

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



IN THE MATTER OF THE
APPLICATION FOR APPROVAL OF
TRANSLATION INTO DISTRIBUTION
RATES OF DIFFERENT CUSTOMER
CLASSES FOR THE FIRST
REGULATORY YEAR OF THE ERC-
APPROVED ANNUAL REVENUE
REQUIREMENT FOR IBAAN
ELECTRIC AND ENGINEERING
CORPORATION (IEEC) UNDER THE
PERFORMANCE BASED
REGULATION (PBR) FOR THE
REGULATORY PERIOD 2010-2014

ERC CASE NO. 2010-041 RC

IBAAN ELECTRIC AND
ENGINEERING CORPORATION
(IEEC),

Applicant.

x-----x

D O C K E T E D

Date: AUG 03 2010

By: _____

DECISION

On May 13, 2010, Ibaan Electric and Engineering Corporation (IEEC) filed an application for approval of the translation into distribution rates of the different customer classes for the First (1st) Regulatory Year of its Commission-approved Annual Revenue Requirement (ARR) under the Performance Based Regulation (PBR) for the Regulatory Period 2010-2014.

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

1. On June 22, 2009, it filed an application for approval of its ARR and Performance Incentive Scheme (PIS) covering the Second Regulatory Period from July 2010 to June 2014 in accordance

with the provisions of the Rules for Setting Distribution Wheeling Rates (RDWR) which was docketed as ERC Case No. 2009-045 RC;

2. On March 8, 2010, the Commission issued its Decision in ERC Case No. 2009-045 RC approving the said application, as follows:

Economic Indices

	2009	2010	2011	2012	2013	2014
Philippine CPI (% increase per regulatory year)	3.6%	4.0%	4.6%	4.6%	4.7%	4.7%
US CPI (% increase per regulatory year)	1.3%	0.7%	1.5%	1.6%	2.2%	2.7%
PhP/US\$ exchange rate (average for regulatory year)	44.2	47.6	47.8	47.3	46.9	46.7

(Source: Economic Intelligence Unit [EIU], February 2010 – converted to regulatory years)

Weighted Average Cost of Capital (WACC)

Adopt a twelve (12)-month average figure, average country-risk premium for the last six (6) months, asset beta increased by a factor of quarter (25%), and set the WACC at the point value of 75th percentile. The resulting WACC is 15.01%.

Determination of the Annual Revenue Requirement (ARR) and Maximum Average Price (MAP)

The ARR shall be as follows with an X factor of -12.37% for purposes of computing the MAP:

Building Block	(PhP Million, Nominal)			
	2011	2012	2013	2014
Return on Capital	13.569	13.243	12.915	12.547
OPEX	12.689	13.287	13.926	14.615
Regulatory Depreciation	4.443	4.583	4.752	4.708
Corporate Income Tax	0.000	0.000	0.000	0.000
Other taxes	0.402	0.299	0.325	0.347
TOTAL	31.104	31.411	31.918	32.218

Note: These figures do not include the required GSL provision

Performance Incentive Scheme (PIS)

Price-Linked Incentive Scheme

Performance Index	Units	Weight	Reward		Target	Penalty	
			Level A	Level B	Level C	Level D	Level E
System Average Interruption Frequency Index (SAIFI)	Number	0.20	19.96	29.93	39.91	49.89	59.87
Customer Average Interruption Duration Index (CAIDI)	Minutes	0.20	248.86	373.29	497.72	622.15	746.58
Planned System Average Interruption Duration Index (SAIDI)	Minutes	0.15	1204.41	1806.61	2408.82	3011.02	3613.22
Probability of voltage levels falling within prescribed limits	%	0.10	-	2.5	12.5	25	40
System losses	%	0.05	9.5	10	11.5		
Average time to process applications for Regulated Distribution Services	Days	0.10	1.75	3.5	5	6.5	8.4
Average time to connect premises to the Regulated Distribution System	Days	0.10	1.5	4	5.5	6.8	9
Average time to answer calls at call centre	Seconds	0.10	-	-	-	-	-

Guaranteed Service Level Scheme

PERFORMANCE MEASURE	Threshold	Penalty Level (PhP)
Customer experiencing a total duration of sustained service interruptions in a Regulatory Year that exceeds the threshold	65 hours	100.80
Customer experiencing a number of sustained service interruptions in a Regulatory Year that exceeds the threshold	60 times	100.80
Restoration of supply to a customer after a fault on the secondary distribution network taking longer than the threshold time	5.5 days	100.80
Customer connection not provided on the day agreed with the customer	5 days	100.80

