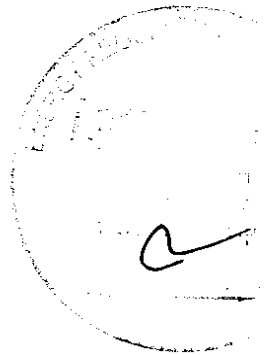


Republic of the Philippines
ENERGY REGULATORY COMMISSION
San Miguel Avenue, Pasig City



IN THE MATTER OF THE APPLICATION FOR (A) APPROVAL OF THE INCREASE IN CAPITAL STOCKS FROM FIFTY MILLION (PHP50,000,000.00) TO TWO HUNDRED MILLION PESOS (PHP200,000,000.00) AND (B) AUTHORITY TO ISSUE THE CORRESPONDING STOCK CERTIFICATES REPRESENTING THE INCREASE IN CAPITAL STOCKS

ERC CASE NO. 2009-115 MC

TARLAC ELECTRIC, INC. (TEI),
Applicant.

x-----x

DOCKETED
Date: JUL 28 2010
By: [Signature]

DECISION

Before the Commission for resolution is the application filed by Tarlac Electric, Inc. (TEI) on November 27, 2009 for (a) approval of the increase in capital stocks from Fifty Million Pesos (PhP50,000,000.00) to Two Hundred Million Pesos (PhP200,000,000.00) and (b) authority to issue the corresponding stock certificates representing the increase in capital stocks.

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 January 18, 2010, were issued setting this case for initial hearing on February 10, 2010.

In the same Order, TEI was directed to cause the publication of the Notice of Public Hearing, at its own expense, once (1x) in a newspaper of general

circulation in the Philippines, 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 Mayor of Tarlac City was furnished copies of the Order and Notice of Public Hearing for the appropriate posting thereof on its bulletin board.

On February 5, 2010, TEI filed its "*Pre-Trial Brief*".

During the February 10, 2010 initial hearing of this case, only TEI appeared. No intervenor/oppositor appeared nor was there any intervention/opposition registered.

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

At the termination of the expository presentation, TEI presented its lone witness, Ms. Floriza D. Forlales, its Chief Accountant, who testified, among others, on the following: a) her duties and responsibilities; b) the value of the



increase in capital stocks; c) the approval of its stockholders, Board of Directors and Securities and Exchange Commission (SEC); d) the total cost of capital expenditure projects; and e) the justifications for the increase in the capital stocks.

In the course of her direct examination, additional documents were presented and duly marked as exhibits. The direct examination having been terminated, the Commission propounded clarificatory questions on the said witness.

On March 5, 2010, TEI filed its "*Formal Offer of Evidence (FOE)*" which is hereby admitted for being relevant and material in the final resolution of the case.

DISCUSSION

During TEI's stockholders meeting held on April 18, 2008, its stockholders approved an increase in the corporation's authorized common capital stock from PhP50,000,000.00 to PhP200,000,000.00. The number of shares of its common capital stock is 200,000 with a par value share of PhP1,000.00 or roughly PhP200,000,000.00. In the net increase of PhP150,000,000.00, PhP40,000,000.00 have been subscribed and paid in cash by its subscribers.

TEI manifested that the increase in its authorized capital stock is necessary to finance the future expansion, upgrading, system loss reduction of its distribution system due to the increasing energy demand and compliance with the requirements of the Philippine Grid Code (PGC) and the Philippine Distribution Code (PDC).



As part of its justification, TEI submitted its proposed capital expenditure projects with a total cost of approximately PhP44 Million for the Regulatory Year June 30, 2010 to June 30, 2011. The increase in its capital stocks shall be utilized as follows:

Year	Labor (PhP)	Materials (PhP)	Total (PhP)
2010	5,184,000	13,062,000	18,246,000
2011	3,323,000	22,233,000	25,556,000
Total	8,507,000	35,295,000	43,802,000

The New Estimated Weighted Average Cost of Capital (WACC) of TEI

In its approved unbundled rates, TEI's Rate of Return on Rate Base (RORB) was calculated based on 11.60% WACC as of December 31, 2003. As of December 31, 2009, its updated WACC increased by 1.74% (13.34%-11.60%). Shown below is TEI's updated WACC:

Component	Amount as of 12/31/2009 (PhP)	Component as % of Total	Component Cost of Capital	Weighted Cost of Capital
Long-Term Debt				
DBP	32,142,672.08	9.49%	7.88%	0.75%
Notes Payable				
UCPB	15,000,000.00	4.43%	9.92%	0.44%
DBP	60,780,275.84	17.94%	7.88%	1.41%
MBTC	10,000,000.00	2.95%	5.34%	0.16%
Total Debt	117,922,947.92	34.81%	-	2.76%
Common Equity	20,857,973.26	65.19%	12.00%	7.82%
Total	338,780,921.18	100.00%	-	13.34%

Rate Impact of the Increase in Capital Stock

In June 2009, TEI filed an application for its forecasted capital expenditure projects that include operating and maintenance expenditures for the years 2010 to 2014 pursuant to the Performance Based Regulation (PBR).

Under the PBR, the actual capitalization of the distribution utility shall not be considered for rate making purposes except the regulatory WACC. In the case of TEI, its regulatory WACC is computed on a group basis set at 15.01% annually to be used during the Regulatory Period. Any change in its capital structure (equity or number of shares of stocks included) will not have any impact on its rates.

A perusal of the evidence presented herein showed that the increase of TEI's capital stock from PhP50 Million to PhP200 Million would redound to the benefit of its consumers in terms of continuous, reliable and efficient power supply as mandated by Republic Act No. 9136, or the Electric Power Industry Reform Act of 2001 (Section 2. Declaration of Policy – (b) *“to ensure the quality, reliability, security and affordability of the supply of electric power”*).

WHEREFORE, the foregoing premises considered, the application for (a) approval of the increase in capital stocks from Fifty Million Pesos (PhP50,000,000.00) to Two Hundred Million Pesos (PhP200,000,000.00) and (b) authority to issue the corresponding stock certificates representing the increase in capital stocks filed by Tarlac Electric, Inc. (TEI) is hereby **APPROVED**.




Relative thereto, TEI is hereby directed to pay a permit fee, within thirty (30) days from receipt hereof, in the amount of **One Million One Hundred Twenty Five Thousand Pesos (PhP1,125,000.00)**, computed as follows:

$$\frac{\text{PhP150,000,000.00}}{\text{PhP100.00}} \times \text{PhP0.75} = \text{PhP1,125,000.00}$$

Further, TEI is directed submit, within one (1) month from receipt hereof, a schedule of disbursements actually incurred and drawn from the proceeds of the increase in its capital stock heretofore authorized.

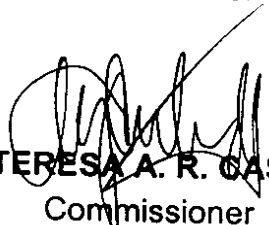
SO ORDERED.


Pasig City, June 21, 2010.


ZENAIDA G. CRUZ-DUCUT
Chairperson *gmdr*

(On Official Travel)
RAUF A. TAN
Commissioner


ALEJANDRO Z. BARIN
Commissioner


MARIA TERESA A. R. CASTAÑEDA
Commissioner


JOSE C. REYES
Commissioner

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4. **Commission on Audit**
Commonwealth Avenue
Quezon City, Metro Manila
5. **Senate Committee on Energy**
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Metro Manila
6. **House Committee on Energy**
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7. **Office of the President of PCCI**
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8. **The City Mayor**
Tarlac City, Province of Tarlac