

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 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. 2010-033RC

IBAAN ELECTRIC AND ENGINEERING CORPORATION (IEEC),

Applicant.

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**APPLICATION**

Applicant IBAAN ELECTRIC AND ENGINEERING CORPORATION (IEEC), through the undersigned counsel, and unto this Honorable Commission, most respectfully states that:

1. Applicant IEEC, as represented herein by its Chief Finance Officer, AMELITA K. CASTILLO, is a corporation organized and existing under the laws of the Philippines with principal office at Don Pedro Subdivision, Poblacion, Ibaan, Batangas, with a legislative franchise to construct, operate and maintain an electric light, heat and power system for the purpose of generating and/or distributing electric light, heat and power system for sale in the Municipality of Ibaan, Province of Batangas pursuant to Republic Act. No. 7578;

2. On 22 June 2009, IEEC filed an application (docketed as ERC Case No. 2009-045 RC) for approval of its Annual Revenue Requirement (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”);

3. In the Honorable Commission’s Decision dated 08 March 2010 in the aforementioned case, the dispositive portion states:

“The detailed discussion of the Commission’s resolution on each and every issue in this case is embodied in a separate document denominated as “**Final Determination**” hereto attached as **Annex “A”** and made an integral part of this Decision.

**WHEREFORE**, the foregoing premises considered, the application for approval of its Annual Revenue Requirement (ARR) and Performance Incentive Scheme (PIS) for the Second Regulatory Period commencing on July 1, 2010 and terminating on June 30, 2014 in accordance with the provisions of the Rules for Setting Distribution Wheeling Rates (RDWR) filed by Ibaan Electric and Engineering Corporation (IEEC) is hereby **APPROVED** as follows:

a. **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 Intelligent Unit [EIU], February 2010 - converted to regulatory years)*

b. **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 75<sup>th</sup> percentile. The resulting WACC is 15.01%.

<i>Parameters</i>		Regulatory WACC Estimate by ERC		
		<i>Low</i>	<i>Mid</i>	<i>High</i>
Gearing (Debt) Ratio	$D/(D+E)$	45%	40%	35%
Equity Ratio	$E/(D+E)$	55%	60%	65%
Debt to Equity	$D/E$	0.82	0.67	0.54
Asset Beta (degeared-empirical beta)	$\beta_a$	0.688	0.688	0.688
Debt beta	$\beta_d$	0.080	0.180	0.280
Risk free rate (nominal-US\$ 10 Year Bond Yields in USA)		3.62%	3.71%	3.79%
Country Risk Margin (excluding FX Risk)	CRP	1.56%	1.94%	2.32%
Risk free rate used in WACC	$R_f$	8.40%	9.38%	10.35%
Debt Margin	DM	2.00%	2.50%	3.00%
Cost of Debt (pre-tax nominal peso terms)	$K_d$	10.40%	11.88%	13.35%
Market Risk Premium (Developed Country)	$R_m - R_f$	6.00%	6.00%	6.00%
Corporate tax rate	$t_c$	30.0%	30.0%	30.0%
Inflation rate (Philippines)	$i$	1.93%	3.12%	4.30%
Inflation Rate (USA)		(1.05%)	(0.34%)	0.37%
<b><i>Calculated Equity (Regeared) Betas</i></b>	<b><i>Formula</i></b>	<b><i>Low</i></b>	<b><i>Mid</i></b>	<b><i>High</i></b>
Equity Beta (1) Simple No Tax Adjustment - RDWR	1	1.25	1.15	1.06
Equity Beta (2) Simple Tax Adjustment	2	1.08	1.01	0.95
<b>Other Parameters</b>				
Equity Beta (gearing beta)	$\beta_e$	1.25	1.15	1.06
Cost of Equity (post-tax nominal)	$K_e$	15.91%	16.26%	16.70%
<b>WACC Matrix - Commercial Practice &amp; RTWR</b>				
Post-tax nominal		12.03%	13.08%	14.13%
Post-tax real		9.91%	9.66%	9.42%
Pre-tax nominal		17.18%	18.69%	20.18%
Pre-tax Real		14.96%	15.10%	15.22%
<b>Vanilla WACC (Nominal)</b>		<b>13.43%</b>	<b>14.51%</b>	<b>15.53%</b>
<b>WACC set at 75<sup>th</sup> Percentile of the suggested range</b>		<b>15.01%</b>		

c. Operating and Maintenance Expenditure (OPEX) Forecast

	(PhP Thousand)					
	2010	2011	2012	2013	2014	TOTAL
Nominal Values	12,120	12,689	13,287	13,926	14,615	54,517
Real Values (2009)	11,925	11,936	11,960	11,984	12,012	47,892

