

REPUBLIC OF THE PHILIPPINES
ENERGY REGULATORY COMMISSION
SAN MIGUEL AVENUE, PASIG CITY

IN THE MATTER OF THE APPLICATION FOR APPROVAL OF a) THE REVISED X-FACTOR FOR THE SECOND REGULATORY PERIOD; b) REVISED SMOOTHED MAXIMUM AVERAGE PRICE FOR THE SECOND REGULATORY PERIOD; AND c) THE TRANSLATION INTO DISTRIBUTION RATES OF DIFFERENT CUSTOMER CLASSES FOR THE THIRD REGULATORY YEAR OF THE ERC-APPROVED ANNUAL REVENUE REQUIREMENT FOR DECORP UNDER THE PERFORMANCE BASED REGULATION (PBR) FOR THE REGULATORY PERIOD 2007-2011

ERC CASE NO. 2009-018RC

DAGUPAN ELECTRIC CORPORATION (DECORP),
Applicant.

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APPLICATION

Applicant DAGUPAN ELECTRIC CORPORATION (“DECORP”), through the undersigned counsel, and unto this Honorable Commission, most respectfully states: That –

1. Applicant is a corporation duly organized and existing under and by virtue of the laws of the Philippines, with principal office at Veria II

Building, AB Fernandez West, Dagupan City where it may be served with summons and other legal processes, represented in this instance by its President, Isabelita L. Llamas of legal age, Filipino, married and with office address at Veria I Bldg., 62 West Avenue, Quezon City. Applicant is the holder of an exclusive franchise issued by Congress of the Philippines/National Electrification Administration to operate an electric light and power service in the Cities and Municipalities of Dagupan, Calasiao, San Fabian, Sta. Barbara, San Jacinto, Manaoag, Barangays Cruz and Bolingit of San Carlos, all in the Province of Pangasinan.

2. On August 31, 2006, Applicant filed an application (docketed as ERC Case No. 2006-042RC) for approval of its Annual Revenue Requirement (ARR) and Performance Incentive Scheme (PIS) covering the Second Regulatory Period from July 1, 2007 to June 30, 2011 in accordance with the provisions of the Rules for Setting Distribution Wheeling Rates (“RDWR”).

3. In the Honorable Commission’s decision dated August 30, 2007 in the aforementioned case, the dispositive portion states:

“WHEREFORE, the foregoing premises considered, the Commission hereby **RESOLVES** Dagupan Electric Corporation’s (DECORP) application for an annual revenue requirement and performance incentive scheme, as follows:

- I. **ADOPTS** a position where the regulatory reset Final Determination provides the decisions which relate to the provision of Regulated Distribution Services under the Rules for Distribution Wheeling Rates (RDWR) by DECORP for the Second Regulatory Period.
- II. **DIRECTS** DECORP to separately account for the costs of Distribution Connection Services, as described in the Distribution Services Open Access Rules (DSOAR), but to include the recovery of the costs with the Regulated

Distribution Services under the RDWR, until further instruction in this regard is received from the Commission.

III. **APPROVES** the Performance Incentive Scheme prescribed in the attached Final Determination, to wit:

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IV. **ADOPTS** the following values as the Annual Revenue Requirement (ARR) for DECORP under Section 4.7.7 of the RDWR for the Second Regulatory Period, subject to a regulatory intervention, as indicated (all in nominal terms):

Regulatory Year	2008	2009	2010	2011
Return on capital (PhP million)	151.4	166.7	176.7	177.5
Opex (PhP million)	115.5	122.6	122.7	133.3
Regulatory depreciation (PhP million)	57.1	63.4	66.8	70.3
Corporate income tax (PhP million)	22.5	35.2	42.7	59.9
Level duties & other taxes (PhP million)	1.5	1.1	1.8	1.2
Subtotal	348.1	389.0	415.8	442.2
Reduction imposed by ERC	-43.4	-53.30	-63.30	-73.30
Reduction of corporate tax building block	0.0	-5.8	-11.5	-20.1
Resulting ARR	318.1	343.2	354.2	362.1
GSL allowance	1.6	1.7	1.8	1.8
TOTAL	319.7	344.9	356.0	363.9

V. **ADOPTS** the following values as the Smoothed Maximum Annual Price (SMAP) under Section 4.15.4 of the RDWR for the Second Regulatory Period (all in nominal terms):

Regulatory Year	2008	2009	2010	2011
SMAP forecast (PhP/kWh)	1.245	1.354	1.473	1.603

VI. **APPROVES** the following values and settings for the values of those parameters defined in the RDWR which are the primary outcomes for the regulatory reset under the RDWR:

- a. P_0 value equal to zero; and
- b. Minus 5.37% as the X factor for the MAP equation under section 4.2.1 of the RDWR, which implies a 5.37% real increase in the price cap for each year of the Second Regulatory Period.

