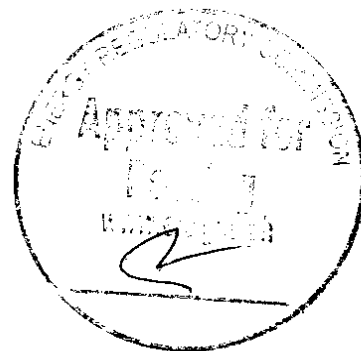


Republic of the Philippines  
**ENERGY REGULATORY COMMISSION**  
San Miguel Avenue, Pasig City



IN THE MATTER OF THE APPLICATION FOR APPROVAL OF THE TRANSLATION INTO DISTRIBUTION RELATED RATES OF DIFFERENT CUSTOMER CLASSES FOR THE FIRST (1<sup>ST</sup>) REGULATORY YEAR OF THE ERC-APPROVED ANNUAL REVENUE REQUIREMENT FOR LUECO UNDER THE PERFORMANCE BASED REGULATION (PBR) FOR THE REGULATORY PERIOD 2011-2014, WITH PRAYER FOR PROVISIONAL AUTHORITY

ERC CASE NO. 2010-031 RC

LA UNION ELECTRIC COMPANY, INC. (LUECO),

Applicant.

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DOCKETED  
Date: JUL 28 2010  
By: [Signature]

**DECISION**

On April 16, 2010, La Union Electric Company, Inc. (LUECO) filed an application for approval of the Translation into Distribution Related Rates of Different Customer Classes for the First (1<sup>st</sup>) Regulatory Year of the ERC-Approved Annual Revenue Requirement (ARR) under the Performance Based Regulation (PBR) for the Regulatory Period 2011-2014, with prayer for provisional authority.

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

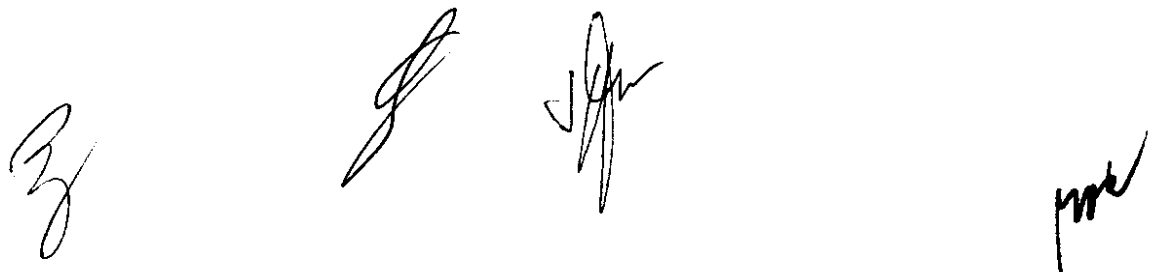
1. Under the Commission's Resolution No. 54, Series of 2006 or the "Rules for Setting Distribution Wheeling Rates (RDWR) for Privately Owned Distribution Utilities Entering Performance Based Regulation", the PBR-entrant distribution utility will be given an ARR which will be used to derive the Maximum Average Price (MAP). Said MAP shall then be allocated by the distribution utility in setting the rate schedule for its distribution, supply and metering charges for each customer class or segment;

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2. It was among the entrants at the third (3<sup>rd</sup>) entry point to the PBR Rate Setting Methodology adopted by the Commission pursuant to Section 43 (f) of Republic Act No. 9136, otherwise known as the "Electric Power Industry Reform Act of 2001". As such, on June 19, 2009, it filed an application for approval of its ARR and Performance Incentive Scheme (PIS) for the Second (2<sup>nd</sup>) Regulatory Period covering the period July 01, 2010 to June 30, 2014. The aforementioned Application was docketed as ERC Case No. 2009-044RC;
3. The Commission, in the aforesaid case, issued the Final Determination for LUECO contained in its Decision dated March 8, 2010;
  - a. Based on the Final Determination, LUECO's approved ARR for the Second (2<sup>nd</sup>) Regulatory Period is as follows:

<b>BUILDING BLOCK</b>	<b>2011 (PhP Million, Nominal)</b>
Return on Capital	63.5
OPEX	90.8
Regulatory Depreciation	21.2
Corporate Income Tax	0.0
Other Taxes	1.9
<b>TOTAL</b>	<b>177.4</b>

