

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

**IN THE MATTER OF THE APPLICATION  
FOR APPROVAL OF THE REVISED RATE  
SCHEDULE AND APPRAISAL OF  
PROPERTIES, WITH PRAYER FOR  
PROVISIONAL AUTHORITY.**

E.R.C. CASE NO. \_\_\_\_\_

**VISAYAN ELECTRIC COMPANY, INC.  
(VECO),**

Applicant.

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**APPLICATION**

**VISAYAN ELECTRIC COMPANY, INC.** (“VECO,” for brevity), by counsel and unto this Honorable Commission, respectfully states:

1. VECO is an electric distribution utility, organized and existing under and by virtue of the laws of the Republic of the Philippines, with postal address at the VECO Compound, J. Panis Street, Banilad, Cebu City. It is duly enfranchised under Republic Act No. 9339 to engage in the distribution of electric energy in the Cities of Cebu, Mandaue, and Talisay and the surrounding Municipalities of Naga, Minglanilla, San Fernando, Consolacion and Liloan, all within the Province of Cebu. It is represented herein by its Vice President for Utility Economics Group, Mr. Arlo A. G. Sarmiento, who has signed the Verification and Certification.

1.1. VECO may be served with processes and other Orders by this Honorable Commission through its undersigned legal counsel.

2. As an electric distribution utility, VECO is mandated to provide power in the most reliable, secure and efficient manner and impose rates as to allow recovery of just and reasonable costs and a reasonable return on rate base to allow it to operate viably.

3. The last revised rate schedule that has been approved was about five (5) years ago, in the year 2004 in ERC Case Nos. 2001-891 and 2002-06, where VECO was allowed a rate base of Php 2,557,312,803.09 using the sound values of assets for year 2000, and a return on rate base of 12%. The application for this last rate schedule was filed in 2001 but implemented only in 2004, upon approval by the Honorable Commission. A computation using test year 2008 sound values (i.e., 8 years after the last rate schedule) revealed that VECO's Return on Rate Base has reduced to only 2.32%. Thus, a revaluation of the present assets and revision of VECO's rate schedules is timely and in order.

4. This Application is filed in compliance with Republic Act No. 9136 (EPIRA), Section 43 (f) where it is provided that “[f]or purposes of determining the rate base, x x x any distribution utility may be allowed to revalue its eligible assets not more than once every three (3) years by an independent appraisal company.” This is also in compliance with the Distribution Services and Open Access Rules (DSOAR), Uniform Filing Requirements and the Magna Carta for Residential Electricity Consumers.

4.1. The Application also seeks to implement the current cost-of-service study to apportion costs among the different customers classes served and the type of services rendered, which includes the functional allocation mandated under the Uniform Filing Requirements (i.e., metering, supply and distribution).

4.2. VECO also deems it necessary to update allocation factors to reflect the current customer mix (i.e., the emergence of new industries since test year 2000 resulting in changes to load factor), and to prepare for the proposed standardization of service according to voltage levels.

5. Nonetheless, VECO is mindful of the current economic plight of its consumers. For this reason, this Application seeks to expand the lifeline subsidy to allow a wider coverage of residential customers to benefit from this privilege.

6. As approved by the Honorable Commission in VECO's last rate schedule, VECO currently implements the following lifeline discount schedule:

**Table 1. Current Lifeline kWh Consumption Level and Discount**

<b>kWh Consumption</b>	<b>% Discount*</b>
0-50 kWh	30%
51 kWh	25%
52 kWh	20%
53 kWh	15%
54 kWh	10%
55 kWh	5%

*\*Note: Discount applies to generation charge, transmission charge, distribution charge, supply charge and system loss and metering charge (kWh and monthly metering charge).*

7. In this Application, VECO proposes following EXPANDED LIFELINE DISCOUNT SCHEDULE:

**Table 2. Proposed Lifeline kWh Consumption Level and Discount**

<b>kWh Consumption</b>	<b>% Discount*</b>
0 – 20 kWh	100%
21-50 kWh	50%
51-70 kWh	35%
71-100 kWh	20%