VII. **APPROVES** the values and settings for the values of those parameters defined in the RDWR, on which the determination of

the above ARR, SMAP and X-factor was based, as described in the attached Final Determination.

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SO ORDERED.”

4. The ERC subsequently issued an Order dated November 28, 2007 which made corrections to the Final Determination of August 30, 2007. The Order explained that:

“In the said Final Determination, the Commission approved the following energy consumption forecasts of DECORP:

	2008	2009	2010	2011
Energy Consumption	219,041,783	229,506,681	237,987,864	247,067,593

However, the energy consumption forecasts for the years 2008 to 2011 used in the Draft Determination were inadvertently carried forward to DECORP’s financial model used for modeling its Maximum Average Price (MAP) due to the failure in the automatic updating between different spreadsheets. As a result, the following energy forecasts were used in the final modeling:

	2008	2009	2010	2011
Energy Consumption	230,853,866	241,477,953	250,862,131	260,715,466

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For the Final Determination, the Commission determined that the indicated price increases of DECORP were unsustainably high from a consumer’s perspective if the full annual revenues as calculated in terms of the Rules for Setting Distribution Wheeling Rates (RDWR) were allowed. Thus the Commission deems it proper to adopt a regulatory intervention to maintain the price increases of DECORP within acceptable limit.

To ensure that this approach is adopted and that DECORP price increases do not exceed its approved Final Determination, the Commission increased the regulatory intervention to the following level:

	2008	2009	2010	2011
Regulatory Intervention (PhP)	43,400,000	53,300,000	63,300,000	73,300,000
Regulatory Intervention (before) (PhP)	30,000,000	40,000,000	50,000,000	60,000,000

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In view of the foregoing, the Commission hereby increases the regulatory intervention and decreases the energy consumption figures used in determining the price control arrangements that will apply to DECORP's Maximum Average Price (MAP) for the years 2008 to 2011.

SO ORDERED.”

5. On January 10, 2008, Applicant filed an application (docketed as ERC Case No. 2008-003RC) for approval of the translation of its MAP for 2008 (the first regulatory year of the regulatory period 2007-2011) into distribution rates of its different customer classes under the Performance Based Regulation.

On March 31, 2008, DECORP filed an application (docketed as ERC Case No. 2008-015RC) for approval of the translation of its MAP for 2009 (the second regulatory year of the regulatory period 2007-2011) into distribution rates of its different customer classes under the Performance Based Regulation.

6. The Honorable Commission resolved DECORP's applications in ERC Case Nos. 2008-03RC and 2008-015RC in its Decision dated June 11, 2008. The June 11, 2008 Decision stated that:

“WHEREFORE, the foregoing premises considered, the applications for approval of its translation into distribution rates

of different customer classes for the first and second regulatory years of the ERC-approved annual revenue requirement under the Performance Based Regulation (PBR) for the regulatory period 2007-2011 filed by Dagupan Electric Corporation (DECORP) are hereby **APPROVED** with modification.

Accordingly, DECORP is hereby directed to implement, starting July 1, 2008, its approved Distribution, Supply and Metering Charges and Lifeline Rate Subsidy, as follows:

A. Rate Comparison

EXISTING						
	Distribution		Supply		Metering	
	PhP/kWh	PhP/kW	PhP/kWh	PhP/cust/mo	PhP/kWh	PhP/cust/mo
Residential	1.0694		0.2886		0.2493	5.00
General retail	0.7028			38.66		54.53
General Power	0.027	122.38		38.66		530.09
Bulk Power	0.1354	47.35		38.66		4,939.83
Street lighting	1.3607					
AVERAGE EXISTING DISTRIBUTION RATE					1.147	
PROPOSED FOR RY2008						
	Distribution		Supply		Metering	
	PhP/kWh	PhP/kW	PhP/kWh	PhP/cust/mo	PhP/kWh	PhP/cust/mo
Residential	1.1082		0.2886		0.2761	5.00
General retail	0.7977			38.6599		56.2915
General Power	0.1504	166.6336		38.6599		575.9911
Bulk Power	0.1504	79.526		38.6530		4,983.7982
Street lighting	1.804			38.66		
AVERAGE REQUESTED DISTRIBUTION RATE FOR RY2008					1.245	PhP/kWh

