

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 SECOND REGULATORY YEAR OF THE ERC-APPROVED ANNUAL REVENUE REQUIREMENT FOR MACTAN ELECTRIC COMPANY, INCORPORATED (MECO) UNDER THE PERFORMANCE BASED REGULATION (PBR) FOR THE REGULATORY PERIOD 2009-2013

ERC CASE NO. 2009-175 RC

MACTAN ELECTRIC COMPANY,  
INCORPORATED (MECO),

Applicant.

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Date: MAR 03 2010  
By: [Signature]

**DECISION**

Before the Commission for resolution is the application filed on December 10, 2009 by Mactan Electric Company, Incorporated (MECO) for approval of the translation into distribution rates of its different customer classes for the second regulatory year of the ERC-approved annual revenue requirement under the Performance Based Regulation (PBR) for the regulatory period 2009-2013.

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

1. It is a corporation duly organized and existing under and by virtue of the laws of the Philippines, with principal office at Sangi Road, Pajo, Lapu-lapu City, Cebu. It is the exclusive franchise holder issued by Congress of the Philippines to operate an electric light and power services in the City of Lapu-lapu and Municipality of Cordova, both in the Province of Cebu.

Four handwritten signatures in black ink, arranged horizontally at the bottom of the page.

2. Guided by the Rules for Setting Distribution Wheeling Rates (RDWR), as amended, it has calculated the Maximum Average Price (MAP) for the Second Regulatory Year (RY2011) of the Second Regulatory Period to be PhP1.0149/kWh with a X-factor of 2.44%. The resulting MAP for 2011 is shown without the application of side constraints.
3. Based on the Final Determination of December 15, 2008 and the Order of February 2, 2009, it has converted the MAP<sub>2011</sub> into a distribution rate structure as follows:

**MECO – Proposed Rates**

Customer Class	Average Rate (PhP/kWh)	Distribution		Supply			Metering	
		PhP/kW	PhP/kWh	PhP/mo.	PhP/kW	PhP/kWh	PhP/mo.	PhP/kWh
Residential	1.26616		0.72880			0.24097	5.00000	0.26213
Non- Residential 230 V customer	1.04792		0.72895	175.98198			45.05251	
13.8 kV cust. w/ less than 1 MW demand	0.82724	145.58284	0.22000		114.79414		195.04146	
13.8 kV cust. w/ more than 1 MW demand	0.70178	119.65760	0.20000		98.35429		2,750.58399	
<b>MAP<sub>2011</sub></b>	<b>1.01489</b>							

The conversion was effected in accordance with the Uniform Filing Requirements (UFR), the relevant sections of the RDWR, as amended, and the methodology described in Article V of the Distribution Services and Open Access Rules (DSOAR).

4. The Side Constraint Calculation for the Second Regulatory Period which was approved by the Commission is  $CWI_t + SC_t$ . The value of  $SC_{2011}$  is 24.76% while the  $CWI_{2011}$  has been calculated to be 3.65%. It has calculated these values in accordance with the RDWR, as amended.
5. It has verified that the resulting MAP<sub>2011</sub> and the converted distribution rates from said MAP<sub>2011</sub> would not breach the Side Constraint Value for RY2011:

**Computation of Side Constraints on Proposed Distribution Rates**

Customer Class	$(FCR_{k,t}/FQ_{k,t})-S_t$	$(CR_{k,t-1}/AQ_{k,t-1})-S_{t-1}$	% Increase	
230 V customers - Residential	1.2662	1.2082	4.79%	Within Side Constraints
230 V customers - Comm, PB, and SL	1.0479	1.0095	3.80%	Within Side Constraints
13.8 kV customers w/ load less than 1 MW	0.8272	0.7824	5.73%	Within Side Constraints
13.8 kV customers w/ load greater than 1MW	0.7018	0.6405	9.56%	Within Side Constraints
<b>Total</b>	<b>1.0149</b>	<b>0.9426</b>	<b>7.67%</b>	Within Side Constraints

6. The approval of the application will allow it to fulfill its obligations under the PBR, to implement in a timely manner its capital expenditure program and its operating and maintenance programs for the Second Regulatory Period, specifically for the RY2011, 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.

7. Thus, it prayed that:

7.1 After due notice and hearing, the instant application be approved; and

7.2 It be authorized to adopt and implement the proposed distribution rate structure, as follows:

Customer Class	Average Rate (PhP/kWh)	Distribution		Supply			Metering	
		PhP/kW	PhP/kWh	PhP/mo.	PhP/kW	PhP/kWh	PhP/mo.	PhP/kWh
Residential	1.26616		0.72880			0.24097	5.00000	0.26213
Non- Residential 230 V customer	1.04792		0.72895	175.98198			45.05251	
13.8 kV cust. w/ less than 1 MW demand	0.82724	145.58284	0.22000		114.79414		195.04146	
13.8 kV cust. w/ more than 1 MW demand	0.70178	119.65760	0.20000		98.35429		2,750.58399	
<b>MAP<sub>2011</sub></b>	<b>1.01489</b>							

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 December 15, 2009, were issued setting the case for initial hearing, expository presentation, pre-trial conference and evidentiary hearing on January 12, 2010.

