

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 MERALCO UNDER THE
PERFORMANCE BASED
REGULATION (PBR) FOR THE
REGULATORY PERIOD 2007-2011,

ERC CASE NO. 2008 - _____

MANILA ELECTRIC COMPANY,
Applicant.
X-----X

APPLICATION

Applicant **MANILA ELECTRIC COMPANY** (“**MERALCO**”), by counsel,
respectfully states:

1. Applicant MERALCO is a private corporation existing under the laws of the Republic of the Philippines, with principal office located at Lopez Building, Meralco Center, Ortigas Avenue, Pasig City. It may be served with notices and other processes of this Honorable Commission at its principal office address or through its counsel at the address indicated herein.

2. Applicant has a legislative franchise to operate and maintain a distribution system in the cities/municipalities of Metro Manila, Bulacan, Cavite and Rizal and certain cities/municipalities/barangays in Batangas, Laguna, Quezon and Pampanga, pursuant to Republic Act No. 9209, and is authorized to charge all

its customers for their electric consumption at the rates approved by the Honorable Commission.

3. Applicant was among the first entrants to the Performance Based Regulation (PBR) rate setting methodology adopted by this Honorable 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 September 1, 2006, Applicant filed an application for approval of its Annual Revenue Requirement for the Second Regulatory Period covering the period from July 1, 2007 to June 30, 2011. Said application was docketed as ERC Case No. 2006-045 RC.

4. Thereafter, the Honorable Commission, in the aforesaid case, issued the Final Determination for the Applicant contained in its Decision dated August 30, 2007.

5. Under ERC Resolution No. 36, Series of 2006, or the "Rules for Setting Distribution Wheeling Rates (RDWR) for Privately Owned Distribution Utilities Entering Performance Based Regulation (First Entry Point)" ("RDWR"), the PBR-entrant distribution utility will be given an Annual Revenue Requirement (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.

6. In compliance therewith, last January 11, 2008, the Applicant filed an application for the approval of the translation into distribution rates of different customer classes of its approved Maximum Average Price (MAP) for the First Regulatory Year (1 July 2007-30 June 2008) of the Second Regulatory Period,

docketed as ERC Case No. 2008-004RC. Said application is now submitted for the decision of this Honorable Commission. The MAP of P1.167 for Regulatory Year 2008 accounts for around 14.60% of the average total bill of the Applicant to its customers.

7. The approved MAP for the first regulatory year of P1.167 per kWh was originally scheduled for implementation last July 2007. The implementation, however, had been delayed for reasons outside of the reasonable control of the Applicant. Nonetheless, Article IV, Section 4.3.4 of the RDWR provides an Over/Under Recovery Formula, which uses a Correction Factor for adjustments in the previously approved MAP in the Final Determination to account for over/under recoveries in the previous Regulatory Years. As will be further explained below, the adjustments in the MAP due to these over/underrecoveries will impact the proposed distribution rates to be passed-on to Applicant's customers.

8. Under Article VI, Section 6.2 of the RDWR, Applicant is required to submit its proposal for the maximum distribution wheeling rates to be charged for the provision of Regulated Distribution Services during the Application Year, together with a statement demonstrating compliance of these proposed rates with the requirements of the RDWR and the Distribution Service and Open Access Rules (DSOAR), on or before April 30 immediately preceding the commencement of the Application Year or Regulatory Year. For Regulatory Year 2009, the deadline to comply with the above provisions of the RDWR is on April 30, 2008. Thus, the instant Application is being filed in compliance with the RDWR and despite the pendency of Applicant's previous application for the translation of distribution rates for the First Regulatory Year (ERC Case No. 2008-004RC).

9. The calculation of the MAP for the Second Regulatory Year (July 2008-June 2009) of the Second Regulatory Period (MAP_{2009}) was done in accordance with the following Price Control Formula under Article IV, Section 4.2.1 of the RDWR, which provides:

$$MAP_t = [MAP_{t-1} \times \{ 1 + CWI_t - X \}] + S_t - K_t + ITA_t$$

Where:

MAP_t = Approved MAP for Regulatory Year t-1

CWI_t = Change in Weighted Index for Regulatory Year t

X = Smoothing Factor as prescribed by the Final Determination

S_t = Performance Incentive Factor for Regulatory Year t

K_t = Correction Factor to adjust for over or under recovery of revenue in the Regulatory Year t

ITA_t = Tax adjustment to adjust for over or under recovery of corporate income tax in Regulatory Year t; this is zero for Regulatory Year 2008 and 2009

The formula, as translated to Regulatory Year 2009, will be as follows:

$$MAP_{2009} = [MAP_{2008} \times \{ 1 + CWI_{2009} - X \}] + S_{2009} - K_{2009}$$

10. The various components of the Price Control Formula were calculated in accordance with the RDWR to arrive at the following values:

MAP_{2008}	1.1669
CWI_{2009}	(0.0211)
X	(0.0462)
S_{2009}	0.0066
K_{2009}	0.1580
MAP_{2009}	1.3607

The MAP_{2009} of P1.3607 per kWh will account for around 16.6% of the average total charges to Applicant's customers.