- b. The opening MAP that will apply to it at the start of the Second (2<sup>nd</sup>) Regulatory Period as approved by the Commission in the Final Determination is PhP1.2326 (PhP/kWh); and
    - c. Section 1.4.1 of the Final Determination dated March 8, 2010 First (1<sup>st</sup>) Regulatory Year requires that the MAP set in the terms of the said Final Determination should be converted into a distribution rate structure to be filed with the Commission for approval.
4. In compliance with the requirements under the RDWR and the Final Determination for the conversion of the approved MAP into a distribution rate structure, it herein applies for the approval of the translation into distribution rates of different customer classes of its approved MAP for the First (1<sup>st</sup>) Regulatory Year (July 1, 2010 to June 30, 2014) of the Second (2<sup>nd</sup>) Regulatory Period;
5. The translation into distribution-related rates is consistent with the methodology used in the Uniform Filing Requirement (UFR) in the Rate Unbundling, using updated scenarios and values;



6. The smoothed MAP 2011 of PhP1.2326/kWh was broken down into the average unbundled components of Distribution Charge, Supply Charge and Metering Charge, with the following resulting figures:

Distribution Charge	PhP 0.9440/kWh
Supply Charge	PhP 0.1128/kWh
Metering Charge	PhP0.1758/kWh
TOTAL	PhP1.2326/kWh

7. Summarized below is its proposed distribution-related rate structure:

	Distribution		Supply		Metering	
	PhP/kWh	PhP/kW	PhP/kWh	PhP/Cust./Mo.	PhP/kWh	PhP/Meter/Mo.
Residential	1.0612	-	0.1944	-	0.2022	5.00
Commercial 1	0.9722	-	0.1232	-	0.3033	-
Commercial 2	0.9593	-	-	269.9347	-	696.3581
Hospital	0.7337	-	-	269.9347	-	696.3581
General Power	0.5159	145.2538	-	264.4158	-	1279.3565
Street Lights	1.0015	-	-	110.3416	-	-

8. Finally, to enable it to implement, in a timely manner, its capital expenditure program and address its operating and maintenance requirements for the Second (2<sup>nd</sup>) Regulatory Period, particularly for the Regulatory Year 2011 and avert financial prejudice to it and its consumers, it is necessary and indispensable that a provisional authority be immediately issued authorizing it to implement the new rates pending hearing on the merit of the instant Application; and
9. It be provisionally authorized to adopt and implement the proposed distribution-related rate structure and rate schedules, summarized as follows:

	Distribution		Supply		Metering	
	PhP/kWh	PhP/kW	PhP/kWh	PhP/Cust./Mo.	PhP/kWh	PhP/Meter/Mo.
Residential	1.0612	-	0.1944	-	0.2022	5.00
Commercial 1	0.9722	-	0.1232	-	0.3033	-
Commercial 2	0.9593	-	-	269.9347	-	696.3581
Hospital	0.7337	-	-	269.9347	-	696.3581
General Power	0.5159	145.2538	-	264.4158	-	1279.3565
Street Lights	1.0015	-	-	110.3416	-	-

Having found said application sufficient in form and substance with the required fees having been paid, an Order and a Notice of Public Hearing, both dated April 26, 2010, were issued setting the same for hearing on May 20 and 21, 2010.

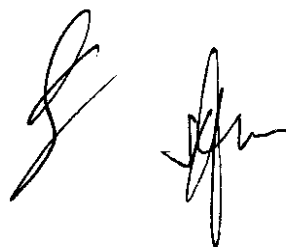
In the same Order, LUECO was directed to cause the publication of the Notice of Public Hearing, at its own expense, twice (2x) for two (2) successive weeks in two (2) newspapers of general circulation in the Philippines, with the date of the last publication to be made not later than ten (10) days before the date of the scheduled 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 attached Notice of Public Hearing and were requested to have their respective duly authorized representatives present at the aforesaid hearing.

Likewise, the Offices of the Mayors of the City and Municipalities within the franchise area of LUECO were furnished with copies of the Order and the Notice of Public Hearing, for the appropriate posting thereof on their respective bulletin boards.

On May 14, 2010, LUECO filed its "Pre-Trial Brief".

During the May 20, 2010 hearing, only LUECO appeared. No intervenor/oppositor appeared nor was there any intervention/opposition registered.