*\*Note: Discount applies to generation charge, transmission charge, distribution charge, supply charge and system loss and metering charge (peso/kWh).*

*The proposed lifeline discount excludes the proposed fixed metering charge of Php 48.23/month.*

8. As can be seen in Table 2, VECO proposes to almost double the level of kWh consumption to qualify under the discount, as well as increase the levels of discount to as high as 100%. In the current lifeline subsidy, the highest discount available is on 30%, with a lower qualifying level of kWh consumption.

9. If the expanded lifeline discount schedule is approved by the Honorable Commission, Forty Nine Percent (49%) of the total residential customers will benefit from the

proposed expanded lifeline discount schedule, representing an additional 50,000 beneficiary customers -- or a total of 125,000 residential customers.

10. The proposal will align VECO with the practice of major utilities in the country.

11. As regards the non-lifeline residential customers (i.e., residential customers who do not qualify for the subsidy), VECO will seek an approval from the Honorable Commission to implement mitigating measures to cushion any financial impact of this Application.

12. In the pursuit of its mandate to provide power in the most reliable, secure and efficient manner, since 2004 (i.e., the year when the rates were last approved) VECO has introduced more assets necessary to accomplish this end.

12.1. The following table shows the net asset additions by VECO:

NET ASSET ADDITIONS  
FROM SEPT. 01, 2001 TO OCT. 31, 2008

Distribution plant	
Land & land rights	25,993,996
Structures & improvements	29,652,389
Station equipment	398,242,186
Poles & fixtures	247,470,447
O.H. Conductors & devices	868,590,986
U.G. Conductors & devices	0
Line transformers	607,319,328
Meters	480,973,370
Miscellaneous equipment	216,489,919
General plant	
Land & land rights	(700,000)
Structures & improvements	19,490,556
Office furniture & equipment	15,070,807
Transportation equipment	12,351,264
Miscellaneous equipment	150,137,573
Total plant in service	3,071,082,822

13. With the additional assets, as well as to update the values of existing assets, it was necessary to engage the services of an independent appraisal company that has been accredited by the Honorable Commission. For this purpose, VECO engaged Cuervo Appraisers, Inc.

13.1. After performing the appraisal, Cuervo Appraisers, Inc. submitted its Appraisal Report on the sound value of the assets in accordance with the Guidelines for

the Appraisal of Property, Plant and Equipment for Rate Fixing Purposes, which is hereby attached as Annex “A” and made an integral part hereof.

14. As a result of the appraisal and extensive studies of the revenues necessary to recover the sound values of the assets, VECO calculated its revenue requirements per customer class and functional allocation, and per Cost Component (please see Tables 3 and 4, respectively) as follows:

**Table 3. Comparison of Revenue Requirement**

<b>Customer Class</b>	<b>Billing Determinants (Annualized kWh Sales, No. of Customers/kW demand)</b>	<b>Existing Revenues</b>	<b>Proposed Revenues</b>
Schedule I (Streetlight) Distribution Supply Metering	21,278,442 kWh 136 cust. 4,858 kW	P5,520,563.37 P68,015.25 P0.00	P19,441,804 P365,347 P0.00
Schedule II-R (Residential) Distribution Supply Metering	550,782,399 kWh 256,502 cust. 121,242 kW	P555,408,999.50 P149,372,126.06 P121,191,469.47	P734,260,928 P241,014,277 P296,571,761
Schedule III-S (General Service) Distribution Supply Metering	250,291,835 kWh 36,658 cust. 74,812 kW	P193,000,862.65 P16,311,997.63 P37,492,935.76	P225,207,618 P38,871,510 P42,747,836
Schedule IV-P (General Power) Distribution Supply Metering	98,640,401 kWh 1,531 cust. 39,611 kW	P76,605,495.92 P1,533,194.30 P4,749,657.00	P84,383,724 P4,132,234 P2,028,305
Schedule V-P (Bulk Power) Distribution Supply Metering	282,443,887 kWh 913 cust. 82,278 kW	P163,434,007.42 P1,383,027.58 P7,137,591.19	P176,448,168 P6,882,395 P1,592,238
Schedule VI-P (Wholesale Power) Distribution Supply Metering	494,521,859 kWh 261 cust. 116,935 kW	P144,423,810.86 P623,353.32 P22,518,897.48	P220,325,407 P6,775,788 P1,168,586
Schedule VII-P (Special Wholesale) Distribution Supply Metering	68,100,550 kWh 2 cust. 12,946 kW	P2,300,785.36 P5,130.48 P264,772.56	P21,247,674 P301,798 P119,937