PROPOSED FOR RY2009 (NO SIDE CONSTRAINTS)						
	Distribution		Supply		Metering	
	PhP/kWh	PhP/kW	PhP/kWh	PhP/cust/mo	PhP/kWh	PhP/cust/mo
Residential	1.1873		0.3022		0.3084	5.00
General retail	1.0435			40.2541		80.9899
General Power	0.1504	162.9180		40.2138		831.6268
Bulk Power	0.1504	99.4868		40.0566		2,468.8082
Street lighting	1.9121			40.0476		
AVERAGE REQUESTED DISTRIBUTION RATE FOR RY2009					1.390	PhP/kWh
RECOMMENDED RATES FOR RY2009 (WITH SIDE CONSTRAINTS)						
	Distribution		Supply		Metering	
	PhP/kWh	PhP/kW	PhP/kWh	PhP/cust/mo	PhP/kWh	PhP/cust/mo
Residential	1.1719		0.2982		0.3038	5.00
General retail	0.8487			39.7096		58.8580
General Power	0.1504	160.5902		39.7571		821.7789
Bulk Power	0.1504	81.0451		39.7402		2,146.2984
Street lighting	1.9013			39.8624		
RECOMMENDED AVERAGE DISTRIBUTION RATE FOR RY2009					1.309	PhP/kWh

7. The Honorable Commission issued Resolution No. 20, Series of 2008, entitled “Resolution Modifying the Rules for Setting Distribution Wheeling Rates for Privately Owned Distribution Utilities Entering Performance Based Regulation (RDWR)” dated December 8, 2008.

8. The Honorable Commission likewise issued on February 16, 2009 the “Performance-Based Regulation – Group A (of which the Applicant is a part of) Entrants Guidelines for RY 2010 Rate Reset” (the “Guidelines” for brevity), based on the aforesaid amended RDWR.

9. The Guidelines have highlighted the changes in the amended RDWR that affect the Applicant’s price setting during its rate reset application as follows:

“2.1 Rule changes impacting on the Group A price setting

- a) The corporate income tax building block will be set to zero for the second regulatory period.
- b) The weighting in the CWI factor (used in the annual rate setting) of the local CPI, US CPI and PhP/US\$ exchange rate was changed from 60/40 to 80/20 ratio between CPI and FOREX.
- c) Changes were made to the weighted average cost of capital, to better reflect the riskiness of investment faced by the utilities. The new WACC figure is 16.27% per annum (which also reflects changes in the economic parameters underpinning the WACC between the time at which the Group A WACC was determined and that for Group B).
- d) The side constraints may be relaxed at the discretion of the Commission.
- e) The impact of the S-factor (incentive bonus/penalty reflecting service quality performance) is to be excluded from the side constraints.

2.2 Further changes made in price-setting parameters for the Group B determination

In addition to the rules changes, a number of further changes were made in parameters used for the price setting of the Group B entrants into PBR. By themselves, these changes are not sufficient

to give cause to a re-opening event, but since a re-opening is already indicated due to the rule changes, they will also be reflected in the recalculated price control arrangements for Group A. In particular, the following changes will be made to ensure consistency between the entry groups:

- a) The working capital factor was adapted following further lead/lag studies of the later entrants. This is set at 4.9% of the approved operating expenditure building block.
- b) The construction work in progress (CWIP) factor was adapted. This is now set at 4.6% for substation and related projects, and 3.3% for other infrastructure projects. This has an impact on the value of the opening asset base as well as the approved capital expenditure for the second regulatory period.”

10. The Applicant, guided by the methodology of the Guidelines and the following the newly amended RDWR, has calculated a revised X-factor for the Second Regulatory Period and the revised Smoothed Maximum Average Price (MAP) for the Second Regulatory Period. These revised figures have been used by the Applicant in its calculation of the MAP for 2010 and its subsequent translation into distribution rates of its different customer classes.

The revised X-factor is -0.0833 while the SMAP for the Second Regulatory Period is as follows:

DECORP MAP FORECAST

	2008	2009	2010	2011
Smoothed MAP	1.279	1.429	1.596	1.784

The resulting MAP for 2010 based on the foregoing figures is 2.1613 (without the application of side constraints).

11. The Side Constraint Condition for the Second Regulatory Period which was approved by the Honorable Commission is $CWI_t + SC_t$. The value of SC_{2010} was already set at a fixed level of 0.0787, while the CWI_{2010} is computed at 0.0948. During the conversion of the MAP for 2010 into

distribution rates, the Applicant has determined that the over-all MAP₂₀₁₀, as calculated, would breach the Side Constraint value for RY2010.

As a result, the value of the over-all MAP for 2010 used by the Applicant has been effectively reduced to 1.6976 in order to bring the over-all MAP₂₀₁₀ within the Side Constraint value for RY 2010.

