>	<b>4.4080</b>

The total adjusted purchased power cost amounting to PhP503,586,000 was computed as follows:

**TABLE 10**

	<b>Total</b>	<b>Generation Cost</b>	<b>Transmission Cost</b>
Purchased Power Cost per PUD-Olongapo	PhP401,852,000	PhP331,791,000	PhP70,061,000
Add/(Deduct): Adjustments			
Increase in Purchased Power Cost & kWh Sales	101,734,000	83,983,000	17,751,000
<b>Adjusted Purchased Power Cost</b>	<b>PhP503,586,000</b>	<b>PhP415,774,000</b>	<b>PhP87,812,000</b>

### **Transmission Cost**

The Commission's Decision in ERC Case No. 2001-901 dated June 26, 2002 and Order dated September 20, 2002 set the transmission charges for the TRANSCO without any provision for an automatic adjustment thereof. Since the transmission rates to be paid by PUD-Olongapo are fixed, it is the decision of the Commission to likewise fix the unbundled transmission rates to be billed to end-users. The transmission charges approved for billing by PUD-Olongapo have been calculated based on the approved TRANSCO rates, which include cross subsidy elements to be phased out over a three-year period.

### **System Loss**

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

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

**TABLE 11**

<b>Particulars</b>	<b>Amount (PhP)</b>
Generation Charge	398,884,000
Transmission Charge	75,911,000
Recoverable System Loss	28,791,000
<b>Total</b>	<b>503,586,000</b>

The Commission in its Order dated October 13, 2004 under ERC Case No. 2004-322 has developed an automatic recovery mechanism for Generation Rates and System Loss Rates by Distribution Utilities. Said adjustment mechanism replaced the Generation Rate Adjustment Mechanism (GRAM). In view, thereof, the Commission hereby directs PUD-Olongapo to discontinue the implementation of its PPA upon the effectivity of the herein approved unbundled rates.

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

The general criteria in the evaluation of operating expenses to be allowed for recovery are: 1) that the expense is needed in the operation of the utility; 2) it is recurring; and 3) it redounds to the benefit of the utility's customers (Public Service Commission [PSC] Decision in Case Nos. 85889, 85890 and 89893). The Commission enjoins PUD-Olongapo to incur only "prudent and reasonable costs" for inclusion in the determination of retail rates. While a distribution utility enjoys the benefit of passing its costs of purchased power and other reasonable costs to the consumers, it is obligated as a public utility to ensure that its costs of operations including payroll are kept at a minimum. The distribution utility must bear in mind as a service-oriented company, its mandate to advocate and transact judiciously for and in behalf of its consumers.

“Reasonable costs” refers to the cost of those goods and services which, while may not be the lowest in price, need to be incurred with consideration of quality, efficiency, reliability and security, which are characteristics of the service delivered by the distribution utility. “Prudent costs” demand that the utility ensures that its purchases of goods and services are at their minimum, without sacrificing the foregoing characteristics. When making a purchase or executing a contract, a utility cannot simply rely on its right to pass on its costs to its consumers. As such, the Commission, in fulfillment of the policy of the EPIRA to establish a regime of free and fair competition and full public accountability to achieve greater operational and economic efficiency, enjoins PUD-Olongapo to institute and report to the Commission their respective policies and procedures for cost-cutting and the transparent and competitive procurement of goods and services.

PUD-Olongapo’s customers have a right to receive safe, reliable, and adequate service at a reasonable rate. To this end, PUD-Olongapo should view a petition for an increase in rates to be the last recourse. In future filings, PUD-Olongapo should be reminded that it has the burden of proving that all reasonable and appropriate cost cutting measures have been taken before resorting to a petition to increase rates.

For future rate cases, PUD-Olongapo will continue to be required to make full disclosures of all its O & M expenses in order for the Commission to determine the prudence of its expenditures. Unless otherwise justified by PUD-Olongapo, expenses found to be unreasonably incurred shall not be allowed by the Commission as part of its recoverable costs to be passed on to PUD-Olongapo’s end-users.