MECO 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 Offices of the City Mayor of Lapu-Lapu City, the Municipal Mayor of Cordova and the Provincial Governor of Cebu were furnished with copies of the Order and the Notice of Public Hearing for the appropriate posting thereof on their respective bulletin boards.

On January 7, 2010, MECO submitted its "Pre-Trial Brief".

During the January 12, 2010 initial hearing of this case, only MECO appeared. No intervenor/oppositor appeared nor was there any intervention/opposition registered.

In the said hearing, MECO presented its proofs of compliance with the Commission's posting and publication of notice requirements which were duly marked as Exhibits "A" to "O-21-A", inclusive. Thereafter, it conducted an expository presentation of its application.

Subsequently, the Commission conducted a pre-trial conference.



At the termination of the pre-trial conference, MECO presented its lone witness, Engr. Juanito O. Tolentino, Jr., System Data Administrator, who testified, among others, that: a) the figures used in the determination of MECO's MAP for the second 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 Final Determination 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 second regulatory year and its conversion are in accordance with the guidelines and methodology set forth in the RDWR, UFR and DSOAR.

In the course of his direct examination, the witness identified various documents in support of the application. Said documents were duly marked as exhibits.

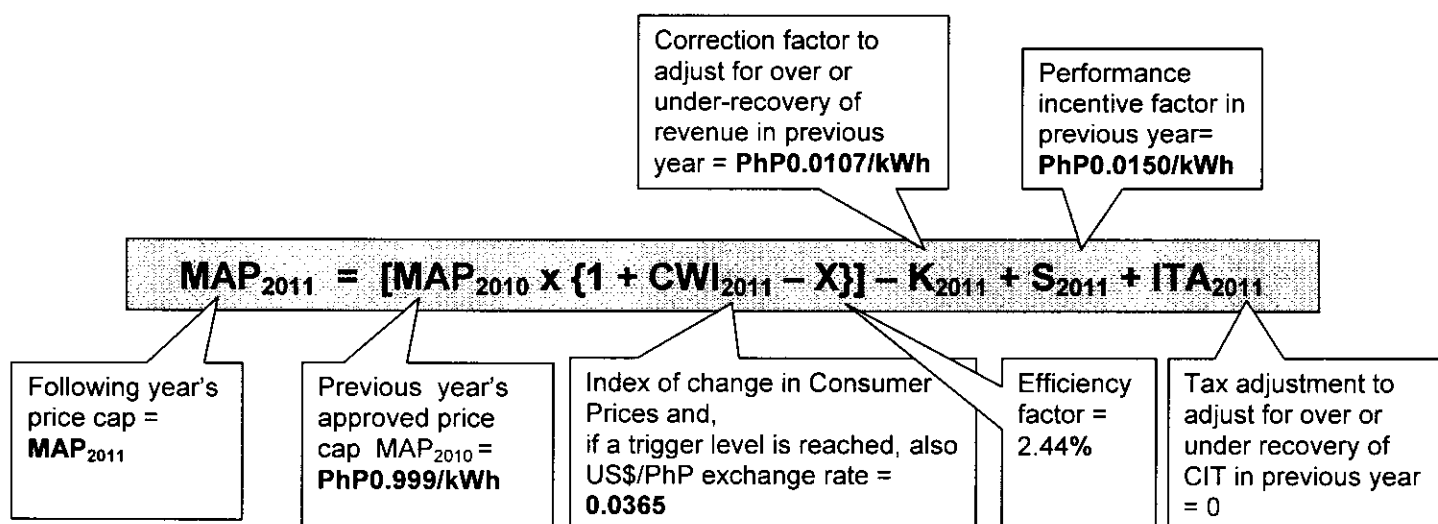
The said witness likewise, addressed the clarificatory questions propounded by the Commission.

On January 27, 2010, MECO filed its "Formal Offer of Exhibits" which is hereby admitted for being relevant and material in the final resolution of this application.

