

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

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IN THE MATTER OF THE
APPLICATION FOR APPROVAL OF
A) THE MAXIMUM AVERAGE PRICE
FOR THE REGULATORY YEAR 2012
(MAP₂₀₁₂) AND B) THE
TRANSLATION OF MAP₂₀₁₂ INTO
DISTRIBUTION, SUPPLY AND
METERING CHARGES FOR THE
DIFFERENT CUSTOMER CLASSES
OF CEPALCO, WITH PRAYER FOR
PROVISIONAL AUTHORITY

ERC CASE NO. 2011-101 RC

CAGAYAN ELECTRIC POWER AND
LIGHT COMPANY, INCORPORATED
(CEPALCO),

Applicant.

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DOCKETED
Date: JAN 0 6
By: *mw*

DECISION

Before the Commission for resolution is the application filed on July 15, 2011 by Cagayan Electric Power and Light Company, Incorporated (CEPALCO) for approval of: a) the Maximum Average Price for the Regulatory Year 2012 (MAP₂₀₁₂); and b) the translation of said MAP₂₀₁₂ into distribution, supply and metering charges for its different customer classes, with prayer for provisional authority.

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

1. It is a corporation duly organized and existing by virtue of the laws of the Philippines, with principal office at 44 Toribio Chaves Street, Cagayan de Oro City, where it may be served with summons and

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other legal processes, represented in this instance by its President and Chief Operating Officer, Mrs. Consuelo G. Tion. It is the exclusive franchise holder issued by the Congress of the Philippines to operate an electric light and power services in the City of Cagayan de Oro and the Municipalities of Tagoloan, Villanueva and Jasaan, all in the Province of Misamis Oriental.

2. On June 15, 2010, it filed an application for approval of its Annual Revenue Requirement (ARR) and Performance Incentive Scheme (PIS) for the Third Regulatory Period covering July 1, 2011 to June 30, 2015, docketed as ERC Case No. 2010-064 RC.
3. The Final Determination in the said application was issued by the Commission in its Decision dated June 6, 2011.
4. Pursuant to the Rules for Setting Distribution Wheeling Rates (RDWR), as updated for privately-owned distribution utilities entering performance-based regulation (PBR) at first entry point, it is required to compute its MAP for regulatory year 2012 based on the Smoothed MAP set in the said Final Determination and translate it into distribution, supply and metering charges for its different customer classes.
5. The MAP_{2012} was calculated based on the price control formula prescribed in Section 4.2.1 of Article IV of the updated RDWR, as follows:

Where regulatory year t is regulatory year 2012,

$$MAP_{2012} = SMAP_{2012} + S_t - K_t + ITA_t$$

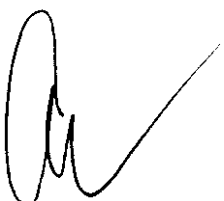
Where:

$SMAP_{2012}$ = The Smoothed Maximum Average Price for Regulatory Year 2012 calculated pursuant to Article IV, Section 4.15.4 of the updated RDWR and set in the Final Determination

S_{2012} = Performance Incentive Factor covering its performance during the twelve (12)-month period ending the 31st of December of Regulatory Year 2011

K_{2012} = Correction Factor to adjust for over and under recoveries in revenue for Regulatory Year 2011

ITA_{2012} = Tax Adjustment to adjust for over and under recovery of corporate income tax in Regulatory Year 2011. This is set to zero (0) for the Third Regulatory Period



The various components of the abovementioned price control formula were calculated in accordance with the updated RDWR and resulted to the following values:

| | |
|----------------------|----------|
| SMAP ₂₀₁₂ | 1.2491 |
| S-Factor 2012 | 0.0175 |
| K-Factor 2012 | (0.0801) |
| MAP ₂₀₁₂ | 1.3467 |

Details of the computation of each of the components of MAP₂₀₁₂ are attached to the application.