11. The MAP_{2009} of P1.3607 per kWh carries a correction factor of P0.1580 per kWh as a result of delays in the implementation of the MAP of the first regulatory year, which resulted in under-recoveries. The MAP_{2009} , without under-

recoveries, is calculated to be at a lower P1.2557 per kWh, which is closer to the MAP of P1.260 per kWh provided in the Final Determination.

a) The negative Change in Weighted Index (CWI₂₀₀₉) of -0.0211 was brought about by the Philippine peso's strong appreciation against the US dollar. As a result thereof, the MAP₂₀₀₉ was reduced by P0.0643 per kWh. The foregoing fact mitigated the effect of the underrecoveries on the resultant MAP₂₀₀₉.

b) The detailed calculation of the MAP for Regulatory Year 2009 is further explained in the Affidavit of Mr. Roderick Dennison N. Nacu, Senior Superintendent, Utility Economics - Area Development of the Applicant, attached hereto as **Annex "A"** and made an integral part hereof.

12. The MAP₂₀₀₉ of P1.3607 per kWh is then broken down into the unbundled components of Distribution Charge, Supply Charge and Metering Charge, with the following resulting figures:

Distribution Charge	P 0.8992 per kWh
Supply Charge	P 0.2941 per kWh
Metering Charge	P 0.1674 per kWh
TOTAL	P1.3607 per kWh

13. The rate structure proposed in ERC Case No. 2008-004RC will be adopted for the instant application. Some of the salient features of the proposed rates are as follows:

On the Distribution Charge:

(a) For Residential and General Service A customers, a uniform increase per kWh for the different rate brackets is proposed to limit the rate difference between brackets to the level in the first regulatory year.

- (b) For General Service B and General Power customers, both the per kW and per kWh rates were adjusted based on a more or less uniform percent increase from the rates in the first regulatory year except for the 115 kV customers where the percentage increase was lower to gradually phase in the desired rates for this customer segment.

On the Supply and Metering Charges:

- (c) For all customer classes, both the per kWh and per customer charges were similarly adjusted based on a more or less uniform percent increase from the rates in the first regulatory year.

On the Other Rate Items:

- (d) The special discount for Private Hospitals & Schools was maintained at 5% for both General Service and General Power customers. The discount is applied to the sum of the customer's Distribution, Supply and Metering Charges.
- (e) The 10% special discount was likewise maintained for Government Hospitals, Metered Streetlights and Charitable Institutions (GHMSCI).
- (f) The power factor adjustment (PFA) formula as proposed in the first regulatory year was also adapted.
- (g) Step 2 of the gradual removal of the Lifeline Discount for General Service A will be implemented based on the schedule as shown below:

	Up to 50kWh	51-70 kWh	71-100kWh
Present Rates	50%	35%	20%
Step 1 (July 2007-Jun 2008)	40%	30%	15%
Step 2 (July 2008-Jun 2009)	30%	20%	10%
Step 3 (Jul 2009-Jun 2010)	20%	10%	5%
Step 4 (Jul 2010-Jun 2011)	10%	5%	5%

- (h) The minimum charge of P23.60 per customer per month (covering supply and metering charges) for residential and general service customers will still not be subject to lifeline discount.

14. The Honorable Commission prescribed Side Constraint Conditions in order to prevent price shocks to customer segments. As indicated in Section 6.4 of the RDWR, the maximum rates that may be charged to customers should not exceed the Side Constraint Condition of $1+CWI_t+SC_t$. The value of SC_{2009} was already set at a fixed level of 7.6% in the Final Determination, while the CWI_{2009} which compares the annual values of financial indices ending March 2007 and March 2008, is calculated at -2.11%. This resulted in a Side Constraint level of

5.49%. The detailed calculation of the Side Constraint Condition is attached hereto as **Annex “B”** and made an integral part hereof.

15. The proposed MAP₂₀₀₉ already exceeded the Side Constraint limit in the over-all, mainly as a result of the delay in the regulatory reset schedules. Thus, the Applicant cannot implement the rates as determined by the RDWR on an across-the board basis. To address this, Applicant respectfully proposes a waiver of the Side Constraint Condition for this application, which is reasonable and justifiable in order to implement the adjustment and thus prevent unnecessary build up of under-recoveries in future filings that would be more prejudicial to both the Applicant, in terms of additional burden on its cash flow, and the consumers, in terms of additional carrying costs.