## DISCUSSION

Pursuant to Section 4.2 of the RDWR and the price cap formula, MECO computed its MAP<sub>2011</sub> at PhP1.0149/kWh, as follows:





The following values were determined as shown in Schedule A of the instant application:

- a. Maximum Average Price cap for previous year (MAP<sub>2010</sub>);
- b. Change in Weighted Index (CWI<sub>t</sub>);
- c. Efficiency Factor (X);
- d. Over / Under Recovery from the previous year (K<sub>t</sub>);
- e. Performance Incentive Factor (S<sub>t</sub>); and
- f. Income Tax Adjustment (ITA<sub>t</sub>).

The ITA<sub>2011</sub> is set at zero (0) in accordance with Clause 4.4.3 of the updated RDWR. Thus, applying the foregoing, the determination of MAP<sub>2011</sub> is shown below:

$$\text{MAP}_{2011} = [\text{MAP}_{2010} \times \{1 + \text{CWI}_t - X\}] - K_t + S_t$$

$$\text{MAP}_{2011} = [0.9985 \times \{1 + 0.0365 - 0.0244\}] - 0.0107 + 0.0150$$

$$\text{MAP}_{2011} = [\text{PhP1.0106}] - 0.0107 + 0.0150$$

$$\text{MAP}_{2011} = \text{PhP1.0149/kWh}$$

The annual adjusted MAP for a regulatory year, in terms of the RDWR, is an adjustment of the MAP for the previous regulatory year, taking into account the following factors:

- a. The X-factor as determined by the Commission;
- b. The Philippine CPI for the previous measurement period;
- c. The US CPI for the previous measurement period;
- d. The US\$/PhP exchange rate for the previous measurement period;
- e. The performance incentive factor (S-factor) for the previous measurement period; and
- f. The under or over-recovery in rates over the previous measurement period (the  $K_t$ -factor).

These factors were calculated by MECO and reviewed by the Commission. It is worth mentioning that all of MECO's calculations were carried out in accordance with the RDWR.

**1.  $MAP_{2011}$**

As a result of the revised Smoothed MAP (SMAP) for the Second Regulatory Period, there is a need to determine the MAP for regulatory year 2011, considering the resulting under-recoveries from the previous regulatory years.

The Commission calculated the  $MAP_{2011}$  using the prescribed formula of  $MAP_{2011} = [MAP_{2010} \times \{1 + CWI_t - X\}] - K_t + S_t$  and arrived at an amount of PhP1.0149/kWh.



The Commission finds MECO's calculated MAP<sub>2011</sub> reasonable and consistent with the RDWR. MECO used the same values of economic indices consistent with the values published by the Bangko Sentral ng Pilipinas (BSP) for the CPI and US exchange rate (USER) data and the US Bureau of Labor Statistics (US-BLS) for the USCPI data.

**2. Side Constraints**

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 Final Determination. MECO calculated the increase limit for the regulatory year 2011 rates at the CWI plus 21.11%, which was allowed by the Commission in the Final Determination.

Shown below is a comparison of the impact per customer class between MECO's current rates from the computed MAP<sub>2011</sub>:

Customer Class	Units	MECO's Current Rates (PhP) (a)	Commission's Computed Rates for Regulatory Year 2011 (PhP) (b)	Increase/ (Decrease) (PhP) (b - a)
<b>DISTRIBUTION</b>				
Customers connected to 230 V				
Residential	kWh	0.7264	0.7288	0.0024
Commercial	kWh	0.7211	0.7289	0.0078
Public Buildings	kWh	0.7211	0.7289	0.0078
Streetlights	kWh	0.7211	0.7289	0.0078
Customers connected to 13.8 kV				
Industrial with less than 1 MW demand	kWh	0.2200	0.2200	0
	kW	142.58	145.58	3.00
Bulk Power with more than 1 MW demand	kWh	0.2000	0.2000	0
	kW	151.17	119.66	(31.51)

Customer Class	Units	MECO's Current Rates (PhP) (a)	Commission's Computed Rates for Regulatory Year 2011 (PhP) (b)	Increase/ (Decrease) (PhP) (b - a)
<b>SUPPLY</b>				
Customers connected to 230 V				
Residential	kWh	0.2252	0.2410	0.0158
Commercial	Cust.	155.74	175.98	20.24
Public Buildings	Cust.	155.74	175.98	20.24
Streetlights	Cust.	155.74	175.98	20.24
Customers connected to 13.8kV				
Industrial with less than 1 MW demand	kW	98.14	114.79	16.65
Bulk Power with more than 1 MW demand	kW	98.28	98.35	0.070
<b>METERING</b>				
Customers connected to 230 V				
Residential	kWh	0.2554	0.2621	0.0067
	Cust.	5.00	5.00	0
Commercial	Cust.	43.68	45.05	1.37
Public Buildings	Cust.	43.68	45.05	1.37
Streetlights	Cust.	43.68	45.05	1.37
Customers connected to 13.8kV				
Industrial with less than 1 MW demand	Cust.	183.83	195.04	11.21
Bulk Power with more than 1 MW demand	Cust.	3,380.29	2,750.58	(629.71)
<b>AVERAGE TOTAL RATE</b>	<b>kWh</b>	<b>0.999</b>	<b>1.0149</b>	<b>0.0159</b>

The Commission verified MECO's proposed rates for all customer classes to determine if the said rates are within side constraints provided in the Final Determination. Results showed said rates are within the prescribed side constraints.