6. The proposed MAP₂₀₁₂ of PhP1.3467/kWh is then translated into distribution, supply and metering charges for the different customer classes, as follows:

| Rate Schedule/Type of Service | Distribution Charge | |
|--|---------------------|--------|
| | PhP/kWh | PhP/kW |
| 18 (Streetlight Service) | 1.3033 | - |
| 28 (Residential Service) | 1.7296 | - |
| 38 (Low Voltage General Service) | 1.5498 | - |
| 48-A (Medium Voltage, High Load Factor, General Power) | 0.1153 | 353.58 |
| 48-B (Medium Voltage, Low Load Factor, General Power) | 1.0429 | - |
| 58 (High Voltage 69 kV Service) | - | 257.42 |
| - 1 st 500 hours use of Billing Demand | 0.0713 | - |
| - All excess kWh | 0.0356 | - |
| 68 (High Voltage 138 kV Service) | - | 40.92 |
| - 1 st 500 hours use of Billing Demand | 0.0512 | - |
| - All excess kWh | 0.0256 | - |
| 68W (High Voltage 138 kV Wheeling Service) | - | 40.92 |
| - 1 st 500 hours use of Billing Demand | 0.0512 | - |
| - All excess kWh | 0.0256 | - |

| Rate Schedule/Type of Service | Supply Charge | |
|--|---------------|---------------|
| | PhP/kWh | PhP/Cust./Mo. |
| 18 (Streetlight Service) | 0.0098 | - |
| 28 (Residential Service) | 0.4736 | - |
| 38 (Low Voltage General Service) | 0.1275 | - |
| 48-A (Medium Voltage, High Load Factor, General Power) | - | 1,384.21 |
| 48-B (Medium Voltage, Low Load Factor, General Power) | - | 1,384.21 |
| 58 (High Voltage 69 kV Service) | - | 3,279.60 |
| 68 (High Voltage 138 kV Service) | - | 3,279.60 |
| 68W (High Voltage 138 kV Wheeling Service) | - | 3,279.60 |

| Rate Schedule/Type of Customer | Metering Charge | |
|-------------------------------------|-----------------|---------------|
| | PhP/kWh | PhP/Cust./Mo. |
| Residential Service Metering Charge | 0.6545 | 5.00 |
| Fixed Monthly Metering Charge | - | - |
| 1. Single-Phase Meter | - | 154.21 |
| 2. Three-Phase Meter | - | 1,115.64 |
| 3. Three-Phase, CT-Rated Meter | - | 1,239.22 |
| 4. Medium-Voltage Primary Metering | - | 5,550.79 |
| 5. High-Voltage Primary Metering | - | 26,533.24 |

7. The applicability, nature of service and other terms for each Rate Schedule are attached to the application.
8. It proposes to adopt the existing rate structure as approved by the Commission in ERC Case No. 2008-002 RC. Hence, the abovementioned charges were derived based on the procedure prescribed in Article 11.2 of the Regulatory Reset Position Paper for the 1st Entry Group for the 3rd Regulatory Period (Position Paper).
9. The detailed computation on how the rates in the proposed rate structure are derived and allocated to each customer class is attached to the application.
10. The abovementioned distribution charges for each customer class comply with the conditions set forth in Clause 6.4 of the RDWR (Side Constraints) and in Section 5.7, Final Determination of its Regulatory Reset application. The accomplished rate translation model showing, among others, the detailed computation of the Side Constraints condition is attached to the application.
11. The proposed distribution, supply and metering charges will result to reductions in the average rates of each customer class as compared to the April 2011 billing, as follows:

| Rate Schedule/Type of Service | Reduction (PhP/kWh) |
|--|---------------------|
| 18 (Streetlight Service) | (0.05) |
| 28 (Residential Service) | (0.17) |
| 38 (Low Voltage General Service) | (0.13) |
| 48-A (Medium Voltage, High Load Factor, General Power) | (0.03) |
| 48-B (Medium Voltage, Low Load Factor, General Power) | (0.04) |
| 58 (High Voltage 69 kV Service) | (0.01) |
| 68 and 68W (High Voltage 138 kV Service) | (0.04) |

12. The proposed distribution charges for each customer class were based on SMAP₂₀₁₂, hence, will apply for Regulatory Year 2012 only. The rates for subsequent regulatory years of the Third

Regulatory Period shall be reset annually in accordance with Article VI of the RDWR.