16. With the waiver of the Side Constraint Condition, the distribution rate structure will basically be patterned after that proposed in ERC Case No. 2008-004RC. In effect, Applicant would still be adopting the distribution rate structure approved by the Commission in its Unbundling Decision in ERC Case Nos. 2001-900 and 2001-646, with modifications. It is Applicant’s intention to gradually rebalance its tariffs in its future applications to implement the MAP for the succeeding regulatory years/period until such time that the desired tariff structure is achieved.

17. The rate schedules, which incorporate all the changes enumerated in the preceding paragraphs, are attached as Annexes **“C” to “C-10”** and made integral parts hereof, to wit:

<u>Schedule</u>	<u>Rate Schedule</u>	<u>Annex</u>
a. RS-R-2	Residential Service – Retail	Annex “C”
b. RS-W-2	Residential Service – Wheeling	Annex “C-1”
c. GS-R-2	General Service – Retail	Annex “C-2”

- d. GS-W-2 General Service – Wheeling Annex “C-3”
- e. GP-R-2 General Power – Retail Annex “C-4”
- f. GP-W-2 General Power – Wheeling Annex “C-5”
- g. GP-ODPS-2 General Power with ODPS Annex “C-6”
- h. GHMSCI-R-2 Government Hospitals, Metered
Streetlighting & Charitable Institutions-
Retail Annex “C-7”
- i. GHMSCI-W-2 Government Hospitals, Metered
Streetlighting & Charitable Institutions-
Wheeling Annex “C-8”
- j. FS-R-2 Flat Streetlighting-Retail Annex “C-9”
- k. FS-W-2 Flat Streetlighting-Wheeling Annex “C-10”

18. The impact of the proposed rate changes on typical consumption levels of the different customer classes is shown in **Annexes “D” to “D-11”**, which are made integral parts hereof, to wit:

- a. Residential Service Annex “D”
- b. General Service A – Step 2 Annex “D-1”
- c. General Service B Annex “D-2”
- d. General Power Medium Secondary Annex “D-3”
- e. General Power Large 13.8/13.2 kV Annex “D-4”
- f. General Power Very Large 34.5 kV Annex “D-5”
- g. General Power Extra Large 115 kV Annex “D-6”
- h. GP with ODPS – 34.5 kV (ODPS load) Annex “D-7”
- i. GP with ODPS– 115 kV (ODPS load) Annex “D-8”
- j. Government Hospitals/Charitable Institutions Annex “D-9”
- k. Metered Streetlights Annex “D-10”
- l. Flat Streetlights Annex “D-11”

19. The proposed rate structure is shown below:

PROPOSED RATE STRUCTURE								
Rate Schedule	Customer Class	Rate Brackets	Distribution Charge		Supply Charge		Metering Charge	
			Per kW	Per kWh	Per Cust.	Per kWh	Per Cust.	Per kWh
RS-R-1 & RS-W-1	Residential	Up to 200 kWh		0.9373	18.10	0.5450	5.50	0.3531
		201-300 kWh		1.3111	18.10	0.5450	5.50	0.3531
		301-400 kWh		1.6635	18.10	0.5450	5.50	0.3531
		401 kWh & Over		2.2775	18.10	0.5450	5.50	0.3531
GS-R-1 & GS-W-1	General Service A	Up to 200 kWh		0.9373	18.10	0.5450	5.50	0.3531
		201-300 kWh		1.3111	18.10	0.5450	5.50	0.3531
		301-400 kWh		1.6635	18.10	0.5450	5.50	0.3531
		401 kWh & Over		2.275	18.10	0.5450	5.50	0.3531
GS-R-1 & GS-W-1	General Service B		156.00	0.0250	796.50		372.00	

GP-R-1 & GS-W-1	General Power	Secondary (480 Volts & Below)	156.00	0.0250				
		Primary 34.5 kV & Below	152.50	0.0250				
		Primary 115 kV & 69 kV	140.00	0.0250				
		Medium (40kW ≤Demand<200kW)			1,750.00		853.00	
		Large (200kW ≤Demand<750kW)			9,230.00		3,570.00	
		Very Large & Extra Large (750kW≤Demand)			15,300.00		12,375.00	
GP-ODPS-1	General Power with ODPS (ODPS Load)	115 kV and 69 kV		0.4200				
		34.5 KV and below		0.5200				
GHMSCI-R-1 & GHMSCI-W-1	Government Hospitals, Metered Streetlighting & Charitable Institutions			0.8100	320.00		273.00	
				Per Lamp	Per Lamp			
FS-R-1 & FS-W-1	Flat Streetlighting	125 W Mercury, 70 W HPS or their equivalent		135.00	29.88			
		250 W Mercury, 150 W HPS or their equivalent		270.00	59.76			
		400 W Mercury, 250 W HPS or their equivalent		432.00	95.62			
		400 W HPS or its equivalent		690.00	152.72			

20. To promote demand side management by providing incentives for shifting peak loads to off-peak hours and increasing off-peak consumption, Applicant will be filing an application for TOU-based rates for customers that currently do not meet the demand/consumption threshold under the approved TOU rate but have the ability to shift/increase consumption during off-peak hours.