At the said hearing, LUECO presented its proofs of compliance with the Commission's posting and publication of notice requirements which were duly marked as Exhibits "A" to "G", inclusive. Thereafter, it conducted an expository presentation of its application. In the course thereof, the Commission propounded clarificatory questions.

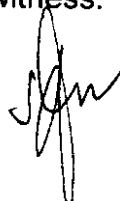
The expository presentation having been terminated, LUECO moved that an order of general default be declared against those interested parties who failed to attend the said hearing. Said motion was granted. The Commission dispensed the pre-trial conference in view of the absence of intervenor and oppositor.

LUECO presented its witness, Mr. Lovino T. Torricer, its Head of Corporate Services Department, who testified on the following matters:

1. The allegations stated in the instant application;
2. The figures applied in the conversion of its MAP for the First Regulatory Year (July 1, 2010 to June 30, 2011) of the Second Regulatory Period into the distribution rates of its different customer classes. Said figures were derived from its approved Final Determination on March 8, 2008 and the Uniform Filing Requirements (UFR) using updated scenarios and values; and
3. Its conversion of distribution rates is in accordance with the guidelines and methodology under the RDWR, UFR and DSOAR.

In the course of his testimony, additional documents were presented and marked as Exhibits "H" to "T", inclusive.

The direct examination having been terminated, the Commission propounded clarificatory questions on the said witness. LUECO was directed to



file its formal offer of evidence and several documents within ten (10) days from the said date of hearing. In compliance therewith, LUECO filed its "Formal Offer of Exhibits" on May 24, 2010 which is hereby admitted for being relevant and material in the final resolution of this case.

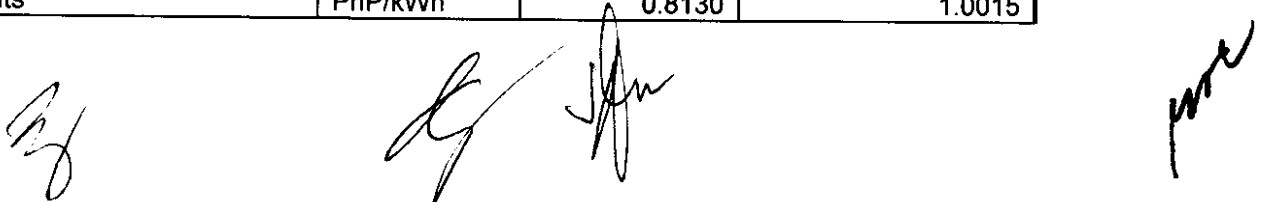
On May 31, 2010, LUECO filed its "Compliance".

### DISCUSSION

In its Decision dated March 10, 2010 in ERC Case No. 2009-044RC, the Commission approved the ARR and PIS of LUECO covering the Second Regulatory Period from July 1, 2010 to June 30, 2014 in accordance with the provisions of the RDWR. LUECO was authorized to apply at the start of the Second Regulatory Period the MAP equivalent to PhP1.2326/kWh.

In compliance with the requirements of the RDWR and the *Final Determination* for the conversion of the approved MAP into a distribution rate structure, LUECO applies for the approval of the translation into distribution rates of different customer classes of its approved MAP for the First Regulatory Year (July 1, 2010 to June 31, 2014) of the Second Regulatory Period consistent with the methodology used in the UFR, as follows:

Customer Class	Units	Existing Rates	Proposed Rates (RY 2011)
<b>DISTRIBUTION</b>			
Residential	PhP/kWh	0.8614	1.0612
Commercial 1	PhP/kWh	0.7892	0.9722
Commercial 2	PhP/kWh	0.7787	0.9593
Hospital	PhP/kWh	0.5956	0.7337
General Power	PhP/kWh	0.4188	0.5159
	PhP/kW	117.9100	145.2538
Streetlights	PhP/kWh	0.8130	1.0015



Customer Class	Units	Existing Rates	Proposed Rates (RY 2011)
<b>SUPPLY</b>			
Residential	PhP/kWh	0.1578	0.1944
Commercial 1	PhP/kWh	0.1000	0.1232
Commercial 2	PhP/Cust./Mo.	219.1200	269.9347
Hospital	PhP/Cust./Mo.	219.1200	269.9347
General Power	PhP/Cust./Mo.	214.6400	264.4158
Streetlights	PhP/Cust./Mo.	89.57000	110.3416
<b>METERING</b>			
Residential	PhP/kWh	0.1641	0.2022
	PhP/Cust./Mo.	5.0000	5.0000
Commercial 1	PhP/kWh	0.2462	0.3033
Commercial 2	PhP/Cust./Mo.	565.2700	696.3581
Hospital	PhP/Cust./Mo.	565.2700	696.3581
General Power	PhP/Cust./Mo.	1,038.5200	1,279.3565
<b>AVERAGE TOTAL RATE</b>	<b>PhP/kWh</b>	<b>1.0707</b>	<b>1.2326</b>

LUECO proposed the following lifeline rate discounts for the marginalized end-users based on May 2009 to April 2010 frequency distribution of its residential consumers.

