

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

IN THE MATTER OF THE APPLICATION
FOR THE APPROVAL OF THE (1)
REVISED X-FACTOR (2) SMAP FOR THE
2ND REGULATORY PERIOD (SMAP₂₀₀₈)
AND (3) THE MAXIMUM AVERAGE PRICE
FOR THE 3RD REGULATORY YEAR OF
THE 2ND REGULATORY PERIOD (MAP
2010) AND ITS TRANSLATION INTO
DISTRIBUTION CHARGES FOR EACH
CUSTOMER CLASS

ERC CASE NO. ERC CASE NO. 2009-017RC

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

Applicant,

APPLICATION

Applicant CAGAYAN ELECTRIC POWER AND LIGHT CO., INC. (also referred as “CEPALCO” for brevity), through undersigned counsels, 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 at First Entry Point (also called “Group A” entrants), to the Performance-Based Regulation (PBR) rate setting methodology with Final Determination 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 entrant distribution utilities, “Rules in Setting Distribution 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, docketed as ERC Case No. 2008-002RC. Per same guidelines which require entrant utilities to seek approval of its annual MAP, it also filed for approval its MAP for RY 2009 (MAP ~~2009~~), which cover the period July 1, 2008 to June 30, 2009, docketed as ERC Case No. 2008-014 RC, and for which a Consolidated Decision for these two applications was issued dated July 7, 2008_;
4. Following the same requirement, applicant is now filing this application for the approval of its Maximum Average Price for RY 2010 (MAP ₂₀₁₀);
5. The RDWR, after public consultations were conducted, underwent several changes which culminated in the latest version as published by the ERC on January 28, 2009, and although Group A Entrants, which include the applicant, are already on their final stages of the second regulatory period, the changes have substantial impact on the manner their 2010 and 2011 annual price reset will be treated.
6. The particular rule changes that will have substantial impact relates to the following:
 - a. Clause 4.14.4 (setting the corporate income tax to zero for the 2nd Regulatory period),
 - b. Clause 12.6 (weighted average cost of capital, or WACC),
 - c. Clause 4.5.1 changed the weighting for the CWI factor from 60:40 to 80:20
 - d. Clause 6.4.2 Relaxation of the Side Constraints condition when there are major under-recovery of revenue by the Regulated Entity during the Historical Period
 - e. Clause 6.4.1 Exclusion of the impact of the S-factor from the side constraints
7. Further, in the “*Performance-based Regulation – Group A Entrants Guidelines for RY 2010 Rate Reset*” (*hereinafter referred to as the RY 2010 Rate Reset Guidelines*) issued by the Honorable

Commission as posted in their website (www.erc.gov.ph) on February 16, 2009, the following changes in the parameters used for the price setting of Group B entrants shall also be applied by Group A Entrants in the price recalculation to ensure consistency between the entry groups:

- a. Setting of the Working Capital factor at 4.9%
- b. Setting the CWIP factor at: 4.6% for substation and related projects and 3.3% for other infrastructure projects.

8. Thus per the RY 2010 Rate Reset Guidelines Group A entrants will recalculate a new smoothing or X-factor, an opening Maximum Annual Price (MAP₂₀₀₈) and a revised MAP₂₀₀₉. These three (3) revised figures along with other data will then be used as input for the calculation of MAP₂₀₁₀ and ultimately the translation of this MAP₂₀₁₀ into distribution tariffs.

9. Pursuant thereto, applicant recalculated these revised figures to be as follows:

X-factor	-0.0238
SMAP ₂₀₀₈	P1.1612 per kWh

and this resulted to a revised MAP₂₀₀₉ of P1.4926 per kWh;

Details of the computation are stated in Annex "I". Copy of the revised Price Cap Model showing the revised X-factor is in the enclosed CD.