These customers may include, among others, services for water pumping and irrigation and lighting/cooling uses for various commercial establishments

21. To enable the Applicant to implement in a timely manner its capital expenditure program and address its operating and maintenance requirements for the Second Regulatory Period, particularly for the Regulatory Year 2009 (1 July 2008 to 30 June 2009), and avert financial prejudice to both the Applicant and its consumers, it is necessary and indispensable that a Provisional Authority be immediately issued authorizing the Applicant to implement the new rates pending hearing on the merit of the instant application. To explain the proposed rate schedules and distribution rate structure of the Applicant, and in support of the prayer for Provisional Authority, attached as **Annex "E"**, and made integral part hereof, is the affidavit of Ms. Noemi B. Jimenez, Senior Manager and Head of Applicant's Utility Economics Retail Rates and Pricing.

PRAYER

WHEREFORE, applicant MANILA ELECTRIC COMPANY respectfully prays that this Application be approved authorizing the Applicant to adopt the distribution rate structure and rate schedules as proposed herein.

Pending the necessary public hearing, Applicant further prays for the issuance of a temporary/provisional authority to implement the proposed distribution rate structure and rate schedules.

Applicant prays for such other relief just and equitable under the premises.

Pasig City, 28 March 2008.

MANILA ELECTRIC COMPANY
Regulatory Legal Office
8th Floor, Lopez Building
Ortigas Center, Pasig City

By:

JOSE RONALD V. VALLES
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Republic of the Philippines)
Pasig City) S.S.

VERIFICATION

I, **IVANNA G. DELA PEÑA**, Filipino, of legal age and with office address at 12th Floor, Lopez Building, Ortigas Avenue, Pasig City, after being sworn to in accordance with law, depose and say, that –

1. I am the Vice-President and Head, Utility Economics of Applicant MANILA ELECTRIC COMPANY:

2. I have been authorized by the Board of Directors of the Applicant to cause the preparation and filing of the instant Application. Attached as **Annex “F”** is the Secretary’s Certificate authorizing the undersigned to represent the Applicant in this Application and to sign this Verification;

3. I have read and understood the allegations contained therein and that the same are true and correct based on my personal knowledge and authentic records made available to me in the ordinary course of business of the Applicant.

IN WITNESS WHEREOF, I have hereunto affixed my signature this 28th day of March 2008 at Pasig City, Philippines.

IVANNA G. DELA PEÑA

SUBSCRIBED AND SWORN to before me this 28th day of March 2008, by affiant who exhibited to me her Driver’s License No. N01-87-064310, with expiry date on October 15, 2010.

Doc. No. ____;
Page No. ____;
Book No. ____;
Series of 2008.

Republic of the Philippines)
Pasig City) S.S.

CERTIFICATION AGAINST NON-FORUM SHOPPING

I, **ANTHONY V. ROSETE**, Filipino, of legal age and with office address at 8th Floor, Lopez Building, Ortigas Avenue, Pasig City, after being sworn to in accordance with law, depose and say, that –

1. I am a Senior Assistant Vice-President and Assistant Corporate Secretary of Applicant MANILA ELECTRIC COMPANY;

2. I have been authorized by the Board of Directors to certify that Applicant has not heretofore commenced any other action or proceeding involving the same issues in the Supreme Court, the Court of Appeals, or any other tribunal or agency and to the best of my knowledge, no such action or proceeding is pending in the Supreme Court, the Court of Appeals, or any other tribunal or agency. A copy of the Secretary's Certificate authorizing the undersigned to sign this certification is attached as **Annex "F"** and made integral part hereof;

3. If I should hereafter learn that a similar action or proceeding has been filed or is pending before the Supreme Court, the Court of Appeals, or any other tribunal or agency, I undertake to report such fact within five (5) days therefrom to this Honorable Commission.

IN WITNESS WHEREOF, I have hereunto affixed my signature this 28th day of March 2008 at Pasig City, Philippines.

ANTHONY V. ROSETE

SUBSCRIBED AND SWORN to before me this 28th day of March 2008, by affiant who exhibited to me his Driver's License No. N16-77-000607, with expiry date on January 12, 2009.

Doc. No. ____;
Page No. ____;
Book No. ____;
Series of 2008.