

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

IN THE MATTER OF THE  
APPLICATION FOR APPROVAL OF  
THE MAXIMUM AVERAGE PRICE  
FOR THE 4<sup>th</sup> REGULATORY YEAR  
OF THE 2<sup>nd</sup> REGULATORY PERIOD  
(MAP<sub>2011</sub>)

**ERC CASE NO.** \_\_\_\_\_

CAGAYAN ELECTRIC POWER AND  
LIGHT CO., INC. (CEPALCO),

Applicant

x ----- /

**APPLICATION**

Applicant CAGAYAN ELECTRIC POWER AND LIGHT CO., INC. (also referred as "CEPALCO" for brevity), through undersigned counsels, and unto this Honorable Commission, most respectfully states that:

1. Applicant 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 other legal processes, represented in this instance by its President and Chief Operating Officer, MRS. CONSUELO G. TION, of legal age, Filipino, married and with office address also at 44 Toribio Chaves Street, Cagayan de Oro City. Herein applicant is the exclusive franchise holder issued by 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. Applicant is an entrant to the Performance-Based Regulation (PBR) rate setting methodology, and a Final Determination was already issued to it in a Decision dated September 12, 2007, in its application for approval of its Annual Revenue Requirement and Interim Performance Incentive Scheme for the Second

Regulatory Period covering from July 1, 2007 to June 30, 2011, in ERC Case No. 2006-041RC;

3. Following the guidelines governing PBR for distribution utilities, “Rules in Setting Distribution Wheeling Rates” (RDWR), applicant filed an application before this Honorable Commission for the approval of its conversion of the ERC-approved Maximum Average Price (MAP) for Regulatory Year (RY) 2008, into its distribution rate structure applicable for RY 2008, which is docketed as ERC Case No. 2008-002 RC, and for which a Decision was issued by this Honorable Commission dated July 7, 2008. Per same guidelines which require entrant utilities to seek approval of its annual MAP, it filed for approval of its MAP for regulatory years 2009 (MAP 2009, covering July 1, 2008 to June 30, 2009, ERC Case No. 2008-014RC), 2010 (MAP 2010, covering July 1, 2009 to June 30, 2010, ERC Case No. 2009-017RC).

4. Following the same requirement, it is now filing this application for approval of its Maximum Average Price for regulatory year 2011 (MAP<sub>2011</sub>), the last regulatory year for the 2<sup>nd</sup> Regulatory Period, which will cover the period from July 1, 2010 to June 30, 2011.

5. Based on the pricing formula prescribed in Section 4.2.1(b) of the amended RDWR, the Maximum Average Price for RY 2011 is determined to be in the amount of P2.8194/kWh, computed based on the formula as prescribed, as follows:

$$\text{MAP}_{2011} = \text{MAP}_{2010} \times (\text{CWI}_{2011} - X) - K_{2011} + S_{2011} + \text{ITA}_{2011}$$

(ITA<sub>2011</sub> is zero as per Clause 4.4.3 of the updated RDWR)

Details of the computation are in Annex I (A), while the Change in Weighted Index (CWI<sub>2011</sub>), Performance Incentive Factor (S<sub>2011</sub>), and Correction Factor (K<sub>2011</sub>), which are the variables in the above formula are as shown in Annex F, H and E, respectively, in the supporting documents attached to this Application.

6. Pursuant to Section 8.1.1 of the Position Paper for the 1<sup>st</sup> Entrants for 3<sup>rd</sup> RP, CEPALCO calculated the accumulated under-recoveries for the period July 1, 2007 up to June 30, 2009, as follows:

**Table 1**

	Under-recovery, P/kWh	kWh Sales	Total Under-recovery, Peso
July 1, 2007 - December 2007	0.1351	364,911,625	49,285,033
January - December 2008	0.3907	758,209,509	296,230,113
January – June 30, 2009	0.1496	371,978,289	55,654,426
<b>Total</b>	<b>0.6754</b>		<b>401,169,572</b>

Details of the computation can be found in Annexes I-1 to I-4

7. As provided in said Section, the said accumulated under-recoveries in the 2<sup>nd</sup> RP shall be carried-over to the 3<sup>rd</sup> Regulatory Period. With this mechanism, the Maximum Average Price for RY 2011 will also be re-computed to consider this carry-over of under-recoveries. The recomputed MAP for RY 2011 will be P1.5167/kWh. Details of the computation are in Annex I (B).