10. Per Section 6.4 of Article VI of the RDWR, and using the above figures, the MAP₂₀₁₀ is determined to be in the amount of P 2.0954 per kWh, computed based on the formula prescribed under Section 4.2 of the RDWR as follows:

$$MAP_{2010} = MAP_{2009} \times (CWI_{2010} - X) - K_{2010} + S_{2010} + ITA_{2010}$$

(ITA₂₀₁₀ is zero as per Clause 4.4.3 of the updated RDWR)

Details of the computation of MAP₂₀₁₀ are found in Annex "I" of this Application.

11. The Change in Weighted Index (CWI₂₀₁₀), Performance Incentive Factor (S₂₀₁₀), and Correction Factor (K₂₀₁₀), which are the variables in the above formula are as shown in

Annexes “F”, “H” and “E”, respectively”, in the supporting documents attached to this Application.

12. Per Section 6.4 of the RDWR, the distribution wheeling rate that will be set by the PBR entrant utility must comply with the Side Constraint limitation;
13. The ERC has set a Side Constraint (SC) of 3.62% for regulatory year 2010, as per Clause 9.8.3 of its Final Determination in CEPALCO’s Regulatory Reset for the 2nd Regulatory Period. With a CWI of 9.35%, the total Side Constraints applicable for RY 2010 is 12.97%
14. The computed MAP for RY 2010 at P2.0954/kWh, when translated into distribution charges, will result to a rate level for all customer classes that will breach the said total Side Constraints for RY 2010. Shown in Annex “J-1” is the side constraints computation at full MAP.
15. To avoid breaching the side constraints, CEPALCO computed the constrained MAP to be at P1.4486 per kWh. Details of the computation are found in Annex “K-1”.
16. However, in Regulatory Years 2007 and 2008, CEPALCO incurred substantial under-recovery of its revenue amounting to P267 Million. This was acknowledged by the Honorable Commission in its Consolidated Decision in ERC Case #s 2008-002RC and 2008-014RC.
17. Consistent with the rule change in Clause 6.4.2 (on Relaxation of Side Constraints as mentioned in Par. 5 and 6 above), CEPALCO proposed to relax the Side Constraints to recover a portion of the said under-recovery. CEPALCO proposed to recover the under-recovery in Regulatory Year 2008 amounting to P64 Million by relaxing the Side Constraints of all customers except for Residential customers, as follows:

Table 1.

Rate Schedule	Existing SC Level	Additional SC	Relaxed SC
17	12.97%	6.33%	19.30%
27	12.97%	0.00%	12.97%
37	12.97%	6.42%	19.39%
47-A	12.97%	6.65%	19.62%
47-B	12.97%	6.88%	19.85%
57-57W	12.97%	6.37%	19.34%
67-67W	12.97%	6.09%	19.06%

Found in Annex “L-1” is the computation of the additional SC.

18. The resulting MAP for RY 2010 at relaxed SC is computed at P1.5299 per kWh, as computed in Annex “L-3”. This MAP at relaxed SC is lower than the full MAP by P0.5655/kWh. This difference represents the under-recovery of the revenue at full MAP due to the application of the Side Constraints condition.

19. This proposed-SC relaxed MAP will be converted into rates for the different customer classes based on the approved distribution rate structure in ERC Case No. 2008-02 RC per aforementioned Consolidated Decision, as shown in the table below :

Table 2.

Rate Schedule	Distribution			Supply		Metering		
	P/kWh		P/kW	P/kWh	Peso/ Customer	P/kWh	Peso/Customer	
	1st Block	All Excess					1-Phase/ Secondary	3-Phase/ Primary
17	1.3557	-	-	0.0090	-	-	-	-
27	1.6757	-	-	0.4588	-	0.4088	36.70	-
37	1.6433	-	-	0.1329	-	-	185.76	1,373.43
47-A	0.1161	-	400.00	-	1,764.16	-	1,373.43	21,843.80
47-B	1.0667	-	-	-	1,764.16	-	1,373.43	21,843.80
57-57W	0.0935	0.05	282.87	-	3,280.16	-	-	27,170.02
67-67W	0.0627	0.03	41.75	-	3,921.18	-	-	29,043.88

Details of the computation of the rates presented in Table 2 are found in Annex “L”.

