

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



IN THE MATTER OF THE APPLICATION FOR APPROVAL OF THE TRANSLATION INTO DISTRIBUTION RATES OF DIFFERENT CUSTOMER CLASSES FOR THE FIRST REGULATORY YEAR OF THE ERC-APPROVED ANNUAL REVENUE REQUIREMENT FOR ILIGAN LIGHT AND POWER INC. (ILPI) UNDER THE PERFORMANCE BASED REGULATION (PBR) FOR THE REGULATORY PERIOD 2010-2013

ERC CASE NO. 2009-009 RC

ILIGAN LIGHT AND POWER, INC.
(ILPI),

Applicant.

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DOCKETED
Date: APR 28 2009
By: *[Signature]*

DECISION

Before the Commission for resolution is the application filed on February 9, 2009 by Iligan Light and Power, Incorporated (ILPI) for approval of the translation into distribution rates of its different customer classes for the first regulatory year of the ERC-Approved Annual Revenue Requirement (ARR) under the Performance Based Regulation (PBR) for the regulatory period 2010-2013.

In the said application, ILPI alleged, among others that:

1. Its opening Maximum Average Price (MAP) which was approved by the Commission for the First Regulatory Year of the Second Regulatory Period (MAP₂₀₁₀) as set forth in the Final Determination (FD), and as amended by the Commission's Order dated February 2, 2009 is PhP0.9729/kWh.
2. Based on the said FD, it has converted the MAP₂₀₁₀ into a distribution rate structure as follows:

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ILPI –PROPOSED RATES

Customer Class	Distribution		Supply		Metering		
	PhP/kW	PhP/kWh	PhP/cust./month	PhP/kWh	PhP/Customer/Month		PhP/kWh
					1-Phase Secondary Metered	1-Phase CT Rated/ Primary Metered	
Flat Rate (11)	-	0.9067	32.34	-	-	-	-
Residential (21)	-	0.8059	-	0.2004	30.00	-	0.1323
Commercial (31)	-	0.8108	32.71	-	59.54	795.39	-
General Power (41)	143.98	0.3683	32.34	-	1,478.42	3,899.46	-
Bulk Power (51)	27.95	0.0337	32.34	-	-	4,459.35	-

The conversion was effected in accordance with the Uniform Filing Requirements (UFR), the relevant sections of the Rules of Setting the Distribution Wheeling Rates (RDWR), as amended, and the methodology described in Article V of the Distribution Services and Open Access Rules (DSOAR). It used in its calculations the information contained in the FD of December 15, 2008 and the Order dated February 2, 2009.

- It proposed to change the name of its rate Schedule 41 from "Industrial" to "General Power". Further, in order to reflect the true cost of metering services to its Commercial (31) and the General Power (41), it also proposed to segregate the monthly metering charge as follows:

Rate Schedule	Metering Charge (Customer/Month)
Commercial (31)	Single Phase Metering
	Single Phase CT Rated Metering
General Power (41)	Secondary Metering
	Primary Metering

- The approval of the instant application will allow it to fulfill its obligation under the PBR and avoid irreparable losses, which will ultimately result in the deterioration of its services, to the damage and prejudice of the public in general and its consumers in particular.

Having found said application sufficient in form and in substance with the required fees having been paid, an Order and a Notice of Public Hearing, both dated February 9, 2009, were issued setting the case for initial hearing, expository presentation and pre-trial conference on March 5, 2009 and for evidentiary hearing on March 6, 2009.