8. The Commission has set a Side Constraint (SC) of 3.62% for regulatory year 2011, as per Clause 9.8.3 of the Final Determination in its regulatory reset for the 2<sup>nd</sup> regulatory period. With a CWI of 2.67%, the total Side Constraint applicable for regulatory year 2011 is 6.29%.

9. The computed MAP for regulatory year 2011 of P1.5167/kwh when translated into distribution charges, will result to a rate level that will not breach the said total Side Constraint, for each of the customer classes, as could be shown in the table below:

**Table 2**

Rate Schedule	$\frac{((FCR_{k,t} / FQ_{k,t}) - S_t) - ((CR_{k,t-1} / AQ_{k,t-1}) - S_{t-1})}{((CR_{k,t-1} / AQ_{k,t-1}) - S_{t-1})} \leq (CWI_t + SC_t)$		
17	0.0272	This is less than the SC hence OK	0.0629
27	0.0278	- same -	0.0629
37	0.0272	- same -	0.0629
47-A	0.0328	- same -	0.0629
47-B	0.0220	- same -	0.0629
57-57W	0.0526	- same -	0.0629
67-67W	0.0003	- same -	0.0629

10. As shown above, the SC of 0.0629 was not breached, while on the other hand, there is a huge amount of under-recoveries covering the period July 1, 2007 to June 30, 2009, which total P401,169,572 and these under-recoveries as earlier stated will be carried over to the third regulatory period.

11. In order to reduce the amount of under-recoveries that will be carried over to the third regulatory period so as to lessen rate increases in that period resulting from such carry over, it is proposed that the SC allowance be maximized by including a portion of these under-recoveries in the MAP. With this proposal, the Maximum Average Price will increase from P1.5167/kWh to P1.5745/kWh or an increment of P0.0578/kWh only.

12. This proposed MAP of P1.5745/kWh will result to a reduction of the total under-recoveries in the amount of P36,624,569 or from P401,169,572 to P364,545,004, aside from fully applying the SC allowance. Detail of the computation is shown in Annex I-1.

13. This proposed MAP will be converted into rates for the different customer classes as shown in the table below:

**Table 3**

Rate Schedule	Distribution			Supply	
	P/kWh		P/kW	P/kWh	P/Customer
	1st Block	All Excess			
17	1.3893	-	-	0.0092	-
27	1.8814	-	-	0.5152	-
37	1.6787	-	-	0.1357	-
47-A	0.1175	-	402.90	-	1,730.63
47-B	1.0947	-	-	-	1,767.82
57-57W	0.0929	0.0465	266.51	-	3,031.65
67-67W	0.0736	0.0368	53.80	-	4,756.68

Rate Schedule	Metering		
	P/kWh	P/Customer	
		1P/Secondary	3P, Primary
17	-	-	-
27	0.7146	5.00	-
37	-	183.99	1,345.29
47-A	-	1,431.74	21,179.53
47-B	-	1,462.50	21,634.59
57-57W	-	-	25,119.82
67-67W	-	-	35,232.44

14. The above rates are allocated based on applicant's approved distribution rate structure in ERC Case No. 2008-002 RC as mentioned above.

15. The proposed MAP will be compliant with Section 6.5 of the RDWR on Other Parameters;

16. In support of this application, the applicant has attached the following supporting documents:

<b>ANNEXES</b>	<b>RDWR Reference</b>	<b>CONTENTS</b>
Annex A	Section 6.2.1 (a) (i)	Amount billed to customers for the provision of Regulated Distribution Services, for the 12-month period ending 31 December 2009 (Historical Period)
Annex A-1	Section 6.2.1 (a) (i)	Normalized amount billed to customers under Rate Schedules 86 and 86-A for the provision of Regulated Distribution Services for the 12-month period ending 31 December 2009 (Historical Period)
Annex B	Section 6.2.1 (a) (ii)	Net Income derived from Related Business for the 12-month period ending 31 December 2009 (Historical Period)
Annex C	Section 6.2.1 (a) (iii)	Total amount of energy (in kWh) delivered to all customers during the 12-month period ending 31 December 2009 (Historical Period)
Annex D	Section 6.2.1 (a) (iv)	Simple average of the monthly 180 day weighted-average Manila Reference Rate in nominal % per annum as published by the BSP
Annex E	Section 6.2.1 (a) (v)	Correction Factor, K, applicable for RY <sub>2011</sub>
Annex E-1	Section 4.3.1 (a)(ii)	Actual Income fro Sale of Disposed Assets for CY 2009
Annex F	Section 6.2.1 (a) (vi)	Change in Weighted Index applicable for RY <sub>2011</sub>
Annex F-1	Section 3.3.2	Computation of the change in CPI (Delta CPI)
Annex F-2	Section 3.3.3	Computation of the change in Php/US\$ Exchange Rate (Delta USER)
Annex F-3	Section 3.3.3	Daily PhP/US\$ exchange rate as published by the BSP
Annex F-4	Section 12.5	Determination of the value of W1 and W2