Upon review of the components of the expenses included in the revenue requirement, the Commission reduced PUD-Olongapo’s recoverable operation and maintenance (O & M) expenses by the following amount:

**Table 12**

<b>Particulars</b>	<b>Amount (PhP)</b>
Repairs of Furnitures & Fixtures	302,670
Vehicle Registration	<u>76,672</u>
<b>Total</b>	<b>379,342</b>

PUD-Olongapo is responsible for providing documentation to prove the reasonableness and prudence of all its expenditures. PUD-Olongapo was unable to provide adequate documentation for certain expenditures identified as repairs of furnitures and fixtures and vehicle registration amounting to PhP302,670 and PhP76,672 respectively. As such, the proposed O & M were reduced by a total amount of PhP379,342.

PUD-Olongapo should ensure that procedures are put into place to ensure that in future filings, all expenditures that are included in the determination of revenue requirements are adequately documented and that such documentation is reasonably accessible to ERC.

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

The Commission made an adjustment to exclude the amount of PhP318,000 which pertains to depreciation expense on disallowed assets and an adjustment due to recalculation of depreciation based on depreciation rate used by Cuervo Appraisers, Inc. in the amount of PhP195,000. The adjusted depreciation expense to be considered in the revenue requirement is computed as follows:

**TABLE 13**

	<b>AMOUNT (PhP)</b>
Depreciation Expenses per UFR	12,568,000
Add/(Deduct) Adjustment :	
Depreciation Expenses on disallowed assets	(318,000)
Adjustment due to recalculation of depreciation based on depreciation rate used by appraiser	(195,000)
Adjusted Depreciation Expense to be included in the revenue requirement	<b>12,055,000</b>

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

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

#### **II.A.5. Other Expenses**

The Commission excluded PhP2,104,000 representing interest expense and NPC surcharge/penalty in the amount of PhP1,926,000 and PhP178,000, respectively. Rule 15 Section 5 (ii) of the IRR provides that Interest Expenses are not allowable deductions from permissible return on rate base (RORB). As to surcharge/penalty, the Commission believes that such expense should not be included in the determination of rate considering that such expenditure is an additional cost incurred by PUD-Olongapo for failure to pay its NPC bill on schedule. Thus, PUD-Olongapo should not recover the same from its customers/end-users. Details of other expenses to be excluded are as follows:

**TABLE 14**

<b>Particulars</b>	<b>Amount (PhP)</b>
Interest Expense	1,926,000
NPC Charges/Penalty	178,000
<b>Total</b>	<b>2,104,000</b>

## II.B. OTHER REVENUE ITEMS

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

TABLE 15

<b>PARTICULARS</b>	<b>AMOUNT (PhP)</b>
Connection Fee	512,000
Reconnection Fee	504,000
Penalties	8,474,000
Miscellaneous	242,000
Transfer of Ownership	12,000
Interest Income	178,000
<b>Total</b>	<b>9,922,000</b>

## II.C. RATE BASE

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

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

TABLE 16

<b>PLANT, PROPERTY &amp; EQUIPMENT</b>	<b>AMOUNT (PhP)</b>
Assets as of December 31, 2000 per Appraisal Report	
Reproduction Cost, New	452,533,000
Less: Accumulated Depreciation	145,073,000
Sound Value	307,460,000
Less: Disallowed Assets per Inspection	95,101,000
<b>Adjusted Net Plant in Service as of December 31, 2000</b>	<b>212,359,000</b>

### II.C.2. Asset Valuation as of December 31, 2000

The appraisal report submitted for approval is based on PUD-Olongapo's assets as of December 31, 2000 with a total value of PhP452,533,000 as cost of reproduction new and PhP307,460,000 as sound value.

