

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 MACTAN
ELECTRIC COMPANY, INC.,
(MECO) UNDER THE
PERFORMANCE BASED
REGULATION (PBR) FOR THE
REGULATORY PERIOD 2009-2013

ERC CASE NO. 2009-008RC

MACTAN ELECTRIC COMPANY,
INC. (MECO),

Applicant.

x-----x

APPLICATION

Applicant MACTAN ELECTRIC COMPANY, INC. (“MECO”),
through the undersigned counsel, and unto this Honorable Commission, most
respectfully states: That –

1. MECO is a corporation duly organized and existing under and by
virtue of the laws of the Philippines, with principal office at Sangi Road, Pajo,
Lapu-lapu City, Cebu where it may be served with summons and other legal
processes, represented in this instance by its General Manager, Gilbert A.
Pagobo of legal age, Filipino, married and with office address also at Sangi

Road, Pajo, Lapu-lapu City, Cebu. MECO is the exclusive franchise holder issued by Congress of the Philippines to operate an electric light and power services in the City of Lapu-lapu and Municipality of Cordova, both in the Province of Cebu.

2. On May 27, 2008, MECO filed an application (docketed as ERC Case No. 2008-028RC) for approval of its Annual Revenue Requirement (ARR) and Performance Incentive Scheme (PIS) covering the Second Regulatory Period from April 1, 2009 to March 30, 2013 in accordance with the provisions of the Rules for Setting Distribution Wheeling Rates (“RDWR”).

3. In the Honorable Commission’s decision dated December 15, 2008 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 April 1, 2009 and terminating on March 30, 2013 in accordance with the provisions of the Rules for Setting Distribution Wheeling Rates (RDWR) filed by Mactan Electric Company, Incorporated (MECO) is hereby **APPROVED** as follows:

a. Economic Indices

	2008	2009	2010	2011	2012	2013
Philippine CPI (% increase per regulatory year)	4.5%	9.0%	6.4%	4.4%	4.2%	4.0%
US CPI (% increase per regulatory year)	3.3%	4.0%	2.4%	2.3%	2.5%	2.4%
PhP/US\$ exchange rate (average for regulatory year)	45.58	45.27	49.00	46.88	44.50	42.88

(Source: Economic Intelligent Unit [EIU], October 2008 – 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 a quarter (25%), and set the WACC at the point value of 75th percentile. The resulting WACC is 16.27%.

Parameters		Regulatory WACC Estimate by ERC		
		Low	Mid	High
Gearing (Debt) ratio	D/(D+E)	40%	40%	40%
Equity ratio	E/(D+E)	60%	60%	60%
Debt to Equity	D/E	0.67	0.67	0.67
Asset beta (degeared-empirical beta)	β_a	0.807	0.812	0.817
Risk free rate (nominal – US\$ 10 Year Bond Yields in USA)		3.89%	4.14%	4.39%
Country Risk Margin (excluding FX Risk)	CRP	1.61%	1.86%	2.11%
Risk free rate used in WACC	R_f	9.56%	10.08%	10.59%
Debt Margin	DM	2.25%	2.50%	2.75%
Cost of debt (pre-tax nominal peso terms)	K_d	11.81%	12.58%	13.34%
Market Risk Premium (Developed Country)	$R_m - R_f$	6.00%	6.00%	6.00%
Corporate tax rate	t_c	30.8%	30.8%	30.8%
Inflation rate (Philippines)	i	7.88%	8.38%	8.88%
Inflation Rate (USA)		3.95%	4.45%	4.95%
Calculated Equity (Regeared) Betas	Formula	Low	Mid	High
Equity Beta (1) Simple No Tax Adjustment	1	1.35	1.35	1.36
Equity Beta (2) Simple Tax Adjustment	2	1.18	1.19	1.19
Other Parameters				
Equity beta (geared beta)	β_e	1.35	1.35	1.36
Cost of Equity (post-tax nominal)	K_e	17.63%	18.20%	18.76%
WACC Matrix-Commercial Practice				
Post-tax nominal		13.85%	14.40%	14.95%
Post-tax real		5.53%	5.55%	5.57%
Pre-tax nominal		20.02%	20.82%	21.62%
Pre-tax real		11.25%	11.48%	11.70%
Vanilla WACC (nominal)		15.30%	15.95%	16.59%
WACC set at 75th percentile of suggested range		16.27%		

c. Operating and Maintenance Expenditure (OPEX) Forecast

	(PhP Thousand)					
	2009	2010	2011	2012	2013	TOTAL
Nominal values	59,863	69,492	78,797	90,315	101,871	340,476
Real Values (2008)	57,155	61,620	66,464	73,056	79,196	280,336

d. Return on Capital

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

	(PhP Thousand; Nominal)			
	2010	2011	2012	2013
Average RAB for the Year	843,925	887,433	964,642	1,020,761