<b>ANNEXES</b>	<b>RDWR Reference</b>	<b>CONTENTS</b>
Annex G	Section 6.2.1 (a) (vii)	Income Tax Adjustment for RY <sub>2011</sub>
Annex H		Computation of S-Factor for RY <sub>2011</sub>
Annex H-1		Monthly System Performance for CY 2009
Annex I	Section 6.2.1 (a) (viii)	The Maximum Average Price (in P/kWh) applicable for RY <sub>2011</sub>
Annex I-1		Computation of Accumulated Under-recoveries for the period July 1, 2007 to June 30, 2009
Annex I-2		Computation of under-recoveries for July to December 2007
Annex I-3		Computation of under-recoveries for January to December 2008
Annex I-4		Computation of under-recoveries for January to December 2009
Annex J	Section 10.2 of Position Paper	Conversion of the Maximum Average Price into rates for each customer segments, applicable for RY <sub>2011</sub>
Annex K	Section 6.4	Computation of Side Constraints (SC)
Annex K-1	Section 6.3.3(a)	Total amount forecasted to be billed to customers during the 12 month period ending 31 December in the Application Year (i.e. CY 2010)
Annex K-2	Section 6.3.2(a)	Normalized amount billed to customers during the Historical Period (i.e., CY 2010)
Annex L		Computation of Distribution Charges for RY 2011 at Full SC
Annex L-1		Computation of SC at full
Annex L-2		Total amount forecasted to be billed to customers during the 12 month period ending 31 December in the Application Year (i.e. CY 2010) at Full SC

17. Applicant will comply with the requirements in Section 4 (e), Rule 3 of the Rules and Regulations of Republic Act 9136, in relation to Rule 6 of the ERC Rules of Practice and Procedure, prior to the filing of this application with the ERC.

18. Applicant most respectfully request for the approval of this application to allow it to fulfill its obligations under the Performance-Based Regulation, and to enable it to provide service in a manner that is economical, efficient, and fair to all electricity end-users that it serves.

## **PRAYER**

**WHEREFORE**, premises considered, CEPALCO respectfully prays of this Honorable Commission, that after due notice and proceedings, the proposed Maximum Average Price for the 4th Regulatory Year of the 2<sup>nd</sup> Regulatory Period (MAP<sub>2011</sub>) in the amount of P1.5745 per kWh be approved.

Other reliefs and equitable under the premises are likewise prayed for.

Cagayan de Oro City for Pasig City, Philippines, March \_\_, 2010.

**JOSE EDGARDO Y. UY**  
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Cagayan de Oro City  
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Counsels of Applicant  
Address: CEPALCO Building, Toribio Chaves Street,  
Cagayan de Oro City

## **VERIFICATION/ CERTIFICATION**

**CONSUELO G. TION**, of legal age, Filipino and with office address at Cagayan de Oro City, after having been duly sworn in accordance with law, hereby deposes and states: That -

1. She is the President and Chief Operating Officer of Cagayan Electric Power and Light Co., Inc. (CEPALCO), who had caused the preparation of the foregoing Application, and she is duly authorized to file the same as per Board Resolution Certification hereto attached as Annex "A".

2. That the allegations set forth therein are true and correct based on her own personal knowledge and/or on the authentic records of CEPALCO.

3. CEPALCO has not commenced any other action or proceeding involving the same issues in the Supreme Court, the Court of Appeals, or any other tribunal or agency; to the best of their knowledge, no such action or proceeding is pending in the Supreme Court, the Court of Appeals, or different Divisions thereof, or any other tribunal or agency, which involve issues that may somehow be related to those in this Application; and that, if they should learn that a similar action or proceeding has been filed or is pending before the Supreme Court, the Court of Appeals, or different Divisions thereof, or any other tribunal or agency, they undertake to promptly inform this Honorable Commission within five (5) days therefrom.

**CONSUELO G. TION**

SUBSCRIBED AND SWORN to before me this \_\_\_\_\_ day of March 2010, at Cagayan de Oro City, affiant exhibiting to me her Community Tax Certificate No. 23471850 issued at Cagayan de Oro City on 15 January 2010.

Doc. No. \_\_\_\_\_;  
Page No. \_\_\_\_\_;  
Book No \_\_\_\_\_;  
Series of 2010