### II.C.3. Assets Disallowed per Inspection

Pursuant to ERB Special Assignment No. 2005 - 79 dated April 1, 2005, an inspection team proceeded to PUD-Olongapo in Olongapo City to conduct an ocular inspection/verification of the assets, property and equipment in service.

From the Inspection Report dated June 9, 2005, nothing has come to the attention of the Commission that would cause it to question the findings of Cuervo Appraisal Inc. However, the Commission disallowed some assets with a sound value of PhP95,101,000 which were found as not used and useful in the operation of the business, as follows:

**TABLE 17**

Disallowed Assets	Area (sq. m.)	Fair Market Value	Present Value Per Application	Remarks	Total Disallowances (PhP)
Land	2,122	1,800	3,819,600	Only portion (563 sq. m.) is being utilized as substation. Other portion is being occupied by squatters.	2,806,000
	5,368	20,000	107,360,000	Only portion (857 sq. m.) is being utilized as Distribution/Maintenance building. Other portion is being utilized by Asinan Elementary School.	90,220,000
<b>Total Disallowances on Land</b>					<b>93,026,000</b>
Transportation Equipment	No. of Units			Damage engine, still under repair for more than six (6) months. No proof of vehicle registrations SBMA Property	<b>2,075,000</b>
	1				
	3				
	2				
<b>TOTAL</b>					<b>95,101,000</b>

### II.C.4. Allowance for Cash Working Capital

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

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

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

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

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

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

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

Therefore, PUD-Olongapo waits for an average of approximately 40 days before it receives payment for the services provided. With respect to purchased power, it appears that the actual net lag days is approximately 10 days only (40 less 30) and not the 60 days assumed in the application of the formula. PUD-Olongapo's

customers who do pay on time should not be penalized because other customers fail to comply with PUD-Olongapo’s payment schedule. If additional finance costs are incurred because of late payment of bills, these costs should be recovered in the form of penalties to the late paying customers and not as additional cash working capital to be paid by all customers.

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

**TABLE 18**

	<b>Amount (PhP)</b>	
Adjusted O & M (excluding Power Cost)		42,716,000
Less: Taxes & Non Cash Items		
Depreciation Expense		<u>12,055,000</u>
Net O & M		30,661,000
Cash Working Capital - O & M (2 months)		5,110,000
Adjusted Power Cost	503,586,000	
Cash Working Capital - Power Cost (10/360 days)		<u>13,989,000</u>
<b>TOTAL CASH WORKING CAPITAL</b>		<b>19,099,000</b>

**II.C.5 Summary of the Rate Base**

The following tabulates the adjustments made by the Commission in the components of PUD-Olongapo’s rate base:

**TABLE 19**

	<b>Per PUD (PhP)</b>	<b>Adjustment (PhP)</b>	<b>Per ERC (PhP)</b>
Net Plant in Service	307,460,000	(95,101,000)	212,359,000
Cash Working Capital	72,499,000	(53,400,000)	19,099,000
<b>Total Rate Base</b>	<b>379,959,000</b>	<b>(148,501,000)</b>	<b>231,458,000</b>

**II.D. RATE OF RETURN**

The current form of regulation practiced for the privately-owned electric utilities is a cost based method known as the Return On Rate Base (RORB) methodology. Power rates are set to recover cost of service prudently incurred plus a reasonable

rate of return on rate base. The rate of return pertains to the percentage which when multiplied by the approved Rate Base, provides a return that will fairly compensate the company for the risk inherent to the investment of capital. This simply means that a regulated utility is allowed to set rates which will cover operating costs and provide an opportunity to earn a reasonable rate of return on the assets utilized in the business.