Note: The total figures do not include regulatory year 2010

d. Return on Capital

The approved Capital Expenditures (CAPEX) which are to be used in computing the Regulatory Asset Base (RAB) are as follows:

Particulars	(PhP Thousand, Nominal)					
	2010	2011	2012	2013	2014	TOTAL
Nominal values	2,563	2,207	2,378	2,480	1,975	9,040
Real values (2009)	2,522	2,076	2,140	2,134	1,624	7,974
Nominal values, including CWIP factor	2,575	2,223	2,396	2,508	1,986	9,114

Note: The total figures do not include regulatory year 2010

The determination of the opening value of the RAB and the rolled forward RAB are based on the initial valuation, approved CAPEX, depreciation and disposals, as follows:

Particulars	(PhP Thousand, Nominal)				
	2010	2011	2012	2013	2014
Opening Value of RAB		90,917	88,696	86,510	84,266
Depreciation on RAB		4,443	4,583	4,752	4,708
Capital Expenditure		2,223	2,396	2,508	1,986
Change in assets used over regulatory lives		0	0	0	0
Closing Value of RAB	90,917	88,696	86,510	84,266	81,545
Average RAB for the Year	90,917	89,806	87,603	85,388	82,905

The approved return on capital, which is based on the approved CAPEX, working capital allowance and WACC, is shown below:

Particulars	(PhP Thousand, Nominal)			
	2011	2012	2013	2014
Average RAB for the Year	89,806	87,603	85,388	82,905
Opex approved	12,689	13,287	13,926	14,615
Working capital allowed	869	910	954	1,001
Subtotal - capital invested	90,676	88,513	86,342	83,907
<b>RETURN ON CAPITAL</b>	<b>13,610</b>	<b>13,286</b>	<b>12,960</b>	<b>12,594</b>
Regulatory WACC	15.01%	-		
Working capital factor	6.85%	-		

e. Return of Capital

ODRC Depreciation	(PhP Million, Nominal)				
	2010	2011	2012	2013	2014
Opening asset base	3.8	4.1	4.1	4.1	3.9
Interim assets before regulatory	0.2	0.3	0.3	0.3	0.3

period					
Assets acquired during regulatory period	0.0	0.0	0.2	0.4	0.5
<b>Subtotal</b>	<b>4.0</b>	<b>4.4</b>	<b>4.6</b>	<b>4.8</b>	<b>4.7</b>
Plus Disposals	0.0	0.0	0.0	0.0	0.0
Minus Income from Disposals	0.0	0.0	0.0	0.0	0.0
<b>TOTAL</b>	<b>4.0</b>	<b>4.4</b>	<b>4.6</b>	<b>4.8</b>	<b>4.7</b>

f. Corporate Income Tax

The Corporate Income Tax is set at zero, as provided in the updated RDWR for third (3<sup>rd</sup>) entrants.

g. Taxes, Levies and Duties (other than Corporate Income Tax)

	(PhP Thousand)					
	RY2010	RY2011	RY2012	RY2013	RY2014	TOTAL
Nominal Values	227	402	299	325	347	1,373
Real Values (2009)	224	378	269	280	285	1,212

Note: The total figures do not include regulatory year 2010

h. 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
<b>TOTAL</b>	<b>31.104</b>	<b>31.411</b>	<b>31.918</b>	<b>32.218</b>

Note: These figures do not include the required GSL provision

i. 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

SO ORDERED."

4. Based on the Final Determination of 08 March 2010, IEEC has converted the MAP<sub>2011</sub> into a distribution rate structure as follows:

### IEEC - PROPOSED RATES

	Distribution Charge		Supply Charge	Metering Charge	
	P/kWh	P/kW	PhP/cust/mo.	PhP/cust/mo.	P/kWh
Residential	1.5863		25.4487	5.00	0.4653
Commercial	0.8793		25.4487		0.2116
Industrial	0.6428	21.43	25.4487	523.01	0.1384
Streetlights	1.2029		25.4487		0.2526

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, IEEC used the information contained in the Final Determination of 08 March 2010.