- Based on the Final Determination dated March 8, 2010, the opening MAP that will apply to it at the start of Second Regulatory Period as approved by the Commission is PhP1.4864;
- 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 filed the instant application for the approval of the translation into distribution rates of different customer classes of its approved MAP for the First Regulatory

Year ending June 30, 2011 of the Second Regulatory Period, as follows:

PROPOSED RATES

Customer Class	AVERAGE RATE/kWh	DISTRIBUTION		SUPPLY	METERING	
		PhP/kW	PhP/kWh	PhP/mo/cust	PhP/mo/cust	PhP/kWh
Residential	2.0426	-	1.3789	19.79	5.00	0.40
Commercial	0.6462	-	0.5267	20.22	42.24	-
Industrial	0.2750	6.35	0.1375	27.73	870.58	-
Streetlights	1.1484	-	0.9168	21.34	44.59	-

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). In its calculations, it used the information contained in the Final Determination dated March 8, 2010;

5. In compliance with Section 73 of Republic Act 9136 (R.A. 9136), it, likewise, proposes to maintain the same lifeline kWh consumption and discount level as approved in the previous unbundling of rates Decision;
6. The approval of the instant application will allow it to fulfill its obligations 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; and
7. It prays that, after due notice and hearing, the instant application be approved and that it be authorized to adopt and implement the proposed distribution rate structure, as follows:

Customer Class	AVERAGE RATE/kWh	DISTRIBUTION		SUPPLY	METERING	
		PhP/kW	PhP/kWh	PhP/mo/cust	PhP/mo/cust	PhP/kWh
Residential	2.0426	-	1.3789	19.79	5.00	0.40
Commercial	0.6462	-	0.5267	20.22	42.24	-
Industrial	0.2750	6.35	0.1375	27.73	870.58	-
Streetlights	1.1484	-	0.9168	21.34	44.59	-

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 May 24, 2010, were issued setting the case for jurisdictional hearing, expository presentation, pre-trial conference and evidentiary hearing on June 15, 2010.

In the same Order, IEEC 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 the 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 Notice of Public Hearing and were requested to have their respective duly authorized representatives present at the initial hearing.

Likewise, the Offices of the Provincial Governor of Batangas and the Municipal Mayor of the Municipality of Ibaan were furnished with copies of the Order and Notice of Public Hearing for the appropriate posting thereof on their respective bulletin boards.

On June 10, 2010, IEEC submitted its "Pre-Trial Brief".



During the June 15, 2010 initial hearing of this case, only IEEC appeared. No intervenor/oppositor appeared nor was there any intervention/opposition registered.

In the said hearing, IEEC presented its proofs of compliance with the Commission's posting and publication of notice requirements which were duly marked as Exhibits "D" to "Q", inclusive. Thereafter, IEEC made an expository presentation of its application.

Subsequently, the Commission conducted a pre-trial conference.

At the termination of the pre-trial conference, IEEC presented its lone witness, Ms. Amelita A. Castillo, its Chief Financial Officer, who testified, among others, on the proposed rates, revenue per customer class, total revenue requirement for Regulatory Year (RY) 2011 based on the Smoothed Maximum Average Price (SMAP) 2011, breakdown of the MAP2011 per customer segment for RY2011, allocation per function of the historical revenue requirement per customer class for RY2011, functionalized forecasted revenue requirement per customer segment, comparison of the current rates and the proposed rates for RY2011 and lifeline subsidy rate.

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

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



Thereafter, IEEC formally offered its documentary evidence which is hereby admitted for being relevant and material to the final resolution of the case.

DISCUSSION

On March 8, 2010, the Commission issued a Decision and a Final Determination in ERC Case No. 2009-045 RC [In the Matter of the Application for Approval of the Annual Revenue Requirement (ARR) and Performance Incentive Scheme (PIS) in Accordance with the Provisions of the Rules for Setting Distribution Wheeling Rates (RDWR), IEEC – Applicant] approving, among others, the MAP of PhP1.4864/kWh that will apply to IEEC at the start of the Second Regulatory Period.

Section 1.4.1 of the *Final Determination* requires that the MAP set in terms thereof should be converted into distribution rate structure to be filed with the Commission for approval.