PUD-Olongapo proposed for a 10% rate of return. On the basis of then ERB’s jurisprudence set for government-owned utilities, the Commission has adopted the 10% rate of return in this case. The 10% rate of return is equivalent to PhP23,145,800 computed as follows:

**TABLE 20**

Adjusted Rate Base	PhP231,458,000
Rate of Return	10%
Return on Rate Base	<b>PhP23,145,800</b>

The Commission has adopted Performance-Based Regulation (PBR) for the Private Distribution Utilities by the promulgation of the Distribution Wheeling Rates Guidelines (DWRG) on December 10, 2004. The covering Resolution was signed on December 20, 2004. These were published in the Manila Standard newspaper on January 14, 2005.

The Resolution provided five (5) entry points for the PUs who will enter the PBR. Each entry point is available to a group of five (5) PUs, who must submit a letter of intent to the Commission for approval/inclusion in the group. The approved DWRG is intended for Group A only. Group A has a limit of five (5) PUs only, regardless of the options taken for the adjustment of their Unbundled Distribution Tariff.

The DWRG sets out the Maximum Average Price (MAP) that a Regulated Entity is permitted to charge for its provision of Regulated Distribution Services in respect of a Regulated Distribution System. Under the DWRG, the MAP shall be established after a determination of several factors called the “primary building

blocks”, which include depreciation, operating and maintenance expenditures, capital expenditures, Weighted Average Cost of Capital (WACC), change in weighted indices, and the efficiency factor X.

**II.E. REVENUE REQUIREMENT SUMMARY**

On the basis of the foregoing discussion, the Commission after considering adjustment of PhP73,966,000 approved a total revenue requirement of PhP559,526,000.

**TABLE 21**

<b>REVENUE REQUIREMENT</b>			
	<b>Per PUD (PhP)</b>	<b>Adjustments (PhP)</b>	<b>Per ERC (PhP)</b>
Purchased Power	401,852,000	101,734,000	503,586,000
Payroll	13,789,000	0	13,789,000
Operation & Maintenance	17,251,000	(379,000)	16,872,000
Depreciation & Amortization	12,568,000	(513,000)	12,055,000
Income Taxes	0	0	0
Other Expenses	2,104,000	(2,104,000)	0
Return on Rate Base	37,996,000	(14,850,000)	23,146,000
Revenue Requirement	485,560,000	83,888,000	569,448,000
Add/(Deduct): Other Rev. Item	0	(9,922,000)	(9,922,000)
Total Revenue Requirement	485,560,000	73,966,000	559,526,000
Adjusted Operating Revenue (2000)			532,088,000
Increase(Decrease) PhP			27,438,000
Annualized kWh Sales			90,491,000
Required Increase P/kWh			<b>0.3032</b>

The Overall Average Tariff Adjustment (OATA) is a measurement tool based on the formula: (Total Revenue Requirement less Existing Revenue divided by kilowatt-hour sales). This measurement is not meant to refer to any specific customer class. PUD-Olongapo proposed for an OATA of PhP0.9882 per kilowatt-hour.

## II.F. ADJUSTED OPERATING REVENUE

The Commission adjusted PUD-Olongapo's actual operating revenue to PhP532,088,000 computed as follows:

**TABLE 22**

	<b>Amount (PhP)</b>
PUD-Olongapo's Existing Operating Revenue	398,651,000
Adjustment:	
Addt'l. Revenue due to increase in Purchased Power Cost and kWh Sales	133,437,000
<b>Total Adjusted Operating Revenue</b>	<b>532,088,000</b>

## II.G. RATE STRUCTURE/DESIGN DETERMINATION

### II.G.1. Functionalization Factors

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

**TABLE 23**

Factor	Total	Residential	Commercial	Government	Industrial	Streetlights	Hospital
Name	(1)	(2)	(3)	(4)	(5)	(6)	(7)
TOTREV	1.0000	0.5257	0.4041	0.0246	0.0083	0.0318	0.0055

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

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

Annualized sales were derived by multiplying year-end number of customers with average annual kWh usage for each customer class. This was performed to

project for the future kWh sales for the development of more appropriate allocation factors and billing determinants for each customer class. With the annualized sales per customer class, the computed adjusted kilowatt-hour sold was 90,491,000.