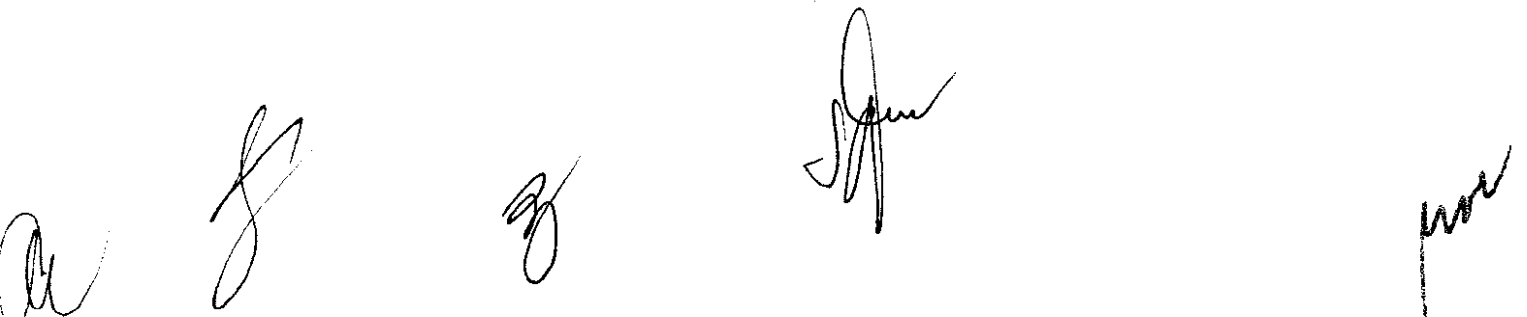
ILPI was directed to cause the publication of the Notice of Public Hearing, at its own expense, twice (2x) for two (2) successive weeks in two (2) newspapers of general circulation in the Philippines, with the date of the last publication to be made not later than ten (10) days before the scheduled date of initial hearing. It was also directed to inform the consumers within its franchise area, by any other means available and appropriate, of the filing of the instant application, its reasons therefor, and of the scheduled hearing thereon.

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

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

On March 3, 2009, ILPI submitted its "Pre-Trial Brief".

During the March 5, 2009 initial hearing of this case, the following entered their appearances: a) Attys. Manuel Torres and Miguel Mathay for ILPI; and b) Dr. Melchora Ambalong and Engr. Norberto Oller for Lanao Power Consumers Federation (LAPOCOF). No other intervenors/oppositors appeared nor were there any other interventions/oppositions registered.

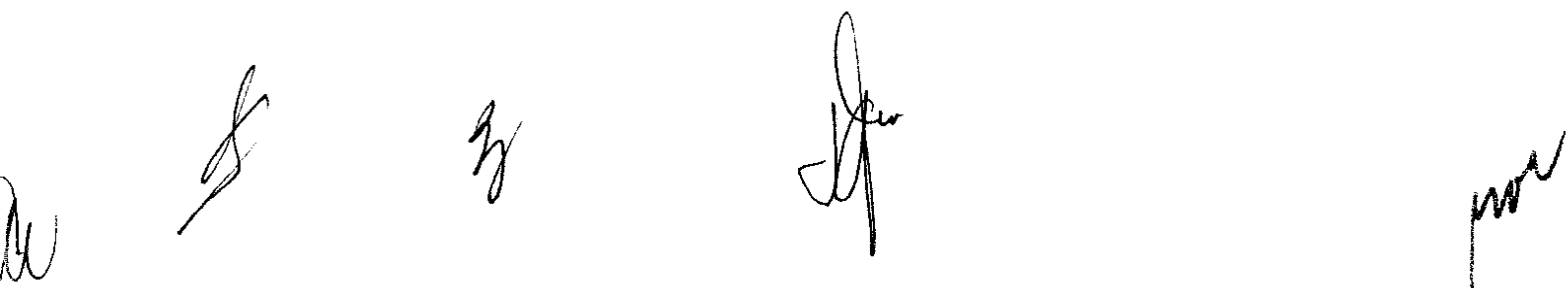


LAPOCOF manifested its intention to participate as an intervenor in the proceedings. The same was duly noted by the Commission.

In the said hearing, ILPI presented its proofs of compliance with the Commission's posting and publication of notice requirements which were duly marked as Exhibits "A" to "K-7", inclusive. Thereafter, it conducted an expository presentation of its application.

At the continuation of the hearing on March 6, 2009, the Commission conducted a pre-trial conference. Thereafter, ILPI presented its lone witness, Ms. Wella L. Villadolid, its Management Services Specialist – Financial, who testified, among others, that: a) the figures used in the determination of ILPI's MAP for the first regulatory year of the regulatory period 2009-2013 as well as the conversion of the same into distribution rates of its different customer classes were all derived from its FD dated December 15, 2008, as amended by the Order dated February 2, 2009, its UFR and the data prescribed in the RDWR; and b) the determination of the MAP for the first regulatory year and its conversion are in accordance with the guidelines and methodology set forth in the UFR, RDWR and DSOAR. In the course of her direct examination, the witness identified various documents in support of the application. Said documents were duly marked as exhibits. At the termination of the direct examination, the witness was lengthily cross-examined by LAPOCOF.

