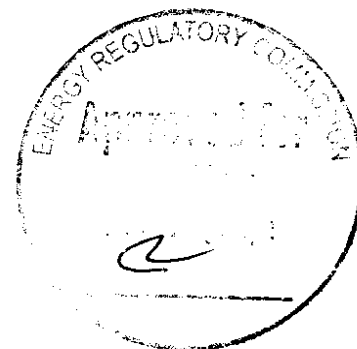


Republic of the Philippines  
**ENERGY REGULATORY COMMISSION**  
San Miguel Avenue, Pasig City



**IN THE MATTER OF THE  
APPLICATION FOR AUTHORITY TO  
IMPLEMENT 2010 MAJOR CAPITAL  
PROJECTS, WITH PRAYER FOR  
PROVISIONAL AUTHORITY**

**ERC CASE NO. 2010-016 RC**

**ANGELES  
CORPORATION (AEC),**

**ELECTRIC**

**Applicant.**

x ----- x

**D O C K E T E D**  
Date: JUN 07 2010  
By: *[Signature]*

**DECISION**

Before the Commission for resolution is the application filed by Angeles Electric Corporation (AEC) on March 9, 2010 for authority to implement its 2010 Major Capital Projects, with prayer for provisional authority.

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 April 5, 2010, were issued setting the case for initial hearing on May 4, 2010.

In the same Order, AEC 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 date of the scheduled 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 hearings 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 Angeles City was furnished copies of the Order and Notice of Public Hearing for the appropriate posting thereof on its bulletin board.

On April 29, 2010, AEC filed its "*Pre-Trial Brief*".

During the May 4, 2010 initial hearing of this case, only AEC appeared. No intervenor/oppositor appeared nor was there any intervention/opposition registered.

At the said hearing, AEC presented its proofs of compliance with the Commission's posting and publication of notice requirements which were duly marked as Exhibits "A" to "E-1", inclusive. Thereafter, it conducted an expository presentation of its application.

At the termination of the expository presentation, AEC presented the following witnesses: 1) Engr. Eulogio P. Antonio, its Distribution Manager, who testified, among others, on his duties and responsibilities, description and justification for the projects, total cost and funding for the projects, procurement and bidding process undertaken and the effect of the projects on its distribution system; and 2) Ms. Christina L. Arboleda, its Accountant, who testified, among others, on her duties and responsibilities and the project's impact on the rates.



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

On May 7, 2010, AEC filed its "*Formal Offer of Evidence (FOE)*" which is hereby admitted for being relevant and material to the final resolution of the case.

## **DISCUSSION**

AEC sought the Commission's approval of the following projects:

**1. Procurement and Installation of Automatic Voltage Regulators (AVRs)**

a. Project Description:

- Procurement and installation of Automatic Voltage Regulators (AVRs) for the Angeles Ice Plant and Marquee Mall

b. Rationale of the Project:

- To provide adequate, safe, efficient and reliable electric service to new customers

c. Project Cost:

**PhP6,908,185.00**

**2. Design and Construction of Electric Power Distribution System (EPDS)**

a. Project Description:

- Construction of 13.8 kV and 115/230 volts distribution system for the Sameerah, Punta Verde and Nouveau Subdivisions



b. Rationale of the Project:

- To provide adequate, safe, efficient and reliable electric service to new customers

c. Project Cost:

**PhP20,341,706.75**

The total project cost is as follows:

<b>DESCRIPTION</b>	<b>PROJECT COST (PhP)</b>
Procurement and installation of Automatic Voltage Regulators (AVRs) for the Angeles Ice Plant and Marquee Mall	6,908,185.00
Design and Construction of Electric Power Distribution System (EPDS) for the Sameerah, Punta Verde and Nouveau Subdivisions	20,341,706.75
<b>TOTAL</b>	<b>27,249,891.75</b>

**TECHNICAL ANALYSIS**

**Procurement and Installation of Automatic Voltage Regulators (AVRs) for the Angeles Ice Plant and Marquee Mall**

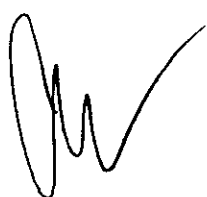
Angeles Ice Plant and Marquee Mall source their power requirements using back-up generators sets while operating during peak load periods. These establishments are without machineries that have voltage imbalance protection. Thus, their voltage imbalance surpassed the 2.5 percent limit set forth in the Philippine Distribution Code (PDC). Further, the operation of back-up generator sets resulted to higher fuel costs that almost offset their energy bill if they source power from AEC.