5. In compliance with Section 73 of Republic Act 9136, herein Applicant likewise proposes a lifeline rate discount and subsidy for the marginalized end-users based on test year 2009 frequency distribution of residential consumers, to wit:

Level of kWh Sales	Level of Discount
0-25	50%
26-30	30%
31-35	20%

5.a. Based on the above-mentioned level of kWh consumption and corresponding discount, IEEC is proposing a lifeline subsidy from non-lifeline consumers in the amount of PhP 0.0948/kWh.

5.b. Based on the current lifeline kWh consumption level and discount, forty two percent (42%) of the residential consumers, which comprise ninety three percent (93%) of IEEC’s total number of consumers, are under the lifeline level. Herein Applicant thereby proposes a revision in the kWh consumption and discount level so as not to unduly increase the lifeline subsidy to be passed on to non-lifeline consumers by more than Php 0.10/kWh.

6. In support of this Application, IEEC has attached the following supporting documents:

Schedule	Information Provided
A	Existing Rate Schedules
B	Revenue Requirement Per Function at Existing Rates and Per Final Determination for 2011
C	Adjusted Rates In PhP/kWh
D	Revenue Requirement Per Functions
E	Proposed Rate Design Per Customer Class
F	Validation of Rates
G	Proposed Lifeline Rate Discount
H	Forecasted Billing Determinants as provided in the Final Determination

7. The approval of this Application will allow IEEC to fulfill its obligations under Performance Based-Regulation 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.

### PRAYER

WHEREFORE, premises considered, IEEC most respectfully prays of this Honorable Commission, after due notice and hearing, that this Application be approved and that IEEC be authorized to adopt and implement the proposed distribution rate structure, as follows:

	Distribution Charge		Supply Charge	Metering Charge	
	P/kWh	P/kW	PhP/cust/mo.	PhP/cust/mo.	P/kWh
Residential	1.5863		25.4487	5.00	0.4653
Commercial	0.8793		25.4487		0.2116
Industrial	0.6428	21.43	25.4487	523.01	0.1384
Streetlights	1.2029		25.4487		0.2526

Moreover, Applicant IEEC most respectfully prays for the approval of the revision in kWh consumption and discount level for the lifeline computation be likewise considered.

Other reliefs equitable under the premises are likewise prayed for.

RESPECTFULLY SUBMITTED.

Ibaan, Batangas for Pasig City, 07 April 2010.



**CHERRY GRACE V. KATIGBAK**

Counsel for Applicant

IBAAN ELECTRIC AND ENGINEERING CORPORATION  
Don Pedro Subdivision, Poblacion, Ibaan, Batangas  
IBP No. 812828 / 01-15-2010 / Batangas Chapter  
PTR No. BTG 7823901 / 01-15-2010 / Ibaan, Batangas  
Roll of Attorneys No. 47333  
MCLE Compliance No. III - 0006759 / 12-09-2009

REPUBLIC OF THE PHILIPPINES)  
IBAAN, BATANGAS ) S.S.

VERIFICATION WITH CERTIFICATION OF NON-FORUM SHOPPING

I, AMELITA K. CASTILLO, of legal age, married, with office and postal address at Ibaan Electric and Engineering Corporation, Don Pedro Subdivision, Poblacion, Ibaan, Batangas, after having been duly sworn to in accordance with law hereby depose and state:

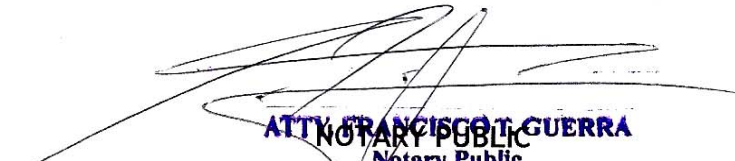
1. That I am the Chief Finance Officer of the Ibaan Electric and Engineering Corporation (IEEC), and duly authorized representative of the Corporation in all proceedings before the Energy Regulatory Commission relative to the Application for Approval of the Translation Into Distribution Rates of Different Customer Classes for the First Regulatory Year of the ERC-Approved Annual Revenue Requirement for Ibaan Electric and Engineering Corporation (IEEC) Under the Performance Based Regulation (PBR) for the Regulatory Period 2010-2014, pursuant to the Secretary's Certificate hereto attached;
2. That I have caused the preparation of, and read, the foregoing Application and that the allegations therein are true and correct of my own personal knowledge based on authentic documents on record;
3. That I have not heretofore commenced any action or filed any claim involving the same issues in any court, tribunal or quasi-judicial agency and, to the best of my knowledge, no such other action or claim is pending therein;
4. That to the best of my knowledge, no other action or proceeding involving the same issues is pending in any court, tribunal or quasi-judicial agency;
5. That if I should thereafter be aware or learn that the same or similar action or proceeding has been filed or is pending, I shall undertake to report such fact within five (5) days therefrom to this Court.