The said witness was, likewise, required to address the clarificatory questions propounded by the Commission.



On March 16, 2009, ILPI filed its "Formal Offer of Exhibits" which is hereby admitted for being relevant and material to the final resolution of this application.

DISCUSSION

In the Order dated February 2, 2009, ILPI was directed to file its application for the translation of its approved MAP for the regulatory year 2010 into distribution rate structures on or before February 6, 2009.

The Commission set ILPI's MAP for the regulatory year 2010 at PhP0.9729/kWh. There is an increase of PhP0.1534/kWh from the existing average distribution rate for 2008 of PhP0.8195/kWh, or 18.72%.

ILPI converted the MAP₂₀₁₀ into distribution rates as follows:

Table 1: ILPI's Proposed Distribution Rate Schedule for the Regulatory Year 2010

	Units	Existing (PhP)	Proposed (PhP)
DISTRIBUTION			
Residential	PhP/kWh	0.6738	0.8059
Commercial	PhP/kWh	0.6738	0.8108
General Power	PhP/kWh	0.3069	0.3683
	PhP/kW	108.94	143.98
Bulk Power	PhP/kWh	0.0281	0.0337
	PhP/kW	13.24	27.95
Flat Rate	PhP/kWh	0.6738	0.9067

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SUPPLY			
Residential	PhP/kWh	0.2079	0.2004
Commercial	PhP/Cust./mo.	31.94	32.71
General Power	PhP/Cust./mo.	31.94	32.34
Bulk Power	PhP/Cust./mo.	31.94	32.34
Flat Rate	PhP/Cust./mo.	31.94	32.34
METERING			
Residential	PhP/kWh	0.1950	0.2952
	PhP/Cust./mo.	5.00	5.00
Commercial	PhP/Cust./mo.	92.57	
1 Phase/Sec metered	PhP/Cust./mo.		59.54
1 Phase CT Rated/Pri. metered	PhP/Cust./mo.		795.39
General Power	PhP/Cust./mo.	2,673.34	
1 Phase/Sec metered	PhP/Cust./mo.		1,478.42
1 Phase CT Rated/Pri. metered	PhP/Cust./mo.		3,899.46
Bulk Power	PhP/Cust./mo.	3,460.72	
1 Phase CT Rated/Pri. metered	PhP/Cust./mo.		4,459.35
Flat Rate	PhP/Cust./mo.	-	
TOTAL AVERAGE RATE		0.8195	0.9729

The ARR is the basis for the derivation of the MAP. ILPI prepared the factors that will functionalize the annual revenue requirement into distribution, supply and metering. It converted the MAP in accordance with the UFR, the relevant sections of the RDWR, as amended, and the methodology described in Article V of the DSOAR.

In the instant application, ILPI proposed to change the name of its Rate Schedule 41 from "Industrial" to "General Power". Further, in order to reflect the true cost of metering services to its Commercial (31) and General Power (41), it also proposed to segregate the monthly metering charge into the following:

Table 2: ILPI's Proposed Change in the Rate Structure

Rate Schedule	Metering Charge (Customer/Month)
Commercial (31)	Single Phase Metering
	Single Phase CT Rated Metering
General Power (41)	Secondary Metering
	Primary Metering

During the hearing, ILPI was directed to submit, among others, its proposed lifeline rate and level. In compliance therewith, on March 16, 2009, it submitted its proposed lifeline structure as follows:

Table 3: ILPI's Proposed Lifeline Level

Existing		Proposed	
kWh	Discount	kWh	Discount
0-40	50%	0-40	50%
41-50	45%	41-50	30%
51-60	40%	51-60	20%
61-70	35%	61-70	0%
71-80	30%	71-80	0%
81-90	20%	81-90	0%
91-100	10%	91-100	0%
Lifeline Subsidy PhP0.1313/kWh		Lifeline Subsidy PhP0.0608/kWh	

ILPI claimed that under the existing 100 kWh threshold level, the rate of subsidy on lifeline by other end-users is PhP0.1313/kWh which is above the PhP0.10/kWh limit prescribed by the Commission. Maintaining this level will extend the lifeline subsidy to about 50% of its total residential customers.

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Further, it claimed that its proposed lifeline levels will maximize the benefit of the discount to the low-income and marginalized end-users. Under the proposed lifeline levels, the lifeline discounts resulted in a subsidy on lifeline by other end-users equivalent to PhP0.0608/kWh. Likewise, the proposed 60 kWh threshold will benefit 30% of its existing residential customers.