13. In support of the instant application, it has attached the following supporting documents:
 - 13.1 Computation of MAP₂₀₁₂;
 - 13.2 Computation of Over/(Under) Recovery, K-Factor;
 - 13.3 Computation of S-Factor;
 - 13.4 Proposed Tariff;
 - 13.5 Derivation of the Proposed Distribution, Supply and Metering Charges;
 - 13.6 Accomplished Rate Translation Model;
 - 13.7 Total Amount Billed to Customers for the Provision of Regulated Distribution Service for Calendar Year 2010;
 - 13.8 Revenue Derived from Related Business, Calendar Year 2010;
 - 13.9 Proceeds from Sale of Disposed Assets, Calendar Year 2010;
 - 13.10 Total Amount of Energy (in kWh) Delivered to Customers, Calendar Year 2010; and
 - 13.11 Simple Average of the Monthly One Hundred Eighty (180)-Day Manila Reference Rate, Calendar Year 2010.
14. It will comply with the requirements in Section 4(e), Rule 3 of the Implementing Rules and Regulations (IRR) of Republic Act 9136, otherwise known as the Electric Power Industry Reform Act of 2001 or the EPIRA, in relation to Rule 6 of the ERC Rules of Practice and Procedure, prior to the filing of the instant application with the Commission.
15. It states that no inter-class cross-subsidies exist in the proposed distribution rate structure, except lifeline rates and those required under existing rules and regulations.
16. The proposed distribution rate structure has been carefully evaluated by it and determined as the most reasonable and fair to all customer classes.
17. It requests for the approval of the instant application to allow it to fulfill its obligations under the PBR and to enable it to provide service in a manner that is economical, efficient and fair to all electricity end-users that it serves.
18. Finally, it prays that: a) pending resolution of the application, it be granted provisional authority to implement the proposed distribution rates and rates schedule to avoid over-recovery and for its customers to already benefit from the application; b) after due notice and proceedings, the proposed distribution rate structure be approved.



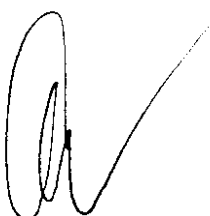
Having found said application sufficient in form and in substance with the required fees having been paid, an Order and a Notice of Public Hearing, both dated August 1, 2011, were issued setting the case for jurisdictional hearing, expository presentation, pre-trial conference and evidentiary hearing on August 25, 2011.

CEPALCO 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 Cagayan de Oro, the Municipal Mayors of Jasaan, Tagoloan and Villanueva and the Provincial Governor of Misamis Oriental were furnished with copies of the Order and Notice of Public Hearing for the appropriate posting thereof on their respective bulletin boards.

On August 18, 2011, Engr. Robert Mallillin filed his "Motion to Participate as Intervenor".



On August 19, 2011, CEPALCO submitted its "Pre-Trial Brief".

In the meantime, on August 22, 2011, the Commission issued an Order provisionally approving the instant application, the dispositive portion of which reads as follows:

"WHEREFORE, the foregoing premises considered, the Commission hereby **PROVISIONALLY APPROVES** the application filed by Cagayan Electric Power and Light Company, Incorporated (CEPALCO) for approval of: a) the maximum average price for the regulatory year 2012 (MAP₂₀₁₂); and b) the translation of said MAP₂₀₁₂ into distribution, supply and metering charges for its different customer classes, with prayer for provisional authority.

Accordingly, CEPALCO is hereby directed to **IMPLEMENT** in its next billing cycle the approved Distribution, Supply and Metering Charges, shown as follows:

| Rate Schedule | Distribution | | | Supply | | Metering | | |
|--|--------------|------------|--------|---------|-----------|----------|---------------|-------------|
| | PhP/kWh | | | PhP/kWh | PhP/Cust. | PhP/kWh | PhP/Cust. | |
| | 1st Block | All Excess | PhP/kW | | | | 1P/ Secondary | 3P/ Primary |
| (18) Streetlight | 1.3033 | | | 0.0098 | | | | |
| (28) Residential | 1.7296 | | | 0.4736 | | 0.6545 | 5.00 | |
| (38) Commercial | 1.5498 | | | 0.1275 | | | 154.21 | 1,115.64 |
| (48-A) Ind. (High Load Factor) | 0.1153 | | 353.58 | | 1,384.21 | | 1,239.22 | 5,560.79 |
| (48-B) Ind. (Low Load Factor) | 1.0429 | | | | 1,384.21 | | 1,239.22 | 5,560.79 |
| (58-58W) Bulk Power (bundled & wheeling) | 0.0713 | 0.0356 | 257.42 | | 3,279.60 | | | 26,533.24 |
| (68-68W) Bulk Power (bundled & wheeling) | 0.0512 | 0.0256 | 40.92 | | 3,279.60 | | | 26,533.24 |

During the August 25, 2011 initial hearing, only CEPALCO and Engr. Mallillin appeared. No other intervenor/oppositor appeared nor was there any other intervention/opposition registered.