OPEX approved	69,492	78,797	90,315	101,871
Working capital allowed	3,405	3,861	4,425	4,992
Subtotal – capital invested	847,330	891,294	969,067	1,025,753
RETURN ON CAPITAL	137,856	145,009	157,662	166,885
Regulatory WACC	16.27%			
Working capital factor	4.9%			

e. Return of Capital

	(PhP Thousand)				
	2009	2010	2011	2012	2013
Opening Value of RAB	0	829,517	858,333	916,533	1,012,751
Depreciation of RAB	0	35,821	36,301	38,362	37,032
Capital Expenditure	0	63,971	93,980	134,057	52,019
Change in assets used over regulatory lives	0	666	521	523	1,033
Closing Value of RAB	829,517	858,333	916,533	1,012,751	1,028,771
Average RAB for the Year	829,517	843,925	887,433	964,642	1,020,761

f. Corporate Income Tax

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

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

	(PhP Thousand)					
	RY2009	RY2010	RY2011	RY2012	RY2013	TOTAL
Nominal Values	591,538	2,007,403	1,436,212	953,297	726,959	5,123,871
Real VALUES (2006)	564,780	1,779,986	1,211,420	771,124	565,150	4,327,680

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

The ARR shall be as follows with an X factor of 2.44% for purposes of computing the MAP:

Building block	(PhP Million, Nominal)			
	2010	2011	2012	2013
Return on Capital	137.9	145.0	157.7	166.9
OPEX	69.5	78.8	90.3	101.9
Regulatory Depreciation	35.8	36.3	38.4	37.0
Corporate Income Tax	0.0	0.0	0.0	0.0
Other Taxes	2.0	1.4	1.0	0.7

Subtotal	245.2	261.5	287.3	306.5
GSL Allowance	1.2	1.3	1.4	1.5
TOTAL	246.4	262.8	288.7	308.0

i. Performance Incentive Scheme (PIS)

Price-Linked Incentive Scheme (Mainland only)

Performance Index	Units	Weight	Reward		Average	Penalty	
			Level A	Level B	Level C	Level D	Level E
System average interruption frequency index (SAIFI)	No	0.2	21.33	24.01	32.06	40.11	42.79
Customer average interruption duration index (CAIDI)	Min	0.2	73.88	83.24	111.29	139.34	148.69
Planned system average interruption duration index (planned SAIDI)	Min	0.15	1,114.09	1,354.26	2,074.75	2,795.24	3,354.41
Probability of voltage levels falling within prescribed limits	%	0.1	0.94%	4.07%	13.43%	22.80%	25.93%
System losses	%	0.05	8.5%	9.0%	9.5%		
Average time to process application Regulated Distribution Services	Days	0.15	2.00	2.50	4.00	5.50	6.00
Average time to connect premises to the Regulated Distribution System	Days	0.15	3.00	3.50	5.00	6.50	7.00

Guaranteed Service Level Scheme

GSL	Performance Measure	Threshold	Penalty Level
1	Customers experiencing a total duration of sustained service interruptions in a Regulatory Year that exceeds the threshold	Maximum duration of 59 hours per Regulatory Year	PhP51.90 per breach of the proposed threshold
2	Customers experiencing a number of sustained service interruptions in a Regulatory Year that exceeds the threshold	Maximum of 32 times per Regulatory Year	PhP51.90 per breach of the proposed threshold
4A	Customer connection not provided on the day agreed with the customer (for Mainland)	4 days	PhP51.90 per breach of the proposed threshold
4B	Customer connection not provided on the day agreed with the customer (for Olango)	8 days	PhP51.90 per breach of the proposed threshold

SO ORDERED.”

4. The Applicant filed a Motion for Partial Reconsideration on January 26, 2009 in ERC Case No. 2008-028RC asking the Honorable Commission to reconsider its Decision dated December 15, 2008 and to amend

the maximum average price for 2010 found in the Final Determination dated December 15, 2008.

5. The Applicant received on February 4, 2009 the Order of the Honorable Commission resolving the Motion for Partial Reconsideration in ERC Case No. 2008-028RC.

The Honorable Commission resolved as follows:

“WHEREFORE, the foregoing premises considered, the “Motion for Partial Reconsideration” filed by Mactan Electric Company, Incorporated (MECO) is hereby GRANTED.

Accordingly, the Decision dated December 15, 2008 is hereby amended to reflect the new X factor of 2.44% and MAP2010 of PhP0.999/kWh.”