**Proposed Lifeline Subsidies**

kWh Consumption	Level of Discount
0-20	100%
21-25	50%
26-50	10%
51-70	5%
Subsidy Charge to Non-lifeline Consumers	PhP0.0540/kWh

**COMMISSION'S FINDINGS AND EVALUATION**

**MAP 2011 Translation into Distribution Rates**

The Commission found that the instant application was in accordance with LUECO's approved *Final Determination* and in conformity with the requirements of the RDWR.

**Side Constraints**

Upon evaluation of the documents submitted, it was disclosed that LUECO committed an error in the calculation of its Side Constraints. It failed to comply with Section 11.2 of its "Position Paper" for the Third Entry Group into PBR and Sec. 5.3.2 of DSOAR which requires the functionalization and allocation of LUECO's projected revenue based on the proportion of historical revenue per function and customer segment.

To rectify the said error, on May 31, 2010, LUECO filed its "Compliance".

In terms of the RDWR, the Side Constraints apply to annual rate increases for any single rate category based on the CWI-factor and an allowance made in the *Final Determination*. LUECO's Side Constraints set in its *Final Determination* were not breached for all customer categories. Based on LUECO's current sales forecasts, its overall expected revenue from these rates is consistent with its MAP<sub>2011</sub>. Shown below is LUECO's distribution rate structure for RY 2011.

Customer Class	Units	Existing Rates	Revised Rates (RY 2011)	Increase (Decrease)
<b>DISTRIBUTION</b>				
Residential	PhP/kWh	0.8614	1.0019	0.1405
Commercial 1	PhP/kWh	0.7892	0.9695	0.1803
Commercial 2	PhP/kWh	0.7787	0.9219	0.1432
Hospital	PhP/kWh	0.5956	0.6964	0.1008
General Power	PhP/kWh	0.4188	0.4869	0.0681
	PhP/kWh	117.9100	210.3301	92.4201
Streetlights	PhP/kWh	0.8130	0.9447	0.1317
<b>SUPPLY</b>				
Residential	PhP/kWh	0.1578	0.1834	0.0256
Commercial 1	PhP/kWh	0.1000	0.1160	0.0160
Commercial 2	PhP/Cust./Mo.	219.1200	241.2761	22.1561
Hospital	PhP/Cust./Mo.	219.1200	248.9793	29.8593

Customer Class	Units	Existing Rates	Revised Rates (RY 2011)	Increase (Decrease)
General Power	PhP/Cust./Mo.	214.6400	251.1445	36.5045
Streetlights	PhP/Cust./Mo.	89.57000	127.9426	38.3726
<b>METERING</b>				
Residential	PhP/kWh	0.1641	0.1929	0.0288
	PhP/Cust./Mo.	5.0000	5.0000	0
Commercial 1	PhP/kWh	0.2462	0.2856	0.0394
Commercial 2	PhP/Cust./Mo.	565.2700	622.4268	57.1568
Hospital	PhP/Cust./Mo.	565.2700	642.2988	77.0288
General Power	PhP/Cust./Mo.	1,038.5200	1,215.1442	176.6242
<b>AVERAGE TOTAL RATE</b>	<b>PhP/kWh</b>	<b>1.0707</b>	<b>1.2326</b>	<b>0.1619</b>

From its existing rates of PhP1.0707/kWh, LUECO proposed a total average rate adjustment of PhP0.1619/kWh.

The RDWR provides the flexibility to expeditiously adjust the distribution rates during the regulatory resets. To ensure the adherence on the policies set forth in the EPIRA for the use of such flexibility, all DUs should only charge distribution rates that reflect the cost-based unbundled structure set forth in the UFR. Thus, it is prohibited that the costs or revenues that should be recovered from one unbundled function maybe shifted to other unbundled functions. The Side Constraints set forth in Section 5.17 of the RDWR shall not be used to justify the shifting of revenues from one customer segment to other customer segments.

