

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



IN THE MATTER OF THE APPLICATION  
FOR APPROVAL OF: A) THE REVISED  
X-FACTOR FOR THE SECOND  
REGULATORY PERIOD B) THE  
REVISED SMOOTHED MAXIMUM  
AVERAGE PRICE FOR THE SECOND  
REGULATORY PERIOD AND C) THE  
TRANSLATION INTO DISTRIBUTION  
RATES OF DIFFERENT CUSTOMER  
CLASSES FOR THE THIRD  
REGULATORY YEAR OF THE ERC-  
APPROVED ANNUAL REVENUE  
REQUIREMENT FOR DECORP UNDER  
THE PERFORMANCE BASED  
REGULATION (PBR) FOR THE  
REGULATORY PERIOD 2007-2011

ERC CASE NO. 2009-018 RC

DAGUPAN ELECTRIC CORPORATION  
(DECORP),

Applicant.

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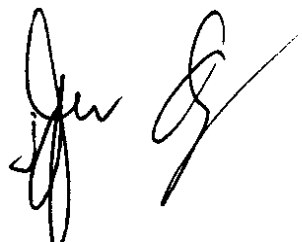
DOCKETED

Date: MAR 29 2010

By: 

**DECISION**

On March 20, 2009, Dagupan Electric Corporation (DECORP) filed an application for approval of: a) the Revised X-Factor for the Second Regulatory Period; b) the Revised Smoothed Maximum Average Price (MAP) for the Second Regulatory Period; and c) the translation into distribution rates of different customer classes for the Third Regulatory Year of the ERC-Approved Annual Revenue Requirement for DECORP under the Performance Based Regulation (PBR) for the Regulatory Period 2007-2011.



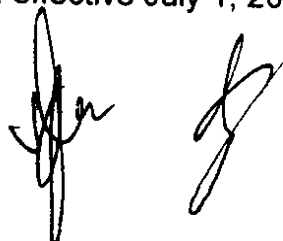
On June 1, 2009, the Commission issued an Order provisionally approving the instant application. The dispositive portion of the said Order is hereunder quoted as follows:

**“WHEREFORE**, the foregoing premises considered, the Commission hereby **PROVISIONALLY APPROVES** the application filed by Dagupan Electric Corporation (DECORP) for approval of: a) the Revised X-Factor for the Second Regulatory Period; b) the Revised Smoothed Maximum Average Price (SMAP) for the Second Regulatory Period; and c) the translation into distribution rates of different customer classes for the Third Regulatory Year of the ERC-Approved Annual Revenue Requirement under the Performance Based Regulation (PBR) for the Regulatory Period 2007- 2011, subject to the foregoing modifications:

1. Revised X-factor of -8.33%;
2. Smoothed Maximum Average Price (SMAP) for the Second Regulatory Period, as follows:

| PARTICULARS | FINAL DETERMINATION | DECORP (Guidelines for RY 2010 Rate Reset) | DIFFERENCE |
|-------------|---------------------|--|------------|
| SMAP 2008   | 1.245               | 1.279                                      | 0.034      |
| SMAP 2009   | 1.354               | 1.429                                      | 0.075      |
| SMAP 2010   | 1.473               | 1.596                                      | 0.123      |
| SMAP 2011   | 1.603               | 1.784                                      | 0.181      |

3. The MAP<sub>2010</sub> of PhP1.5460 limited by the Side Constraints including the S factor of PhP0.0330/kWh;
4. The following revised distribution rate structure for the Regulatory Year 2010, effective July 1, 2009:



|                     |             | Residential Service (R) | General Retail Service (X) | General Power Service (Y) | Bulk Power Service (Z) | Street Lighting Service (S) |
|---------------------|-------------|-------------------------|----------------------------|---------------------------|------------------------|-----------------------------|
| Distribution Charge | PHP/KWH     | 1.3704                  | 0.9745                     | 0.3592                    | 0.2061                 | 2.5916                      |
|                     | PHP/KW      | -                       | -                          | 216.6646                  | 148.3101               | -                           |
| Supply Charge       | PHP/KWH     | 0.2603                  | -                          | -                         | -                      | -                           |
|                     | PHP/CUST/MO | -                       | 33.9403                    | 33.9403                   | 33.9403                | 33.9403                     |
| Metering Charge     | PHP/KWH     | 0.3632                  | -                          | -                         | -                      | -                           |
|                     | PHP/CUST/MO | 5.000                   | 81.8807                    | 918.9307                  | 2,422.6552             | -                           |

5. The revised lifeline levels and the corresponding discounts and subsidy, as follows:

| kWh Consumption   | Level of Discount |
|---|-------------------|
| 0-20  | 100%              |
| 21-30   | 50%               |
| 31-40   | 20%               |
| 41-50   | 5%                |
| <b>Subsidy rate to non-lifeline customers (PhP/kWh)</b> | <b>0.0890</b>     |

In the meantime, DECORP is hereby directed to submit the following documents, within fifteen (15) days from receipt hereof:

- The impact of each of the changes in the parameters as prescribed in the RDWR;
- The estimated under recoveries at the end of RY2010 and RY2011 for each of the Side Constraints options of 10%, 15%, 20% and 25% and its corresponding rate translations;
- A simulation showing the rates and estimated under recoveries, if any, should the approved rates be implemented for a full year (12-month) period; and
- The detailed breakdown of its Related Business Revenue (RBR)."

In compliance with the aforesaid Order, DECORP filed its "Compliance" on July 10, 2009 alleging, among others, the following:

**A. Impact on the Changes in Parameters as Prescribed in the RDWR**

1. Its total annual revenue requirement increased by 7% each from RY 2008 to RY 2010 and 5% for RY 2011.

| PARTICULARS  | RY2008        | RY2009        | RY2010        | RY2011        |
|--|---------------|---------------|---------------|---------------|
| <b>ARR (Final Determination)</b>   |               |               |               |               |
| Return On Capital  | 151.4         | 166.7         | 176.7         | 177.5         |
| OPEX   | 115.5         | 122.6         | 127.7         | 133.3         |
| Regulatory Depreciation  | 57.1          | 63.4          | 66.8          | 70.3          |
| Corporate Income Tax   | 22.5          | 35.2          | 42.7          | 59.9          |
| Other Taxes  | 1.5           | 1.1           | 1.8           | 1.2           |
| <b>Total</b>   | <b>348.09</b> | <b>389.0</b>  | <b>415.8</b>  | <b>442.2</b>  |
| Reduction Imposed by the Commission  | -30.0         | -40.0         | -50.0         | -60.0         |
| Reduction of Corporate Tax Building Block  | 0             | -5.76         | -11.53        | -20.10        |
| <b>Resulting ARR</b>   | <b>318.09</b> | <b>343.20</b> | <b>354.25</b> | <b>362.08</b> |
| <b>Corrections to the Final Determination (ERC Order dated Nov. 28, 2007)</b>        |               |               |               |               |
| Regulatory Intervention (additional)   | -13.4         | -13.3         | -13.3         | -13.3         |
| Reduction of Corporate Tax Building Block  | -1.7          | -5.15         | -4.86         | -5.69         |
| <b>Resulting ARR</b>   | <b>302.99</b> | <b>324.75</b> | <b>336.09</b> | <b>343.09</b> |
| <b>Changes in Parameters</b>   |               |               |               |               |
| Corporate Income Tax (CIT) set to 0  | -20.8         | -24.29        | -26.31        | -34.11        |
| Changes in WACC, Working Capital and CWIP -Adjustment in Return On Capital (Sec. 3c) | 42.6          | 46.96         | 49.78         | 50.11         |
| <b>Resulting ARR</b>   | <b>324.79</b> | <b>347.42</b> | <b>359.56</b> | <b>359.09</b> |
| GSL allowance  | 1.62          | 1.74          | 1.8           | 1.8           |
| <b>Total ARR</b>   | <b>326.41</b> | <b>349.15</b> | <b>361.36</b> | <b>360.89</b> |