  
AMELITA K. CASTILLO  
Affiant

APR 07 2010

SUBSCRIBED AND SWORN to before me this \_\_\_\_\_ in  
IBAAN, BATANGAS, affiant exhibited to me her Philippine Driver's License No.  
D01-92-070277.

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ATTY. FRANCISCO T. GUERRA  
Notary Public  
Until December 31, 2010  
PTR No. 7641888 / Ibaan, Batangas / 1-4-2010  
IBP No. 747346 / Batangas City / 1-5-2010  
ROLL OF ATTORNEY NO. 24980

Republic of the Philippines )  
Ibaan, Batangas ) S.S.

**SECRETARY'S CERTIFICATE**


I, **ATTY. CHERRY GRACE V. KATIGBAK**, of legal age, Filipino, single, and with postal address at Barangay Tipakan, Lipa City, after having been duly sworn in accordance with law, do hereby depose and state that:

1. I am the Board Secretary of the **IBAAN ELECTRIC AND ENGINEERING CORPORATION**, a corporation organized and existing under the laws of the Philippines with principal office at Don Pedro Subdivision, Ibaan, Batangas;
2. As Secretary, I have in my possession the records of the said corporation;
3. In the meeting of the Board of Directors of the **IBAAN ELECTRIC AND ENGINEERING CORPORATION** held at its principal office on 02 April 2010, the following resolution was approved, to wit:

**"WHEREFORE, RESOLVED**, as it is hereby **RESOLVED**, by the Board of Directors of the Ibaan Electric and Engineering Corporation, to appoint, name and constitute **AMELITA K. CASTILLO**, the Corporation's Chief Finance Officer, as the Corporation's true and legal representative, to act for and in the Corporation's name and stead, and to perform the following acts:

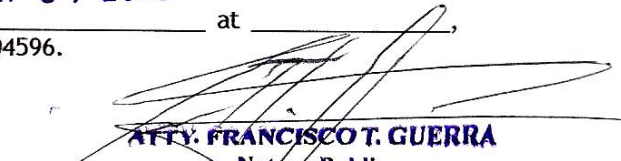
- (1) to file the necessary application before the Energy Regulatory Commission relative to the Approval of the Translation Into Distribution Rates of Different Customer Classes for the First Regulatory Year of the ERC-Approved Annual Revenue Requirement for Ibaan Electric and Engineering Corporation (IEEC) Under the Performance Based Regulation (PBR) for the Regulatory Period 2010-2014;
  - (2) to sign any and all papers, documents and pleadings as may be necessary under the circumstances, including the Verification with Certification of Non-Forum Shopping;
  - (3) to do and/or cause to be done any and all acts and deeds as may be necessary, requisite and proper to be done in and about the premises as fully as the Corporation might or could do by virtue of the authority herein conferred."
4. The foregoing has not been amended, suspended or revoked, and the same is valid and effective until otherwise modified, amended, suspended or revoked by another act of the Board, and any and all acts made by such officer pursuant to the foregoing resolution are valid and binding.

**IN WITNESS WHEREOF**, I have hereunto set my hand this 7<sup>th</sup> day of April 2010 at Ibaan, Batangas.

  
**ATTY. CHERRY GRACE V. KATIGBAK**  
Secretary  
**APR 07 2010** **IBAAN, BATANGAS**

SUBSCRIBED AND SWORN to before me this \_\_\_\_\_ at \_\_\_\_\_,  
affiant exhibiting to me her Driver's License No. N01-90-104596.

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**ATTY. FRANCISCO T. GUERRA**  
Notary Public  
Until December 31, 2010  
PBR No. 7641888 / Ibaan, Batangas / 1-4-2010  
I.P. No. 747346 / Batangas City / 1-5-2010  
ROLL OF ATTORNEY NO. 24980