1. Translation of MAP₂₀₁₀ Into Distribution Tariffs

The rates applied for by ILPI were thoroughly reviewed and evaluated by the Commission and were found to be in accordance with the FD dated December 15, 2008 and in conformity with the requirements set forth in the RDWR.

In deriving the rates, ILPI adhered to the UFR. The functionalization and allocation factors were reasonably structured and appropriately supported by analysis.

These allocation schedules and the overall rate-calculations were also thoroughly examined by the Commission for accuracy and were found to be acceptable.

2. Side Constraints

ILPI, likewise, provided the Commission with its side constraint calculations, as indicated below:



Computation of Side Constraints on Proposed Maximum Distribution Wheeling Rates

$$\frac{((FCR_{k,t}/FQ_{k,t})-S_t) - ((CR_{k,t-1}/AQ_{k,t-1})-S_{t-1})}{(CR_{k,t-1}/AQ_{k,t-1})-S_{t-1}} \leq (CWI_t + SC_t)$$

$$\leq (CWI_t + 18.50\%)$$

$$\leq 27.90\%$$

Customer Class	$(FCR_{k,t}/FQ_{k,t})-S_t$	$(CR_{k,t-1}/AQ_{k,t-1})-S_{t-1}$	% Increase	
Flat Rate	0.7907	0.6655	18.81%	Within Side Constraints
Residential	1.2221	1.0946	11.64%	Within Side Constraints
Commercial	0.9192	0.8478	8.42%	Within Side Constraints
General Power	0.7220	0.7225	-0.07%	Within Side Constraints
Bulk Power	0.0967	0.0628	53.93%	Side Constraints Breached
Total	0.8969	0.7909	13.40%	Within Side Constraints

Customer Class	$FCR_{k,t}$	$FQ_{k,t}$	S_t	$(FCR_{k,t}/FQ_{k,t})-S_t$
Flat Rate	913,904.39	1,155,798.47	0	0.7907
Residential	90,593,816.39	74,131,417.59	0	1.2221
Commercial	51,506,597.65	56,036,452.09	0	0.9192
General Power	12,317,162.84	17,060,034.07	0	0.7220
Bulk Power	2,687,790.45	27,799,761.32	0	0.0967
Total	158,019,271.73	176,183,463.53	-	0.8969

Customer Class	$CR_{k,t-1}$	$AQ_{k,t-1}$	S_{t-1}	$(CR_{k,t-1}/AQ_{k,t-1})-S_{t-1}$
Flat Rate	805,456.03	1,210,291.20	0	0.6655
Residential	75,850,814.11	69,293,180.88	0	1.0946
Commercial	45,338,464.68	53,478,810.38	0	0.8478
General Power	12,288,449.63	17,008,481.20	0	0.7225
Bulk Power	1,963,954.54	31,267,116.00	0	0.0628
Total	136,247,138.98	172,257,879.66	-	0.7909

In terms of the RDWR, side constraints apply to annual rate increases for any single rate category. This is based on the CWI-factor and an allowance made in the FD. ILPI calculated the increase limit for the regulatory year 2010 rates at the CWI plus 18.5%, which the Commission allowed in the said FD.

The Commission made a simulation of ILPI's distribution rates for regulatory year 2010, taking into consideration the side constraints limitation, as follows:

Table 4: Distribution Rate Structures (With and Without Side Constraints)

	Units	Existing (PhP) (a)	No side constraint (RY 2010) (PhP) (b)	With side constraint (RY 2010) (PhP) (c)	Increase/ (Decrease) (b-a)
DISTRIBUTION					
Residential	kWh	0.6738	0.8059	0.8059	0.1321
Commercial	kWh	0.6738	0.8108	0.8108	0.1370
General Power	kWh	0.3069	0.3683	0.3683	0.0614
	kW	143.98	143.98	143.98	-
Bulk Power	kWh	0.0281	0.0337	0.0337	0.0056
	kW	13.24	27.95	22.43	14.71
Flat Rate	kWh	0.6738	0.9067	0.9067	0.2329
SUPPLY					
Residential	kWh	0.2079	0.2004	0.2004	-0.0075
Commercial	Cust.	31.94	32.71	32.71	0.7700
General Power	Cust.	31.94	32.34	32.34	0.4000
Bulk Power	Cust.	31.94	32.34	32.34	0.4000
Flat Rate	Cust.	31.94	32.34	32.34	0.4000
METERING					
Residential	kWh	0.1950	0.2952	0.2952	0.1002
	Cust.	5.00	5.00	5.00	-
Commercial	Cust.	92.57	-	-	762.36
1-Phase/Sec.Metered	Cust.	-	59.54	59.54	-
1-Phase CT Rated/Prim Metered	Cust.	-	795.39	795.39	-
General Power	Cust.	2,673.34	-	-	2,704.54
1-Phase/Sec.Metered	Cust.	-	1,478.42	1,478.42	-
1-Phase CT Rated/Prim Metered	Cust.	-	3,899.46	3,899.46	-
Bulk Power	Cust.	3,460.72	4,459.35	4,459.35	998.63
Flat Rate	Cust.	-	-	-	-
AVERAGE TOTAL RATE	kWh	0.8195*	0.9729	0.9703	0.1534