In compliance with the requirements of the RDWR and the *Final Determination* for the conversion of the approved MAP into a distribution rate structure, IEEC applied for the approval of the translation into distribution rates of different customer classes of its approved MAP for the First Regulatory Year from July 1, 2010 to June 31, 2011 of the Second Regulatory Period. 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.



IIEC translated the MAP2011 into distribution, metering and supply charges among various customer classes (excluding the lifeline subsidy schedule) as shown in the table below:

Customer Classes	Units	Existing	Proposed Rates for RY2011
DISTRIBUTION			
Residential	PhP/kWh	1.1439	1.3789
Commercial	PhP/kWh	0.4369	0.5267
Industrial	PhP/kWh	0.2281	0.1375
	PhP/kW	14.1	6.35
Street Lights	PhP/kWh	0.7605	0.9168
SUPPLY			
Residential	PhP/Cust./Mo.	16.66	19.79
Commercial	PhP/Cust./Mo.	16.66	20.22
Industrial	PhP/Cust./Mo.	16.66	27.73
Street Lights	PhP/Cust./Mo.	16.66	21.34
METERING			
Residential	PhP/kWh	0.3269	0.4
	PhP/Cust./Mo.	5.00	5
Commercial	PhP/Cust./Mo.	34.81	42.24
Industrial	PhP/Cust./Mo.	523.01	870.58
Street Lights	PhP/Cust./Mo.	34.81	44.59
AVERAGE TOTAL RATE	PhP/kWh	1.2751	1.4864

IIEC proposed to maintain the same lifeline kWh consumption and discount level as approved in the unbundling of rates Decision, as shown below:

kWh Consumption Level	Lifeline Discount Rate
0-25	50%
26-30	35%
31-35	25%
36-40	15%
41-50	10%

1. MAP 2010 Translation Into Distribution Tariffs

The rates applied for by IEEC were thoroughly reviewed and evaluated by the Commission and were found to be in accordance with the Final Determination dated March 8, 2010 and the requirements set forth in the RDWR.

In the course of the hearing, IEEC was directed to explain why it was proposing a lower PhP/kW rates for its Industrial customers. It explained that the distribution revenue for Industrial customers was allocated equally to the demand and customer charges. The resulting PhP/kW (demand charge) decreased compared with the existing rate due to the fact that its two (2) Industrial customers with high demand have ceased operations, thus, reducing its revenue.

The Commission finds the schedules reasonable.

IEEC's proposed rate structure is shown below:

Customer Classes	Units	Proposed Rates for RY2011
DISTRIBUTION		
Residential	PhP/kWh	1.3789
Commercial	PhP/kWh	0.5267
Industrial	PhP/kWh	0.1375
	PhP/kW	6.35
Street Lights	PhP/kWh	0.9168
SUPPLY		
Residential	PhP/Cust./Mo.	19.79
Commercial	PhP/Cust./Mo.	20.22
Industrial	PhP/Cust./Mo.	27.73
Street Lights	PhP/Cust./Mo.	21.34
METERING		
Residential	PhP/kWh	0.4000
	PhP/Cust./Mo.	5.00
Commercial	PhP/Cust./Mo.	42.24
Industrial	PhP/Cust./Mo.	870.58
Street Lights	PhP/Cust./Mo.	44.59

Customer Classes	Units	Proposed Rates for RY2011
AVERAGE TOTAL RATE	PhP/kWh	1.4864

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.

A perusal of the documents submitted by IEEC disclosed that it failed to update the computation of the Side Constraints and used the CPI and CWI_t from the Final Determination. The Commission calculated the increase limit for the RY2011 rates at the CWI plus 15.37% as allowed in the Final Determination. The overall expected revenue from these rates, based on current sales forecasts, does not breach the MAP₂₀₁₁.

However, based on the calculations made by the Commission using the updated CWI and the opening MAP of PhP1.4864, the Side Constraints were breached for all the customer classes of IEEC, as shown below:



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

$\leq (2.69\% + 15.37\%)$
 $\leq 18.06\%$

Customer Class	$(FCR_{k,t}/FQ_{k,t})-S_t$	$(CR_{k,t-1}/AQ_{k,t-1})-S_{t-1}$	% Increase	
Residential	2.0347	1.6945	20.07%	Side Constraints Breached
Commercial	0.6436	0.5360	20.07%	Side Constraints Breached
Industrial	0.4216	0.3511	20.07%	Side Constraints Breached
Street Lights	1.1439	0.9526	20.07%	Side Constraints Breached
Total	1.4864	1.2751	16.57%	Within Side Constraints