6. The opening Maximum Average Price (MAP) of MECO which was approved by the Energy Regulatory Commission (ERC) for the First Regulatory Year of the Second Regulatory Period (MAP₂₀₁₀) as set forth in the Final Determination as amended by the Order dated February 2, 2009 is PhP 0.999/kWh.

7. Based on the Final Determination of December 15, 2008 and the Order of February 2, 2009, MECO has converted the MAP₂₀₁₀ into a distribution rate structure as follows:

MECO – PROPOSED RATES

	Residential	Commercial	Industrial	Bulk	St. Lighting	Pub. Bldgs
Distribution Charge (Php/kw)			140.1022	148.6955		
Distribution Charge (Php/kwhr)	0.7299	0.7299	0.2200	0.2000	0.7299	0.7299
Supply Charge (Php/mo./cus)		40.6523			40.6523	
Supply Charge (Php/kW)			98.1361	98.2755		
Supply Charge (Php/kWhr)	0.2819					0.0204
Metering Charge (Php/mo./cust)	5.00	43.04	183.83	3,380.29	54.71	54.70

Metering Charge (Php/kWhr)	0.2554					
-------------------------------	--------	--	--	--	--	--

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”). MECO used in its calculations the information contained in the Final Determination of December 15, 2008 and the Order of February 2, 2009.

8. In support of this Application, MECO has attached the following supporting documents:

Schedule	Information Provided
A	Summary of Cost of Service Using Revalued Assets
B	Weighted Average Cost of Capital
C	Functionalization Factors
D	Billing Determinants and Customer Class Allocation
D-2	Class Allocation Factors – Distribution, Supply, Metering
E	Revenue Summary
F	Functionalization and Allocation of Revenue Requirement
G	Proposed Rate Schedule For Each Customer Class
H	Historical Revenue, Billing Determinants and Average Rate
I	Phil CPI, US CPI, Php/\$US Exchange Rate
K	Copy of Order dated February 2, 2009

9. The approval of this Application will allow MECO 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, MECO most respectfully prays of this Honorable Commission, after due notice and hearing, that this application be approved and that MECO be authorized to adopt and implement the proposed distribution rate structure, as follows:

	Residential	Commercial	Industrial	Bulk	St. Lighting	Pub. Bldgs
Distribution Charge (Php/kw)			140.1022	148.6955		
Distribution Charge (Php/kwhr)	0.7299	0.7299	0.2200	0.2000	0.7299	0.7299
Supply Charge (Php/mo./cus)		40.6523			40.6523	
Supply Charge (Php/kW)			98.1361	98.2755		
Supply Charge (Php/kWhr)	0.2819					0.0204
Metering Charge (Php/mo./cust)	5.00	43.04	183.83	3,380.29	54.71	54.70
Metering Charge (Php/kWhr)	0.2554					

Other reliefs equitable under the premises are likewise prayed for.

RESPECTFULLY SUBMITTED.

Pasig City, February 5, 2009.

**QUIASON MAKALINTAL BAROT
TORRES IBARRA & SISON**

Counsel for the Applicant
21st Floor, Robinsons-Equitable Tower
4 ADB Avenue corner Poveda Street
1605 Ortigas Center, Pasig City
Tel. No. 631-0981

By:

MANUEL L.M. TORRES
ROLL OF ATTORNEYS NO. 25410
MCLE COMPLIANCE NO. II-0002906
PTR NO. 5100388; 1/6/09
PASIG CITY
IBP NO. 766966; 1/5/09
QUEZON CITY

MIGUEL K. MATHAY
ROLL OF ATTORNEYS NO. 43982
MCLE COMPLIANCE NO. II-0000125
PTR NO. 5101010; 1/6/09
PASIG CITY
IBP NO. 766967; 1/5/09
RSM

VERIFICATION/CERTIFICATION

I, **GILBERT A. PAGOBO** of legal age, Filipino, married and with office address also at Sangi Road, Pajo, Lapu-lapu City, Cebu, after having been duly sworn in accordance with law, hereby deposes and states: That –

1. He is the General Manager of Mactan Electric Company, Inc. (MECO), who had caused the preparation of the foregoing Application.

2. The allegations set forth therein are true and correct based on his own personal knowledge and/or on the authentic records of MECO.

3. MECO 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 Court within five (5) days therefrom.

GILBERT A. PAGOBO

Affiant

SUBSCRIBED AND SWORN to before me this ____th day of January at _____, affiant who is personally known to me, exhibiting to me his Community Tax Certificate No. _____ issued at _____ on _____ and his Driver's License with License Number _____ as competent evidence of identity.

Doc. No. _____;

Page No. _____;

Book No. _____;

Series of 2009.