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

### **II.G.3. Design and Calculation of Charges**

#### **II.G.3.a. Generation Charge**

The Commission updated the generation cost based on the most recent approved NPC rate, i.e., ERC Case No. 2004-178 (In the Matter of the Application for the Approval of the Proposed Generation Rates for Luzon, Visayas and Mindanao Grids, National Power Corporation (NPC) and Power Sector Assets and Liabilities Management (PSALM)-Applicants) Decision dated April 13, 2005.

Consistent with the aforesaid Decision, the revised generation charge for Luzon Grid to be billed to end-users shall be the approved rate per kilowatt-hour including Franchise and Benefits to Host Communities.

The Commission has developed a recovery mechanism designed to replace the purchased power cost adjustment clauses being used by the distribution utilities. The Commission in its Order dated October 13, 2004 under ERC Case No. 2004-322, promulgated the Implementing Guidelines for the Automatic Adjustments of

Generation Rates and System Loss Rates by Distribution Utilities effective November 1, 2004.

The Commission hereby directs PUD-Olongapo to discontinue the implementation of its PPA upon effectivity of the approved unbundled rates.

**II.G.3.b. Transmission Charge**

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

The Transmission Charges shall be billed on a fixed rate per kilowatt-hour for Residential, Commercial and Streetlighting customers. In the case of Government Buildings, Hospitals and Industrial customers with demand meters, the transmission charge shall be billed using a fixed rate per kilowatt (kW).

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

**TABLE 24**

	Resd'l.	Comm'l.	Gov't.	Industrial	St. Lights	Hospital
Sept. 26, 2004 – Sept. 25, 2005 Demand Charge (P/kW) Trans. System Charge (P/kWh)	0.8484	0.8345	26.03	26.03	0.8484	26.03
Sept. 26, 2005 – Onward Demand Charge (P/kW) Trans. System Charge (P/kWh)	0.9742	0.9583	29.89	29.89	0.9742	29.89

### **II.G.3.c. System Loss Charge**

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

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

PUD-Olongapo's own kWh consumption has been subjected to verification through ocular inspection on June 17 and 18, 2004 due to the fact that PUD-Olongapo was consistently using the maximum allowable company use of 1% of total kWh purchased. Results of the ocular inspection disclosed that the estimates used by PUD-Olongapo were too large for a utility's own consumption. PUD-Olongapo's load pertaining to the conduct of its electric operations was estimated based on its maximized capacity load. Based on the foregoing, the Commission resolved to peg PUD-Olongapo's own kWh consumption at 0.20% of the total kWh purchases.

The Commission believes that the present cap on System Loss of 9.5% should be used in the calculation of revenue requirements at this time. This would however be subject to change upon the approval of a new policy by the Commission. The actual system loss or cap of 9.5% plus 0.2% of company use (which should not include personal consumption of PUD-Olongapo's officers and employees) or actual whichever is lower shall be deducted from total power cost and to be billed separately as System Loss Charge. In this case, the Commission adopted a system loss of 9.7% (9.5% + 0.2%).

#### **II.G.3.d Distribution Charge**

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

Relevant to distribution charge, PUD-Olongapo's proposed distribution wheeling rates comprised of its proposed distribution and supply charges. The Commission believes that wheeling rates are parallel to the cost of service functionalized under Distribution. Thus, the Commission orders that the Distribution Charge provided in the Rate Schedules be likewise utilized as Distribution Wheeling Charges available to the future contestable market.

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

#### **II.G.3.e Metering and Supply Charges**

The Commission acknowledges that cost-causation rate design principles suggest the recovery of customer-related costs associated with the metering and supply functions through fixed monthly charges. In addition to this cost of service principle, however, the Commission must also consider rate design impact across the spectrum of customers within each rate class. Although RA 9136 requires the removal

of inter-class cross subsidies, the law does not require removal of intra-class cross-subsidies. The Commission has the flexibility to consider other factors in determining rate design for a particular class of customers. Therefore, to mitigate the impact on below-average consumption of residential end-users, the Commission orders PUD-Olongapo to use a PhP6.9426 peso per customer per month for the metering function and a peso per kilowatt-hour for the supply function for residential customers. On the other hand, the Commission orders PUD-Olongapo to use a peso per customer per month for all other customers for both supply and metering functions.