2. Its adjusted revenue requirement broken down per building block:

| PARTICULARS                         | RY2008        | RY2009        | RY2010        | RY2011        |
|-------------------------------------|---------------|---------------|---------------|---------------|
| Return On Capital (Sec. 3c)         | 194.09        | 213.66        | 226.48        | 227.61        |
| OPEX                                | 115.5         | 122.6         | 127.7         | 133.3         |
| Regulatory Depreciation             | 57.1          | 63.4          | 66.8          | 70.3          |
| Corporate Income Tax                | 0             | 0             | 0             | 0             |
| Other taxes                         | 1.5           | 1.1           | 1.8           | 1.2           |
| <b>Total</b>                        | <b>368.19</b> | <b>400.76</b> | <b>422.78</b> | <b>432.41</b> |
| Reduction Imposed by the Commission | -43.4         | -53.3         | -63.3         | -73.3         |
| <b>Resulting ARR</b>                | <b>324.79</b> | <b>347.46</b> | <b>359.48</b> | <b>359.11</b> |
| GSL Allowance                       | 1.62          | 1.74          | 1.8           | 1.8           |
| <b>Total</b>                        | <b>326.41</b> | <b>349.15</b> | <b>361.36</b> | <b>360.89</b> |

3. The changes were due to the modification of Weighted Average Cost of Capital (WACC), Working Capital (WC) and Construction Work in Progress (CWIP):

- a) CWIP factor for substation and related projects of 3.6% and other infrastructure of 2.6% were changed to 4.6% and 3.3% respectively. These changes resulted to the adjustment in the calculation of its opening asset base for RY 2008, capital

expenditures from RY 2008 to RY 2011 and computation of the Rolled Forward Regulatory Asset Base.

b) Change in working capital from 3% to 4.9%

| PARTICULARS                           | 2008  | 2009  | 2010  | 2011  |
|---------------------------------------|-------|-------|-------|-------|
| Working Capital                       |       |       |       |       |
| OPEX                                  | 115.5 | 122.6 | 127.7 | 133.3 |
| Per ERC final determination           | 3.47  | 3.68  | 3.83  | 4.00  |
| Per ERC Guidelines RY 2010 Rate Reset | 5.66  | 6.01  | 6.26  | 6.53  |

c) Change in WACC from 12.80% to 16.27%

| PARTICULARS                             | 2008     | 2009     | 2010     | 2011     |
|---|----------|----------|----------|----------|
| Return on Capital                       |          |          |          |          |
| Average RAB (Sec 3a)                    | 1,187.20 | 1,307.19 | 1,386.13 | 1,392.52 |
| Working Capital (Sec 3b)                | 5.66     | 6.01     | 6.26     | 6.53     |
| Capital Invested                        | 1,192.86 | 1,313.11 | 1,392.39 | 1,399.05 |
| Return on Capital (WACC 16.27%)         | 194.09   | 213.66   | 226.48   | 227.61   |
| Return on Capital (Final Determination) | 151.5    | 166.71   | 176.7    | 177.50   |
| Difference                              | 42.6     | 46.9     | 49.78    | 50.1     |

4. The aforesaid changes adjusted the X – factor from –5.37% to –8.33% and the Smoothed Maximum Average Price (SMAP) as follows:

| PARTICULARS                           | 2008  | 2009  | 2010  | 2011  |
|---------------------------------------|-------|-------|-------|-------|
| Per ERC's Final Determination         | 1.245 | 1.354 | 1.473 | 1.603 |
| Per ERC Guidelines RY 2010 Rate Reset | 1.279 | 1.429 | 1.596 | 1.784 |

5. The changes in the weighting of CWI factor from 60/40 to 80/20 ratio between CPI and FOREX has resulted to an adjustment in the CWI used in the computation of MAP 2009 from –1.78% to 1.02%.