**3. Performance Incentive Factor ( $S_{2011}$ )**

MECO calculated the S factor in accordance with the formula under Section 10.3.3 of the Position Paper. It claimed for a net incentive performance reward of PhP0.0150/kWh, applicable for the regulatory year 2011.

The Commission verified the same and found that it is consistent with the target bands set by the Commission in the Final Determination used in computing the reward for the performance indices.

It is interesting to note that the quality of performance is above target levels. This is an additional benefit. Further, there are no excluded events considered in accordance with the Institute of Electrical and Electronics Engineers (IEEE) 2.5 Beta method adopted by the Commission.

Consistent with the RDWR, the Commission agrees that the S factor should not be subject to side constraints to allow MECO to retain the incentive to improve its performance. After applying the approved side constraints, the S factor should be added to the MAP thereafter. MECO has adopted the foregoing in its calculations.

#### **4. MAP<sub>2011</sub> Translation Into Distribution Tariffs**

The rates applied for by MECO were thoroughly evaluated by the Commission and were found to be in accordance with the Final Determination and in conformity with the requirements of the RDWR.

MECO strictly adhered to the Commission's UFR. The functionalization and allocation factors were well-structured, well-founded and supported by detailed analyses.



The rate schedule below was recalculated by the Commission using the approved MAP<sub>2011</sub> of PhP1.0149/kWh:

Customer Class	Average Rate (PhP/kWh)	Distribution		Supply			Metering	
		PhP/kW	PhP/kWh	PhP/mo.	PhP/kW	PhP/kWh	PhP/mo.	PhP/kWh
Residential	1.2662		0.7288			0.2410	5.00	0.2621
Non- Residential 230 V customer	1.0479		0.7289	175.98			45.05	
13.8 kV customer with less than 1 MW demand	0.8272	145.58	0.2200		114.79		195.04	
13.8 kV customer with more than 1 MW demand	0.7018	119.66	0.2000		98.35		2,750.58	
<b>MAP<sub>2011</sub></b>	<b>1.0149</b>							

Shown below is the rate impact of the approved rates from the current rates of MECO for each of its customer classes. The overall increase over the existing rate of PhP0.9990/kWh as compared with the approved MAP<sub>2011</sub> of PhP1.0149/kWh is PhP0.0159/kWh or 1.60%.

Customer Class	Current Average Rate (PhP/kWh)	Approved Average Rate (PhP/kWh)	Increase/ (Decrease) (PhP/kWh)
Residential	1.2416	1.2662	0.0246
230 V Customers	1.0094	1.0479	0.0385
13.8 kV Customers with less than 1 MW Demand	0.7850	0.8272	0.0422
13.8 kV Customers with more than 1 MW Demand	0.7777	0.7018	-0.0759
<b>TOTAL</b>	<b>0.9990</b>	<b>1.0149</b>	<b>0.0159</b>

**WHEREFORE**, the foregoing premises considered, the application for approval of the translation into distribution rates of its different customer classes for the second regulatory year of the ERC-approved annual revenue requirement under the Performance Based Regulation (PBR) for the regulatory period 2009-2013 filed by Mactan Electric Company, Incorporated (MECO) is hereby **APPROVED**.

Accordingly, MECO is hereby directed to implement, effective its April 2010 billing period, the approved Distribution, Supply and Metering Charges, as follows:

Customer Class	Average Rate (PhP/kWh)	Distribution		Supply			Metering	
		PhP/kW	PhP/kWh	PhP/mo.	PhP/kW	PhP/kWh	PhP/mo.	PhP/kWh
Residential	1.2662		0.7288			0.2410	5.00	0.2621
Non- Residential 230 V customer	1.0479		0.7289	175.98			45.05	
13.8 kV customer with less than 1 MW demand	0.8272	145.58	0.2200		114.79		195.04	
13.8 kV customer with more than 1 MW demand	0.7018	119.66	0.2000		98.35		2,750.58	
<b>MAP<sub>2011</sub></b>	<b>1.0149</b>							

**SO ORDERED.**

Pasig City, February 15, 2010.

*Zenaída G. Cruz-Ducut*  
**ZENAIDA G. CRUZ-DUCUT** 3-7-10  
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**RAUF A. TAN**  
 Commissioner

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