## II.H. CROSS SUBSIDY REMOVAL

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

**TABLE 25**

	Total	Residential	Commercial	Government	Industrial	Lighting Service	Hospital
New Cost-Based Revenue	559,525,653	275,980,900	239,473,914	14,613,071	5,291,646	20,687,953	3,478,168
Existing Rates Revenue	532,088,580	262,583,758	228,418,546	12,473,646	5,214,222	20,452,837	2,945,572
Total Change in Revenue	27,437,073	13,397,142	11,055,368	2,139,425	77,425	235,116	532,597
Percentage Change in Rev.	1.05						
Normalized Revenue	559,525,653	276,123,852	240,196,916	13,116,848	5,483,092	21,507,485	3,097,460
Inter-class cross subsidy	0	142,953	723,003	(1,496,223)	191,446	819,531	(380,709)
Class Billing Determinants (kWh)	90,490,952	44,123,559	39,089,168	2,469,200	861,680	3,380,172	567,173
Inter-class Cross Subsidy (Php/kWh)	0.0000	0.0032	0.0185	(0.6060)	0.2222	0.2425	(0.6712)
Complete Removal		(0.0032)	(0.0185)	0.6060	(0.2222)	(0.2425)	0.6712

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

In the instant case, the Commission orders complete removal of inter-class cross subsidy charges as follows:

**TABLE 26**

Customer Type	PhP/kWh
Residential	(0.0032)
Commercial	(0.0185)
Government	0.6060
Industrial	(0.2222)
Lighting Service	(0.2425)
Hospital	0.6712

The Commission approved the cross subsidy removal scheme for the TRANSCO in its Decision dated June 26, 2002 in ERC Case No. 2001-901 which impacts the unbundled transmission rates for PUD-Olongapo's end-users. This impact is reflected in the two-year schedule for unbundled transmission charges provided in Table 24 of this Decision.

### II.I. LIFELINE RATE AND LEVEL

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

In determining the lifeline level of consumption to be provided to the marginalized end-users, the Commission calculated the probable load requirement of typical low-income consumers by considering one (1) Incandescent Bulb at 25 watts, one electric fan at 35 watts, and one (1) transistor radio at 5 watts that are being used at reasonable number of hours. Thus, the Commission sets the lifeline consumption maximum level of 60 kilowatt-hours for PUD-Olongapo. The Commission considers the impact that the subsidized Lifeline Rates will have on other end-users who must carry the cost associated with such subsidy. This fact combined with the desire to maximize the benefit to as many marginalized end-users as possible has led the Commission to adopt the following graduated scale for lifeline discount for PUD-Olongapo. The graduated scale is also based on the recognition that individual end-user consumption may likely vary from month to month.

**TABLE 27**

<b>kWh Consumption</b>	<b>% Lifeline Discount</b>
10 kWh and below	50%
11 - 20 kWh	45%
21 - 30 kWh	40%
31 - 40 kWh	35%
41 - 50 kWh	30%
51 - 60 kWh	25%

PUD-Olongapo shall apply these discounts to the following residential charges: Generation, Transmission, Distribution, Supply, Metering and System Loss. In a given period, an end-user at any of the above-consumption levels shall be given the specified corresponding discount on each of these rate components.

An end-user with a level of consumption exceeding 60 kWh in a particular billing period shall not be entitled to any lifeline rate discount for said period.

The cost of subsidy to lifeline end-users shall be passed on to all non-lifeline end-users. For PUD-Olongapo, the lifeline discounts result in a subsidy on Lifeline by other end-users equal to PhP 0.0520/kWh and 28% of residential customers will be benefited.