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

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

ANNEXES	RDWR Reference	CONTENTS
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 2008 (Historical Period)
Annex A-1	Section 6.2.1 (a) (i)	Normalized amount billed to customers under Rate Schedules 67-W for the provision of Regulated Distribution Services for the 12-month period ending 31 December 2008 (Historical Period)
Annex B	Section 6.2.1 (a) (ii)	Net Income/(Loss) derived from Related Business for the 12-month period ending 31 December 2008 (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 2008 (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 ₂₀₁₀
Annex E-1	Section 4.3.1 (a)(ii)	Actual Income from Sale of Disposed Assets for CY 2008, AISDA ₂₀₁₀
Annex F	Section 6.2.1 (a) (vi)	Change in Weighted Index for RY ₂₀₁₀
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
Annex G	Section 6.2.1 (a) (vii)	Income Tax Adjustment for RY ₂₀₁₀
Annex H	Section B.2.1.2	Computation of S-Factor for RY ₂₀₁₀
Annex H-1	Section B.4	Justification for Exclusion of the Impact of a Major Event to the measurement under the PIS for CY 2008
Annex H-2		Computation of Normalized Technical Performance considering the impact of a Major Event
Annex H-3		Computation of the Impact of Major Event
Annex I	Section 6.2.1 (a) (viii)	The Maximum Average Price (in P/kWh) applicable for RY ₂₀₁₀
Annex I-1		Summary of the changes in the RDWR as effected in the revised Price Cap Model. Copy of the revised Price Cap Model is submitted in the enclosed CD.
Annex I-2		Re-computation of CWI and K-factor due to changes in the CWI weighting
Annex I-3		Re-computation of the Opening RAB due to changes in CWIP factor
Annex J	Section 10.2 of Position Paper	Conversion of the full Maximum Average Price into rates for each customer segments, applicable for RY ₂₀₁₀
Annex J-1	Section 6.4	Side Constraints Test based on full (un-constrained) MAP
Annex J-2		Computation of Forecast Amount Billed to Customers, based on full (un-constrained) MAP, as input to the computation under Item J-1
Annex K		Conversion of the constrained Maximum Average Price into rates for each customer segments, applicable for RY ₂₀₁₀
Annex K-1		Side Constraints Test based on constrained MAP
Annex K-2		Computation of Forecast Amount Billed to Customers, based on constrained MAP, as input to the computation under Item K-1
Annex L		Conversion of the Maximum Average Price, with relaxed Side

		Constraints, into rates for each customer segments, applicable for RY ₂₀₁₀
Annex L-1	Section 6.4.2	Determination of Additional Side Constraints to recover past under-recovery (Proposed relaxation of SC)
Annex L-2		Side Constraints Test based on MAP at relaxed SC
Annex L-3		Computation of Forecast amount Billed to Customers, based on MAP with relaxed SC, as input to the computation under Item L-2

22. 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.

23. 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 following be approved:

1. The revised X-factor of -0.0238 and SMAP₂₀₀₈ of P1.1612 per kWh;
2. The proposed Maximum Average Price (MAP) for the 3rd Regulatory Year of the 2nd Regulatory Period (MAP₂₀₁₀) of P2.0954 per kWh;
3. The proposed relaxation of the Side Constraint thereby arriving at the SC-relaxed MAP of P1.5299 per kWh;
4. The Distribution Charges per Customer Class as presented in Table 2.

Other reliefs that are just and equitable under the premises are also prayed for.

Pasig City for Cagayan de Oro City, Philippines, March __, 2009.

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(Counsels for the Applicant)

Address: CEPALCO Bldg., Toribio Chaves St., 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 _____ 2009, at Cagayan de Oro City, affiant exhibiting to me her Community Tax Certificate No. _____ issued at Cagayan de Oro City on _____.

Doc. No. ____;Page No. _____;

Book No.____;Series of 2009.