Customer Class	$FCR_{k,t}$	$FQ_{k,t}$	S_t	$(FCR_{k,t}/FQ_{k,t})-S_t$
Residential	21,241,042.28	10,439,648.15	0	2.0347
Commercial	2,349,678.77	3,650,689.00	0	0.6436
Industrial	1,013,329.68	2,403,408.00	0	0.4216
Street Lights	293,042.47	256,183.00	0	1.1439
Total	24,897,093.20	16,749,928.15	0	1.4864

Customer Class	$CR_{k,t-1}$	$AQ_{k,t-1}$	S_{t-1}	$(CR_{k,t-1}/AQ_{k,t-1})-S_{t-1}$
Residential	17,821,723.87	10,517,460.00	0	1.6945
Commercial	1,928,519.97	3,597,838.00	0	0.5360
Industrial	636,624.17	1,813,055.00	0	0.3511
Street Lights	226,601.79	237,867.00	0	0.9526
Total	20,613,469.79	16,166,220.00	0	1.2751

Hence, the Commission made calculations to determine the MAP for RY2011 that will limit the resulting average customer class increases within the allowable Side Constraints.

Shown below is a comparison of the impact per customer class between IEEC's current rates from the computed MAP₂₀₁₁:

Customer Classes	Units	Existing (a)	IEEC's Proposed Rates (b)	Commission's Computed Rates for Regulatory Year 2011 (c)	Increase / (Decrease) (c-a)
DISTRIBUTION					
Residential	PhP/kWh	1.1439	1.3789	1.3504	0.2065
Commercial	PhP/kWh	0.4369	0.5267	0.5158	0.0789
Industrial	PhP/kWh	0.2281	0.1375	0.3004	0.0723
	PhP/kW	14.1	6.35	6.3500	(7.7500)
Street Lights	PhP/kWh	0.7605	0.9168	0.8978	0.1373

Customer Classes	Units	Existing (a)	IEEC's Proposed Rates (b)	Commission's Computed Rates for Regulatory Year 2011 (c)	Increase / (Decrease) (c-a)
SUPPLY					
Residential	PhP/Cust./Mo.	16.66	19.79	19.52	2.8606
Commercial	PhP/Cust./Mo.	16.66	20.22	19.95	3.2950
Industrial	PhP/Cust./Mo.	16.66	27.73	26.07	9.4096
Street Lights	PhP/Cust./Mo.	16.66	21.34	21.18	4.5204
METERING					
Residential	PhP/kWh	0.3269	0.4000	0.3949	0.07
	PhP/Cust./Mo.	5.00	5.00	5.00	0.00
Commercial	PhP/Cust./Mo.	34.81	42.24	41.70	6.89
Industrial	PhP/Cust./Mo.	523.01	870.58	818.49	295.48
Street Lights	PhP/Cust./Mo.	34.81	44.59	44.26	9.45
AVERAGE TOTAL RATE	PhP/kWh	1.2751	1.4864	1.4614	0.1863

The overall increase over the existing rate of PhP1.2751/kWh as compared to MAP 2011 of PhP1.4864/kWh is PhP0.2113/kWh or 16.57%.

The difference between the IEEC's proposed MAP and the Commission-approved rates for RY2011 is due to the calculation of the change in weighted index (CWI_t). IEEC used different values of economic indices as compared to the values published by the Bangko Sentral ng Pilipinas (BSP) for the CPI and USER data and the US Bureau of Labor and Statistics (US-BLS) for the USCPI data.

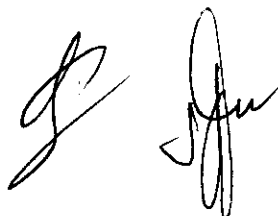
The RDWR provides flexibility to expeditiously adjust rates between regulatory resets. However, the Commission ensures that the use of such flexibility adheres to the policies set forth in the EPIRA. Specifically, all DUs shall only change rates that reflect the cost-based unbundled structure set forth 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 of 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. The Side Constraints set forth in Sections 4.2.1 and 5.17 of the RDWR shall not be used to justify the shifting of revenues from one customer segment to other customer segments.

3. Lifeline Rate and Level

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.

The Commission computed the lifeline rate using the month of April 2010 data and the recommended distribution rates. The lifeline discounts resulted in a



subsidy charge to non-lifeline user equivalent to PhP0.1396/kWh. The 50 kWh thresholds will benefit 39% of IEEC's existing Residential customers.