## **II.J. OTHER CHARGES**

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

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

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

## II.K. ESTIMATED IMPACT ON AVERAGE RESIDENTIAL CONSUMER

A comparison of the estimated impact of all adjustments on the revenue requirement on the monthly bill of a residential end-user consuming above 140 kWh a month using rates based on PUD-Olongapo's actual existing rates as of July 2005 against the unbundled rates approved by the Commission is shown below:

**TABLE 28**

Residential Customer Consuming 140			Approved Unbundled Rates*		
	Existing Peso/kWh	140 Amount		Peso/kWh	Amount
Basic Charge	2.9811	417.35	Generation Charge	4.4080	617.12
PPA	3.3252	465.53	Transmission Charge	0.8484	118.78
			System Loss Charge	0.3200	44.80
			Distribution Charge	0.6002	84.03
			Supply Charge	0.0330	4.62
			<b>Metering Charge</b>		
			Retail Customer Charge/Mo.	-	6.91
			Inter-Class Cross Subsidy Charge	-	-
			Subsidy on Lifeline	0.0520	7.28
Power Act Reduction	(0.3000)	(42.00)	<b>Total Distribution Charge</b>		<b>147.65</b>
<b>Universal Charges:</b>		-	Power Act Reduction	(0.3000)	(42.00)
Missionary Electn.	0.0373	5.22	<b>Universal Charges:</b>		-
Environmental	0.0025	0.35	Missionary Electrification	0.0373	5.22
<b>TOTAL BILL</b>		<b>846.45</b>	Environmental	0.0025	0.35
Average Rate/kWh		6.0461	<b>TOTAL BILL</b>		<b>847.11</b>
Inc./((Dec.) In Rate					6.0508
Inc./((Dec.) In Bill					<b>0.0047</b>
					<b>0.6642</b>

\* with complete removal cross subsidy

## DISPOSITION

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

1. To approve the unbundled schedule of rate of PUD-Olongapo, to be effective on the first billing cycle thirty (30) days after receipt of this Decision, to wit:

**PUBLIC UTILITIES DEPARTMENT - OLONGAPO**  
**ERC Case No. 2004-456**  
**SUMMARY RATE SCHEDULE**

Customer Class	Gen. Charge	Trans. Charge	Distr. Charge	Supply Charge	Metering Charge	System Loss Charge	Lifeline Subsidy	Inter class Cross Subsidy*	Universal Charge	
									ME	EC
<b>RESIDENTIAL</b>										
60 kWh & below										
PhP/kWh	4.4080	0.8484	0.6002	0.0330	-	0.3200	-	(0.0032)	0.0373	0.0025
PhP/Cust/Mo.					6.9426					
61 kWh & above										
PhP/kWh	4.4080	0.8484	0.6002	0.0330	-	0.3200	0.0520	(0.0032)	0.0373	0.0025
PhP/Cust/Mo.					6.9426					
<b>COMMERCIAL</b>										
PhP/kWh	4.4080	0.8345	0.5206	-	-	0.3200	0.0520	(0.0185)	0.0373	0.0025
PhP/kW		-	-							
PhP/Cust/Mo.				19.58						
PhP/Meter/Mo.					7.0252					
<b>INDUSTRIAL</b>										
PhP/kWh	4.4080	-	-	-	-	0.1400	0.0520	(0.2222)	0.0373	0.0025
PhP/kW		26.03	16.34							
PhP/Cust/Mo.				19.58						
PhP/Meter/Mo.					7.0252					
<b>HOSPITAL</b>										
PhP/kWh	4.4080	-	-	-	-	0.3200	0.0520	0.6712	0.0373	0.0025
PhP/kW		26.03	16.34							
PhP/Cust/Mo.				19.58						
PhP/Meter/Mo.					7.0252					
<b>GOVERNMENT</b>										
PhP/kWh	4.4080	-	-	-	-	0.3200	0.0520	0.6060	0.0373	0.0025
PhP/kW		26.03	16.34							
PhP/Cust/Mo.				19.58						
PhP/Meter/Mo.					7.0252					
<b>LIGHTING SERVICE</b>										
PhP/kWh	4.4080	0.8484	0.4869	-	-	0.3200	0.0520	(0.2425)	0.0373	0.0025
PhP/Cust/Mo.				19.58						
PhP/Meter/Mo.					7.0252					