To address the voltage imbalance of its electric system, AEC has two (2) options, namely: 1) to require the National Grid Corporation of the Philippines (NGCP) to correct imbalance voltage in the grid pursuant to its obligation under the Philippine Grid Code; and 2) to install Automatic Voltage Regulators (AVRs).

However, the option to install and procure AVRs in the lines serving Angeles Ice Plant and Marquee Mall would be disadvantageous to AEC's customers given that only the said establishments will benefit from the said project. AEC should have explored other ways rather than having the cost of said AVRs shouldered by the said customers. This is in line with the Cost Causation Rate Methodology wherein the cost directly assigned to specific customer should only be recovered from such customer.

Since imbalance voltage is a concern of the grid, it is only prudent and reasonable that NGCP should address such problem. It should be directed to immediately implement the up-rating of Mexico Substation under its Luzon Substation Expansion Project 1 (LSEP-1). The said project was approved by the Commission for implementation in the Second Regulatory Period including the installation of 2-300 MVA power transformers in Mexico Substation in the year 2012. It is worth mentioning that this project is expected to address not only the imbalance voltage but also the low voltages during peak load.



**Design and Construction of Electric Power Distribution System (EPDS) for the Sameerah, Punta Verde and Nouveau Subdivisions**

During the hearing, Engr. Antonio testified that housing units at the Sameerah, Punta Verde and Nouveau Subdivisions are already being occupied by buyers. These housing units only have temporary electric service with distribution lines strung on bamboo trees and pipes. Since these temporary structures are hazardous to life and property, the Inspector of the Sameerah Subdivision requested AEC to immediately facilitate the installation of power supply in the said area.

The immediate implementation of the said projects will serve the interests of both AEC and its customers. Likewise, the projects will help AEC to achieve its primary goal of providing safe electric service to its new customers within its franchise area.

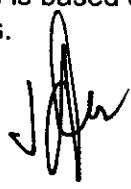
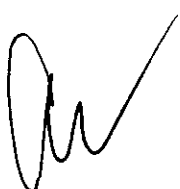
**COST ANALYSIS**

Based on the calculation using the estimated cost of the EPDS projects and 12%<sup>1</sup> rate of return under the Return on Rate Base (RORB) methodology, the indicative impact of the projects will be an increase of PhP0.0064/kWh, computed as follows:

Total Cost of the Projects	PhP20,341,706.75 <sup>2</sup>
Rate of Return	12%
Increase in Rate Base	PhP2,441,004.81
Projected kWh Sales (2010)	381,841,006
Increase in Rates	PhP0.0064/kWh

<sup>1</sup> AEC's approved rate of return of 12% is based on Unbundling of Rates.

<sup>2</sup> The amount is inclusive of labor costs.



The computed increase in rates cannot be automatically imposed by AEC to its customers and needs prior approval from the Commission.

The cost of the projects amounting to PhP20,341,706.75 may be further scrutinized in its coming reset application under the Performance Based Regulation (PBR) regime. The projects will be evaluated and optimized based on its actual use following the procedure stated in the Rules for Setting Distribution Wheeling Rates (RDWR) and other relevant issuances of the Commission.

A perusal of the evidence presented herein showed that the construction of AEC's electric power distribution system at the Sameerah, Punta Verde and Nouveau Subdivisions, all in Angeles City will 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 authority to implement AEC's 2010 Major Capital Projects, with prayer for provisional authority filed by Angeles Electric Corporation (AEC) is hereby **APPROVED**, except the procurement and installation of Automatic Voltage Regulators (AVRs) at the Angeles Ice Plant and Marquee Mall.

Relative thereto, AEC is hereby directed to pay a permit fee, within fifteen (15) days from receipt hereof, in the amount of **One Hundred Fifty Two**




**Thousand Five Hundred Sixty-Three Pesos (PhP152,563.00)**, computed as follows:

$$\frac{\text{PhP}20,341,706.75}{\text{PhP}100.00} \times \text{PhP}0.75 = \text{PhP}152,563.00$$

**SO ORDERED.**


Pasig City, May 24, 2010.

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

  
**RAUF A. TAN**  
Commissioner

(On Leave)  
**ALEJANDRO Z. BARIN**  
Commissioner

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

  
**JOSE C. REYES**  
Commissioner

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