#### B. Estimated Over/Under-Recoveries

It calculated its estimated under-recoveries at the end of RY 2010 and RY 2011 for each of the side constraint (SC) options of 7.87%, 10%, 15%, 20%, 25%, 35% and 39.15%, as follows:

| SC Level | Under-Recoveries (PhP) |                | Under-Recoveries (PhP/kWh) |         |
|----------|------------------------|----------------|----------------------------|---------|
|          | RY 2010                | RY 2011        | RY 2010                    | RY 2011 |
| 7.87%    | 213,284,814.23         | 404,914,796.83 | 0.90                       | 1.64    |
| 10%      | 199,124,530.32         | 382,130,787.64 | 0.84                       | 1.55    |
| 15%      | 164,711,470.58         | 325,309,379.84 | 0.69                       | 1.32    |
| 20%      | 128,703,891.47         | 263,682,398.96 | 0.54                       | 1.07    |
| 25%      | 90,887,603.83          | 196,807,506.59 | 0.38                       | 0.80    |
| 35%      | 21,466,514.44          | 57,973,055.02  | .09                        | .23     |
| 39.15%   | 0.00                   | 4,002,493.53   | 0.00                       | 0.02    |

**C. Simulation of the Under-Recoveries**

It submitted a simulation showing the approved rates and the estimated under-recoveries should the rates be implemented for a full year (12-month) period:

| Regulatory Years (RY) | Under-Recovery |         |
|-----------------------|----------------|---------|
|                       | PhP            | PhP/kWh |
| 2008                  | 25,486,250.33  | 0.12    |
| 2009                  | 12,221,534.53  | 0.06    |

**D. Detailed breakdown of DECORP's Related Business Revenue (RBR)**

| Particulars                   | Amount (PhP)        |
|-------------------------------|---------------------|
| Pole rental                   | 7,265,743.22        |
| Service Charge                | 303,348.59          |
| Collection Fee from Sky Cable | 13,024.31           |
| <b>Total</b>                  | <b>7,582,116.12</b> |
| Estimated OPEX (10%)          | (758,211.61)        |
| Tax (35%)                     | (2,388,366.58)      |
| <b>Net Income</b>             | <b>4,435,537.93</b> |
| 50% of net income             | <b>2,217,768.97</b> |

Upon review of the documents submitted, the Commission found that the accumulated under-recoveries of DECORP were due to the fact that it only implemented its consolidated RY 2008 and RY 2009 rates starting October 2008 and its RY 2010 starting July 2009. Said rates were implemented below the twelve (12)-month period per Regulatory Year and subject to side constraint limits.

**WHEREFORE**, the foregoing premises considered, the provisional authority granted to Dagupan Electric Corporation (DECORP) on June 1, 2009 is hereby made **PERMANENT**.

**SO ORDERED.**

Pasig City, March 24, 2010.

  
**ZENAIDA G. CRUZ-DUCUT**  
Chairperson *for*

(Took No Part)

**RAUF A. TAN**  
Commissioner

  
**ALEJANDRO Z. BARIN**  
Commissioner

  
**MARIA TERESA A.R. CASTAÑEDA**  
Commissioner

  
**JOSE C. REYES**  
Commissioner

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5. **House Committee on Energy**  
Batasan Hills, Quezon City 1126
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Dagupan City
7. **The Municipal Mayor**  
San Fabian, Pangasinan
8. **The Municipal Mayor**  
Calasiao, Pangasinan
9. **The Municipal Mayor**  
Sta. Barbara, Pangasinan
10. **The Municipal Mayor**  
San Jacinto, Pangasinan
11. **The Municipal Mayor and Heads of Barangay**  
Barangays Cruz and Bolingit  
San Carlos, Pangasinan
12. **The President**  
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