\* with complete cross subsidy removal

2. To approve PUD-Olongapo's net utility plant in service at sound value as of December 31, 2000, amounting to PhP 212,359,000.
3. To direct PUD-Olongapo to comply with the following:
  - a) Discontinue charging the PPA upon effectivity of the approved unbundled rates; PUD-Olongapo shall automatically bill its end-users the new Generation Rate charged by NPC as approved and authorized by the Commission and in accordance with ERC Case No. 2004-322 dated October 13, 2004 on the Automatic Adjustment of Generation Rates and System Loss Rates by Distribution Utilities;

- b) Bill its respective end-users using a billing format which contains at least the rate elements, provided in Annex "A" (Rate Schedule) of this Decision upon effectivity of the approved unbundled rates;
- c) Make a compliance filing on its Other Charges a year from the date of this Decision;
- d) Bill P0.0373/kWh representing the missionary electrification portion of the Universal Charge in accordance with the Decision of the Commission in ERC Case No. 2002-165 (In the Matter of the Petition for the Availments from the Universal Charge the Share for Missionary Electrification, NPC-SPUG, Applicant);
- e) Bill the amount of P0.0025/kWh representing the environmental portion of the Universal Charge in accordance with the Commission's Decision in ERC Case No. 2002-194 (In the Matter of the Petition for the Availment from the Universal Charge the Environmental Share/Charge for the Rehabilitation and Management of Watershed Areas, NPC, Applicant);
- f) Set up a depreciation fund each year corresponding to the whole amount of depreciation that it has recorded on its books. The setting up of this fund should be done on a monthly basis corresponding to the monthly depreciation. PUD-Olongapo is required to strictly account for the expenditures out of this fund which should be used strictly for investment in electric plant and all withdrawals from this fund should be reported to the Commission within thirty (30) days from withdrawal;
- g) Submit a System Loss Reduction Program covering the period 2005 to 2009, no later than one (1) year after the date of this Decision;
- h) Inform the end-users within its franchise area of the approved unbundled rates not later than thirty (30) days after receipt of this Decision;

- i) Submit for verification and confirmation purposes on or before the twentieth (20<sup>th</sup>) day of the month following the effectivity of the approved unbundled rates and every month thereafter: a) five (5) sample bills for each customer class; b) copy of bills from the generation and transmission companies ; and c) M001 and M002 with all related schedules;

SO ORDERED.

Pasig City, August 24, 2005.

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

(Took No Part)  
**RAUF A. TAN**  
Commissioner

**JESUS N. ALCORDO**  
Commissioner

**OLIVER B. BUTALID**  
Commissioner

**ALEJANDRO Z. BARIN**  
Commissioner

Copy furnished:

1. Atty. Angelito R. Orozco  
Counsel for Applicant - Movant  
City Legal Office  
Olongapo City Hall, Rizal Ave.  
Olongapo City 2200
2. Public Utilities Department - Olongapo  
Olongapo City 2200
3. Office of the Solicitor General  
134 Amorsolo Street, Legaspi Village  
City of Makati 1229
4. Commission on Audit  
Commonwealth Avenue  
Quezon City 1121
5. Senate Committee on Energy  
GSIS Building, Roxas Boulevard  
Pasay City 1307
6. House Committee on Energy  
Batasan Hills, Quezon City 1126
7. The City Mayor  
Olongapo City 2200