At the said hearing, CEPALCO presented its proofs of compliance with the Commission's posting and publication of notice requirements which were duly

marked as Exhibits "D" to "L-1", inclusive. Thereafter, it conducted an expository presentation of its application.

Subsequently, the Commission conducted a pre-trial conference where the parties stipulated on the facts and issues to be resolved in the instant application.

At the termination of the pre-trial conference, CEPALCO presented its lone witness, Engr. Richard S. Ratunil, its Economic Regulatory Compliance Officer, who testified, among others, that: a) the proposed MAP₂₀₁₂ is in accordance with the Commission's guidelines and is fair and reasonable; b) the adoption of the distribution rate structure approved in ERC Case No. 2008-002 RC¹ for the third regulatory period (except minor change in Rate Schedule 47) is, likewise, fair and reasonable; and c) the proprietary on the prayer for provisional authority.

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

The direct examination having been terminated, the said witness was lengthily cross-examined by Engr. Mallillin. Thereafter, he was required to address the clarificatory questions propounded by the Commission.

¹ In the Matter of the Application for Approval of the Translation Into Distribution Rates of Different Customer Classes for the First Regulatory Year of the ERC-Approved Annual Revenue Requirement for CEPALCO Under the Performance Based Regulation (PBR) for the Regulatory Period 2007-2011, CEPALCO – Applicant



CEPALCO was directed to submit various documents to facilitate the evaluation of the instant application. Thus, it moved that it be given a period of fifteen (15) calendar days from said date of hearing within which to submit its formal offer of evidence. Said motion was granted.

Meanwhile, Engr. Mallillin manifested that he will not be presenting any evidence nor will be filing any comment on the said formal offer of evidence.

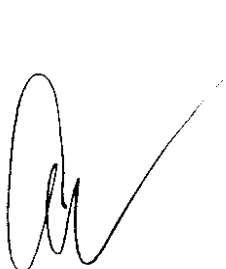
On September 7, 2011, CEPALCO filed its "Compliance".

On September 8, 2011, CEPALCO filed its "Formal Offer of Evidence" which is hereby admitted for being relevant and material in the final resolution of this application.

DISCUSSION

In the Decision and Final Determination both dated June 6, 2011 issued by the Commission in ERC Case No. 2010-064 RC², CEPALCO's approved $SMAP_{2012}$ is equivalent to PhP1.2491/kWh. The proposed MAP of PhP1.3467/kWh [$SMAP_{2012} = 1.2491$, $S\text{-Factor}_{2012} = 0.0175$ and $K\text{-Factor}_{2012} = (0.0801)$] is to be translated into Distribution, Supply and Metering Charges for CEPALCO's different customer classes. The existing rate structure was adopted wherein the proposed rates were derived and allocated to each customer class. Compared to CEPALCO's existing MAP of PhP1.5705/kWh, the proposed

² In the Matter of the Application for Approval of the Maximum Average Price for the 4th Regulatory Year of the 2nd Regulatory Period (MAP₂₀₁₁), CEPALCO – Applicant



MAP₂₀₁₂ of PhP1.3467/kWh will result to a reduction in rates at an average of PhP0.2238/kWh.

CEPALCO was provided a model for the translation of its rates. The design of said model is consistent with the RDWR and the Commission's policy on cross-subsidies.

Shown below is a comparison between CEPALCO's existing and proposed MAPs for its different customer classes:

| Customer Classes | Units | Existing Rates (a) | Proposed Rates (RY 2012) (b) | Increase (Decrease) (a-b) |
|---|---------------|-----------------------|------------------------------------|---------------------------------|
| DISTRIBUTION | | | | |
| (18) Streetlight | PhP/kWh | 1.3488 | 1.3033 | (0.0455) |
| (28) Residential | PhP/kWh | 1.8294 | 1.7296 | (0.0998) |
| (38) Commercial | PhP/kWh | 1.6314 | 1.5498 | (0.0816) |
| (48-A) Ind. (High Load Factor) | PhP/kWh | 0.1154 | 0.1153 | (0.0001) |
| | PhP/kW | 395.81 | 353.58 | (42.23) |
| (48-B) Ind. (Low Load Factor) | PhP/kWh | 1.0528 | 1.0429 | (0.0099) |
| (58-58W) Bulk Power (bundled & wheeling) | PhP/kWh | 0.0946 | 0.0713 | (0.0233) |
| | PhP/kW | 271.25 | 257.42 | (13.83) |
| (58-58W) Excess kWh | PhP/kWh | 0.0473 | 0.0356 | (0.0117) |
| (68-68W) Bulk Power (bundled & wheeling) | PhP/kWh | 0.0698 | 0.0512 | (0.0186) |
| | PhP/kW | 51.06 | 40.92 | (10.14) |
| (68-68W) Excess kWh | PhP/kWh | 0.0349 | 0.0256 | (0.0093) |
| SUPPLY | | | | |
| (18) Streetlight | PhP/kWh | 0.0090 | 0.0098 | 0.0008 |
| (28) Residential | PhP/kWh | 0.5009 | 0.4736 | (0.0273) |
| (38) Commercial | PhP/kWh | 0.1319 | 0.1275 | (0.0044) |
| (48-A) Ind. (High Load Factor) | PhP/Cust./Mo. | 1,700.19 | 1,384.21 | (315.98) |
| (48-B) Ind. (Low Load Factor) | PhP/Cust./Mo. | 1,700.19 | 1,384.21 | (315.98) |
| (58-58W) Bulk Power (bundled & wheeling) | PhP/Cust./Mo. | 3,085.61 | 3,279.60 | 193.99 |
| (68-68W) Bulk Power (bundled & wheeling) | PhP/Cust./Mo. | 4,514.37 | 3,279.60 | (1234.77) |
| METERING | | | | |
| (28) Residential | PhP/kWh | 0.6939 | 0.6545 | (0.0394) |
| | PhP/Cust./Mo. | 5.00 | 5.00 | 0.00 |
| (38) Commercial (1 phase) | PhP/Cust./Mo. | 178.80 | 154.21 | (24.59) |
| (38) Commercial (3 phase) | PhP/Cust./Mo. | 1,307.36 | 1,115.64 | (191.72) |

| Customer Classes | Units | Existing Rates (a) | Proposed Rates (RY 2012) (b) | Increase (Decrease) (a-b) |
|--|----------------|--------------------|------------------------------|---------------------------|
| (48-A) Ind. (Primary Metered) | PhP/Cust./Mo. | 20,806.98 | 5,550.79 | (15,256.19) |
| (48-B) Ind. (Primary Metered) | PhP/Cust./Mo. | 20,806.98 | 5,550.79 | (15,256.19) |
| (48-A) Ind. (Secondary Metered) | PhP/Cust./Mo. | 1,406.55 | 1,239.22 | (167.33) |
| (48-B) Ind. (Secondary Metered) | PhP/Cust./Mo. | 1,406.55 | 1,239.22 | (167.33) |
| (58-58W) Bulk Power (bundled & wheeling) | PhP/Cust./Mo. | 25,566.96 | 26,533.24 | 966.28 |
| (68-68W) Bulk Power (bundled & wheeling) | PhP/Cust./Mo. | 33,437.69 | 26,533.24 | (6,904.45) |
| AVERAGE TOTAL RATE | PhP/kWh | 1.5705 | 1.3467 | (0.2238) |

1. MAP₂₀₁₂ Translation Into Distribution Rates

The rate schedules and the rates applied for by CEPALCO were thoroughly evaluated by the Commission and were found to be reasonable and in accordance with the Final Determination and with the requirements of the RDWR.

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

The overall reduction in CEPALCO's existing rate of PhP1.5705/kWh vis-à-vis its MAP₂₀₁₂ of PhP1.3467/kWh is PhP0.2238/kWh.

WHEREFORE, the foregoing premises considered, the provisional authority granted to Cagayan Electric Power and Light Company, Incorporated (CEPALCO) on August 22, 2011 is hereby made **PERMANENT**.

SO ORDERED.

Pasig City, December 19, 2011.


ZENAIDA G. CRUZ-DUCUT
Chairperson


MARIA TERESA R. CASTAÑEDA
Commissioner


JOSE C. REYES
Commissioner


ALFREDO J. NON
Commissioner


GLORIA VICTORIA C. YAP-TARUC
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