**Lifeline Rate and Level**

Under the LUECO's lifeline levels, the proposed lifeline discounts resulted in a subsidy by non-lifeline end-users, equivalent to PhP0.0540/kWh, to wit:

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kWh Consumption	Level of Discount
0-20	100%
21-25	50%
26-50	10%
51-70	5%
Subsidy Charge to Non-lifeline Customers	PhP0.0540/kWh

The proposed 70 kWh threshold will benefit 32% of LUECO's existing residential customers.

Using the May 2010 data, the Commission calculated the proposed lifeline rate of LUECO and decided to grant 100% discount to residential customers consuming 0-20kWh 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. Shown below is the comparison of the Commission's approved and LUECO's proposed lifeline discounts.

kWh Consumption	Last Approved Rates (unbundling)	Proposed Lifeline Rate	Commission's Approved Lifeline Discounts	
	Level of Discount		kWh Consumption	Level of Discount
0-20	50%	100%	0-20	100%
21-25		50%	21-25	50%
26-50	10%	10%	26-35	40%
51-70	5%	5%	36-45	30%
			46-55	20%
			56-65	10%
			66-70	5%
Subsidy Charge to Non-lifeline Customers	PhP0.0504/kWh	PhP0.0540kWh	Subsidy Charge to Non-lifeline Customers	PhP0.0654/kWh

With the implementation of the new lifeline structure, residential customers consuming 0-20 kWh per month will enjoy 100% discount in their rates subject only to the payment of PhP5.00/customer/month metering charge.

**WHEREFORE**, the foregoing premises considered, the application for approval of the translation into distribution rates of different customer classes for the first and second regulatory years of the ERC-approved annual revenue requirement under the Performance Based Regulation (PBR) for the Regulatory Period 2011-2014 filed by La Union Electric Company, Inc. (LUECO) is hereby **APPROVED**.

Accordingly, LUECO is hereby directed to implement, starting July 1, 2010, its approved Distribution, Supply and Metering (DSM) Charges and Lifeline Rate Subsidy, as follows:

**A. DSM Charges**

Customer Class	Units	Approved Rates (RY 2011)
<b>DISTRIBUTION</b>		
Residential	PhP/kWh	1.0019
Commercial 1	PhP/kWh	0.9695
Commercial 2	PhP/kWh	0.9219
Hospital	PhP/kWh	0.6964
General Power	PhP/kWh	0.4869
	PhP/kWh	210.3301
Streetlights	PhP/kWh	0.9447
<b>SUPPLY</b>		
Residential	PhP/kWh	0.1834
Commercial 1	PhP/kWh	0.1160
Commercial 2	PhP/Cust./Mo.	241.2761
Hospital	PhP/Cust./Mo.	248.9793
General Power	PhP/Cust./Mo.	251.1445
Streetlights	PhP/Cust./Mo.	127.9426
<b>METERING</b>		
Residential	PhP/kWh	0.1929
	PhP/Cust./Mo.	5.0000
Commercial 1	PhP/kWh	0.2856
Commercial 2	PhP/Cust./Mo.	622.4268
Hospital	PhP/Cust./Mo.	642.2988
General Power	PhP/Cust./Mo.	1,215.1442
<b>AVERAGE TOTAL RATE</b>	<b>PhP/kWh</b>	<b>1.2326</b>

**B. Lifeline Discounts**

<b>kWh Consumption</b>	<b>Level of Discount</b>
0-20	100%
21-25	50%
26-35	40%
36-45	30%
46-55	20%
56-65	10%
66-70	5%
Subsidy Charge to Non-lifeline Customers	<b>PhP0.0654/kWh</b>

**SO ORDERED.**

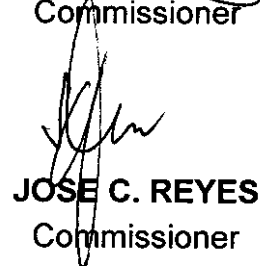
Pasig City, June 15, 2010.