12. Based on the Final Determination of August 30, 2007, as corrected by the Order of November 28, 2007, and the MAP for 2010 as calculated using the Guidelines and the amended RDWR and limited by the Side Constraints, Applicant has converted said MAP into a distribution rate structure, as follows:

DECORP – PROPOSED RATES

		Residential Service (R)	General Retail Service (X)	General Power Service (Y)	Bulk Power Service (Z)	Street Lighting Service (S)
Distribution Charge	PHP/KWH	1.5048	1.0701	.3945	.2263	2.8457
	PHP/KW			237.8936	162.8581	
Supply Charge	PHP/KWH	.2858				
	PHP/CUST/MO		37.2677	37.2677	37.2677	37.2677
Metering Charge	PHP/KWH	.4029				
	PHP/CUST/MO	5.000	89.9081	1,009.0206	2,660.1670	

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”). Applicant used in its calculations the information contained in the Final Determination, as corrected by the Order of November 28, 2007, the revised X-factor and revised SMAP for the Second Regulatory

Period as calculated under the amended RDWR, and the historical operational and financial data and the forecasted operational and financial data of the Applicant that is prescribed to be used by Articles III, IV, V and VI of the amended RDWR.

13. The translated distribution rates would exceed the Side Constraint limits for all of the customer classes of the Applicant except for Residential Customers.

Because of the foregoing, the Applicant respectfully asks that the Honorable Commission exercise its discretion to waive the Side Constraints for RY 2010. The waiver of the Side Constraints for the following customer classes of the Applicant: a) General Retail Service; b) General Power Service; c) Bulk Power Service; and d) Street Lighting Service will allow it to implement its proposed rates based on cost of service principles.

The relaxation of the Side Constraints is justified in this instance in order to allow the Applicant to implement the rates as calculated by the amended RDWR and thus prevent and avoid the excessive build up of under-recoveries by the Applicant which would in the long run result in future higher distribution rates for its consumers.

14. In support of this Application, Applicant has attached the following supporting documents:

SCCHEDULE	INFORMATION PROVIDED
1	Updated Energy Forecast for the Second Regulatory Period.
2	Revised X- Factor Computation and Annual Revenue Requirement
3	Return on Capital Calculation
4	Opening Value of RAB
5	Capital Expenditure
6	Revised SMAP for the Second Regulatory Period
7	MAP 2009 Computation
8	MAP 2010 Calculation
9	Incentive Factor Calculation
10	SAIFI, CAIDI and SAIDI CY 2008
11	Voltage Regulation Performance CY 2008
12	System Loss CY 2008
13	Average Time to Process Application CY 2008
14	Average Time to Connect CY 2008
	MAP 2010 Translation into Distribution Tariffs
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
D1/D2	Embedded Cost of Service – Distribution, Supply and Metering and Class Cost Service Analysis
D3	Class Allocation Factors –Distribution, Supply and Metering
E	Summary of Functionalization and Allocation Factors
F	Functionalization and Allocation of Revenue Requirement RY 2010
G	Rate Schedule for Each Customer Class (Without Side Constraint)
G.1	Rate Schedule for Each Customer Class (With Side Constraint)
H	Historical Revenue, Billing Determinants and Rates
I	Determination of Side Constraint
J	Other supporting schedules

15. The approval of this Application will allow the Applicant to fulfill its obligations under Performance Based-Regulation, to implement in a timely manner its capital expenditure program and its operating and maintenance programs for the Second Regulatory Period, specifically for RY2010, and to avoid any irreparable losses that 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, DECORP most respectfully prays of this Honorable Commission, after due notice and hearing, that this application be approved and that DECORP be authorized to adopt and implement the proposed distribution rate structure to be effective beginning July 1, 2009, as follows:

		Residential Service (R)	General Retail Service (X)	General Power Service (Y)	Bulk Power Service (Z)	Street Lighting Service (S)
Distribution Charge	PHP/KWH	1.5048	1.0701	.3945	.2263	2.8457
	PHP/KW			237.8936	162.8581	
Supply Charge	PHP/KWH	.2858				
	PHP/CUST/MO		37.2677	37.2677	37.2677	37.2677
Metering Charge	PHP/KWH	.4029				
	PHP/CUST/MO	5.000	89.9081	1,009.0206	2660.1670	

Other reliefs equitable under the premises are likewise prayed for.

RESPECTFULLY SUBMITTED.

Pasig City, March 19, 2009.

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VERIFICATION/CERTIFICATION

ISABELITA L. LLAMES, of legal age, Filipino and with office address at Veria I Bldg., 62 West Avenue, Quezon City, after having been duly sworn in accordance with law, hereby deposes and states: That –

1. She is the President of Dagupan Electric Corporation (DECORP), who had caused the preparation of the foregoing Application.

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

3. DECORP 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.

ISABELITA L. LLAMES

SUBSCRIBED AND SWORN to before me this ___th day of March 2009 at _____, affiant who is personally known to me, exhibiting to me her Community Tax Certificate No. _____ issued at Quezon City on _____ and her Driver's License with License Number _____ as competent evidence of identity.

Doc. No. _____;
Page No. _____;
Book No. _____;
Series of 2009.