Note: *As per ILPI application using its actual revenue based on sample bills from October 2007 to September 2008 divided by the historical sales from October 2007 to March 2008 and forecast sales from April 2008 to September 2008

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Adhering with the side constraints effectively reduces the MAP_{2010} by PhP0.0026/kWh after a breach thereof for the bulk power customers. The difference between MAP_{2010} of PhP0.9729/kWh and existing rate of PhP0.8195/kWh is PhP0.1534/kWh or 18.72%.

Based on the documents submitted, it was disclosed that ILPI's proposed rate for the bulk power customers has breached the side constraints set by the Commission in the FD. Consistent with Section 6.4.2 of the RDWR, the Commission is allowed to relax the side constraints in order to mitigate future under/over recoveries considering also that it already imposed a Regulatory Intervention under the Final Determination.

While the RDWR provides flexibility in expeditiously adjusting rates between regulatory resets, the Commission, however, is constrained to ensure that use of such flexibility is in accordance with the policies set forth in the EPIRA, particularly, all DUs shall only charge rates that reflect the cost-based unbundled structure provided in the UFR. At no time may costs or revenues that should be recovered from one unbundled function be shifted unto other unbundled functions. The rate design shall be free from inter-class subsidies. That is, costs or revenues that should be recovered from one customer segment shall not intentionally be shifted unto other customer segments. Thus, the side constraints set forth in Section 4.21 of the RDWR shall not be used to justify the shifting of revenues from one customer segment to other customer segments.



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3. Lifeline Rate and Level

ILPI proposed a modification in its existing lifeline structure by removing the discounts for customers consuming 61 kWh and above.

In computing the lifeline rates, the Commission made reference to its earlier Decision dated November 10, 2008 in ERC Case No. 2008-016 RC [In the Matter of the Application for Approval of the New Lifeline Rate for the Marginalized End-Users in Accordance with the Provisions of Sections 43(j) and 73 of Republic Act No. 9136 and the Implementing Rules and Regulations, Bureau of Trade Regulation and Consumer Protection – Department of Trade and Industry – Applicant] wherein it took cognizance of the fact that the public is in for hard times in view of the pervading global financial crises. It, likewise, recognized its mandate to protect the interest of the consumers insofar as they are affected by the rates. Consequently, it decided to grant a one hundred percent (100%) discount to Residential customers consuming 0-20 kWh and maintain the level of kWh consumption threshold so that no customer previously enjoying a discount would be deprived thereof as a result of the new lifeline structure.

Thus, the Commission deems it necessary to modify ILPI's lifeline structure.

For purposes of determining the lifeline consumption thresholds and corresponding discounts for ILPI, the Commission made a comparison between ILPI's unbundled and proposed rates, as follows:

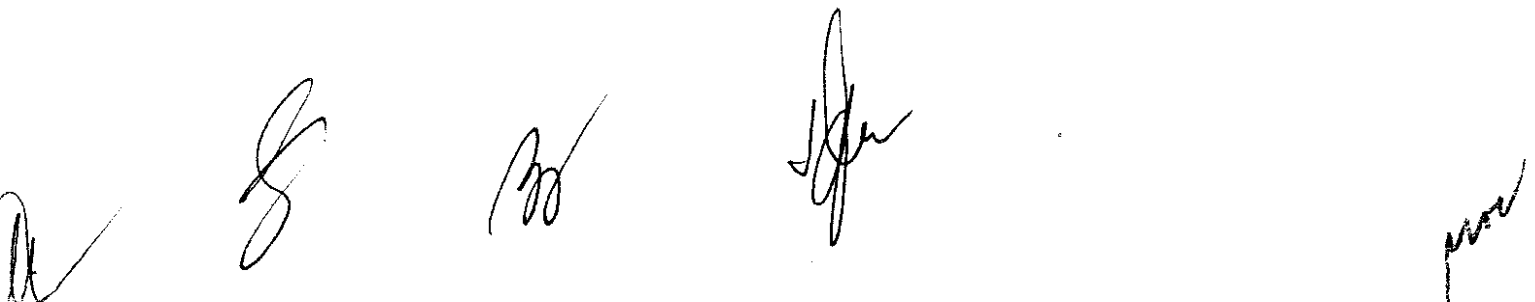
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Table 5: Lifeline Rate and Level

	Per Approved Unbundled Rates	Per Proposed	Approved Consumption Threshold and Discount Levels	
kWh Consumption	Level of Discount		kWh Consumption	Level of Discount
40 and below	50%	50%	0-20	100%
41 to 50	45%	30%	21-30	50%
51-60	40%	20%	31-40	40%
61-70	35%	0	41-50	30%
71-80	30%	0	51-60	20%
81-90	20%	0	61-70	10%
91-100	10%	0	71-80	5%
			81-90	5%
			91-100	5%
Subsidy Rate to Non-Lifeline Customers	PhP0.0096/kWh	PhP0.0608/kWh	Subsidy Rate to Non-Lifeline Customers	PhP0.0878/kWh

With the implementation of the new lifeline structure, Residential customers of ILPI consuming 0-20 kWh per month will enjoy a one hundred percent (100%) discount in their rates, subject only to the payment of a PhP5.00/month metering charge.

WHEREFORE, the foregoing premises considered, the application for approval of the translation into distribution rates of its different customer classes for the first regulatory year of the ERC-approved annual revenue requirement under the Performance Based Regulation (PBR) for the Regulatory Period 2010-2013 filed by Iligan Light and Power, Incorporated (ILPI) is hereby **APPROVED** with modification.

Accordingly, ILPI is hereby directed to implement, starting May 1, 2009, its approved Distribution, Supply and Metering Charges shown as follows:

	Units	Approved Rates for the Regulatory Year 2010 (PhP)
DISTRIBUTION		
Residential	PhP/kWh	0.8059
Commercial	PhP/kWh	0.8108
General Power	PhP/kWh	0.3683
	PhP/kW	143.98
Bulk Power	PhP/kWh	0.0337
	PhP/kW	22.43
Flat Rate	PhP/kWh	0.9067
SUPPLY		
Residential	PhP/kWh	0.2004
Commercial	PhP/Cust./Month	32.71
General Power	PhP/Cust./Month	32.34
Bulk Power	PhP/Cust./Month	32.34
Flat Rate	PhP/Cust./Month	32.34
METERING		
Residential	PhP/kWh	0.2952
	PhP/Cust./Month	5.00
Commercial	PhP/Cust./Month	
1 Phase/Sec. Metered	PhP/Cust./Month	59.54
1 Phase CT Rated/ Primary Metered	PhP/Cust./Month	795.39
General Power	PhP/Cust./Month	
1Phase/Sec. Metered	PhP/Cust./Month	1,478.42
1Phase CT Rated/ Primary Metered	PhP/Cust./Month	3,899.46
Bulk Power	PhP/Cust./Month	
1Phase CT Rated/ Primary Metered	PhP/Cust./Month	4,459.35
Flat Rate	PhP/Cust./Month	-
AVERAGE TOTAL RATE	PhP/kWh	0.9729

ILPI is further directed to implement its revised lifeline levels and corresponding discounts and subsidy, as follows:

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kWh Consumption	Level of Discount
0-20	100%
21-30	50%
31-40	40%
41-50	30%
51-60	20%
61-70	10%
71-80	5%
81-90	5%
91-100	5%
Subsidy Rate to Non-Lifeline Customers (PhP/kWh)	PhP0.0878/kWh

SO ORDERED.

Pasig City, March 30, 2009.


ZENAIDA G. CRUZ-DUCUT
Chairperson


RAUF A. TAN
Commissioner


ALEJANDRO Z. BARIN
Commissioner


MARIA TERESA R. CASTAÑEDA
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