  
**ZENAIDA G. CRUZ-DUCUT**  
Chairperson

  
**RAUF A. TAN**  
Commissioner

  
**ALEJANDRO Z. BARIN**  
Commissioner

(On Official Travel)  
**MARIA TERESA A.R. CASTAÑEDA**  
Commissioner

  
**JOSE C. REYES**  
Commissioner

**Copy Furnished:**

1. **The Law Firm of Manjares and Manjares**  
Attention: Atty. NORBERTO C. MANJARES, III  
Counsel for CELCOR  
No. 5 Saint Anne Street  
Provident Villages, Marikina City
2. **LA UNION ELECTRIC COMPANY, INC. (LUECO)**  
Attention: Mr. RUBEN L. VALERO, JR.  
Director-President  
Valbros Building, Quezon Avenue  
San Fernando City, La Union
3. **Commission on Audit**  
Commonwealth Avenue  
Quezon City 1121
4. **Senate Committee on Energy**  
GSIS Building, Roxas Boulevard  
Pasay City 1307
5. **House Committee on Energy**  
Batasan Hills, Quezon City 1126
6. **National Electrification Administration (NEA)**  
Quezon Avenue, Quezon City  
Metro Manila
7. **Office of the President of PCCI**  
Philippine Chamber of Commerce and Industry (PCCI)  
3<sup>rd</sup> Floor, ECC Building, Sen. Gil Puyat Avenue  
Makati City
8. **Office of the City Mayor**  
San Fernando City  
Province of La Union
9. **Office of the Municipal Mayor**  
Municipality of Bauang  
Province of La Union
10. **Office of the Municipal Mayor**  
Municipality of San Juan  
Province of Nueva Ecija

## Annex "A"

LA UNION ELECTRIC COMPANY, INC.

Computation of Side Constraints on Proposed Maximum Distribution Wheeling Rates

$\frac{((FCR_{k,t}/FQ_{k,t})-S_t) - ((CR_{k,t-1}/AQ_{k,t-1})-S_{t-1})}{(CR_{k,t-1}/AQ_{k,t-1})-S_{t-1}}$	<=	(CW <sub>t</sub> + SC <sub>t</sub> )
--	----	--------------------------------------

<= 2.74% + 13.80%

<= 16.54%

Customer Class	(FCR <sub>k,t</sub> /FQ <sub>k,t</sub> )-S <sub>t</sub>	(CR <sub>k,t-1</sub> /AQ <sub>k,t-1</sub> )-S <sub>t-1</sub>	% Increase	
Residential	1.4170	1.2194	16.20%	Within Side Constraints
Commercial 1	1.3712	1.1800	16.20%	Within Side Constraints
Commercial 2	1.0351	0.8908	16.20%	Within Side Constraints
Hospital	0.7213	0.6208	16.20%	Within Side Constraints
Industrial	0.9645	0.8300	16.20%	Within Side Constraints
Street light	0.9791	0.8426	16.20%	Within Side Constraints
<b>Total</b>	<b>1.2326</b>	<b>1.0707</b>	<b>15.12%</b>	Within Side Constraints

Customer Class	FCR <sub>k,t</sub>	FQ <sub>k,t</sub>	S <sub>t</sub>	(FCR <sub>k,t</sub> / FQ <sub>k,t</sub> )-S <sub>t</sub>
Residential	74,205,493.84	52,368,380	0	1.4170
Commercial 1	26,973,668.29	19,672,227	0	1.3712
Commercial 2	28,147,968.61	27,192,734	0	1.0351
Hospital	3,096,612.56	4,292,893	0	0.7213
Industrial	15,212,076.88	15,772,145	0	0.9645
Street light	2,273,606.89	2,322,120	0	0.9791
<b>Total</b>	<b>149,909,427.07</b>	<b>121,620,499.00</b>	<b>0</b>	<b>1.2326</b>

Customer Class	CR <sub>k,t-1</sub>	AQ <sub>k,t-1</sub>	S <sub>t-1</sub>	(CR <sub>k,t-1</sub> / AQ <sub>k,t-1</sub> )-S <sub>t-1</sub>
Residential	63,837,674.43	52,351,138	0	1.2194
Commercial 1	23,500,357.39	19,916,085	0	1.1800
Commercial 2	21,489,131.06	24,123,519	0	0.8908
Hospital	2,339,169.42	3,768,260	0	0.6208
Industrial	12,134,232.72	14,619,434	0	0.8300
Street light	1,484,571.64	1,761,921	0	0.8426
<b>Total</b>	<b>124,785,136.66</b>	<b>116,540,357.00</b>	<b>0</b>	<b>1.0707</b>