Accordingly, the Commission deems it necessary to modify IEEC's lifeline structure, as follows:

kWh Consumption	IEEC's Existing Discount Granted	IEEC's Existing Discount Granted
0-20 kWh	50%	100%
21-25 kWh	50%	30%
26-30 kWh	35%	30%
31-35 kWh	25%	5%
36-40 kWh	15%	5%
41-50 kWh	10%	5%
Subsidy Charge to Non-Lifeline Customers	PhP0.1858/kWh	PhP0.1396/kWh

With the implementation of the new lifeline structure, Residential customers of IEEC 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 (1st) Regulatory Year of the Commission-approved Annual Revenue Requirement (ARR) under the Performance Based Regulation (PBR) for the Regulatory Period 2010-2014 filed by Ibaan Electric and Engineering Corporation (IEEC) is hereby **APPROVED WITH MODIFICATION**.



Accordingly, IEEC is hereby directed to **IMPLEMENT**, effective July 1, 2010, the approved Distribution, Supply and Metering Charges, as follows:

Customer Classes	Units	Approved Rates for Regulatory Year 2011
DISTRIBUTION		
Residential	PhP/kWh	1.3504
Commercial	PhP/kWh	0.5158
Industrial	PhP/kWh	0.3004
	PhP/kW	6.3500
Street Lights	PhP/kWh	0.8978
SUPPLY		
Residential	PhP/Cust./Mo.	19.52
Commercial	PhP/Cust./Mo.	19.95
Industrial	PhP/Cust./Mo.	26.07
Street Lights	PhP/Cust./Mo.	21.18
METERING		
Residential	PhP/kWh	0.3949
	PhP/Cust./Mo.	5.00
Commercial	PhP/Cust./Mo.	41.70
Industrial	PhP/Cust./Mo.	818.49
Street Lights	PhP/Cust./Mo.	44.26
AVERAGE TOTAL RATE	PhP/kWh	1.4614

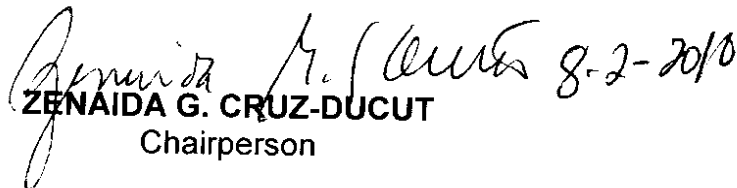
IEEC is further directed to implement its revised lifeline levels and corresponding discounts and subsidy, as follows:

The image shows three handwritten signatures in black ink. One signature is at the top right, another is at the bottom left, and a third is at the bottom center. The signatures are stylized and cursive.

KWh Consumption	Discount level
0-20 kWh	100%
21-30 kWh	30%
31-50 kWh	5%
Subsidy Charge to Non-Lifeline Customers	PhP0.1396/kWh

SO ORDERED.

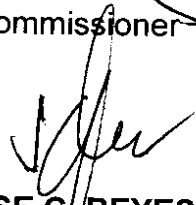
Pasig City, June 28, 2010.

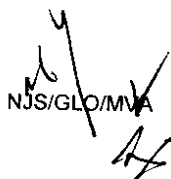

ZENAIDA G. CRUZ-DUCUT
Chairperson

(On Official Travel)
RAUF A. TAN
Commissioner


ALEJANDRO Z. BARIN
Commissioner


MARIA TERESA R. CASTAÑEDA
Commissioner


JOSE C. REYES
Commissioner


NJS/GLO/MVA

Copy Furnished:

1. Ibaan Electric and Engineering Company (IEEC)
Don Pedro Subd., Poblacion, Ibaan, Batangas
2. Atty. Cherry Grace V. Katigbak
Counsel for Applicant
Don Pedro Subd., Poblacion, Ibaan, Batangas
3. Office of the Solicitor General (OSG)
134 Amorsolo Street, Legaspi Village, Makati City
4. Commission on Audit (COA)
Don Mariano Marcos Avenue, Diliman, Quezon City
5. Senate Committee on Energy
House of Senate
GSIS Building, Roxas Boulevard, Pasay City
6. House of Representatives Committee on Energy
House of Representatives
Batasan Hills, Quezon City
7. Office of the Municipal Mayor
Ibaan, Batangas
8. Office of the Governor
Province of Batangas