Difference in Revenues <i>(Proposed – Existing)</i>	P620,567,640
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**Table 4. Summary of Proposed Revenue Requirement per Cost Component**

<b>Proposed Revenue Requirement</b>			
<b>Particulars</b>	<b>Total Company (1)</b>	<b>Electric Adjustment (2)</b>	<b>Proposed Revenue Requirement (1) + (2)</b>
Labor-Related Cost	P494,140,380	P0	P494,140,380
Operation & Maintenance	P502,964,341	P0	P502,964,341
Depreciation & Amortization	P370,382,182	P0	P370,382,182
Return on Rate Base	P769,564,684	P0	P769,564,684
Less: ORI (Other Revenue Items)	P-13,137,254	P0	P-13,137,254
<b>TOTAL REVENUE REQUIREMENT</b>	<b>P2,123,914,333</b>	P0	<b>P2,123,914,333</b>
<b>Total Rate Base</b>	<b>P6,413,039,029</b>	P0	<b>P6,413,039,029</b>

15. The above-mentioned revenue requirements will translate into the following proposed rates (vis-a-vis the existing rates) per customer class and functional allocation:

**Table 5. Comparison of Proposed and Existing Rates**

<b>Customer Class</b>	<b>Proposed Rates</b>	<b>Existing Rates</b>	<b>Difference</b>
Schedule I (Streetlight)			
Distribution	P0.3289/watt	P0.0934/watt	P0.2355
Supply	P223.86/month	P42.75/month	P181.11
Metering	P 0.00	P0.00	P0.00
Schedule II-R (Residential)			
Distribution	P1.1977/kWh	P1.0084/kWh	P0.1893
Supply	P0.3494/kWh	P0.2712/kWh	P0.0782
Metering	P0.2118/kWh P48.23/month (fixed)	P0.1924/kWh P5.00/month(fixed)	P0.0194 P43.23
Schedule III-S (General Service)			
Distribution	P1.1977/kWh	P0.7215/kWh	P0.4762
Supply	P0.3494/kWh	P0.1604/kWh (Sch 30) P42.75/month(Sch31-35)	P0.1890
Metering			P0.2118

	P0.2118/kWh P48.23/month (fixed)	P---- P86.54/month(fixed)	P-38.31
Schedule IV-P (General Power)			
Distribution	P0.8555/kWh	P0.6494/kWh	P0.2061
Supply	P224.92/month	P85.51/month	P139.41
Metering	P110.40/month	P264.90/month	P-154.50
Schedule V-P (Bulk Power)			
Distribution			
Supply	P0.3124/kWh P89.36/kW	---- P151.09/kW	P0.3124 P-61.73
Metering	P0.0122/kWh P314.09/month P0.0028/kWh P72.67/month	---- P128.26/month ---- P661.93/month	P0.0122 P185.83 P0.0028 P-589.26
Schedule VI-P (Wholesale Power)			
Distribution	P0.2228/kWh P78.51/kW	---- P102.15/kW	P0.2228 P-23.64
Supply	P0.0069kWh P1,081.70/month	---- P213.77/month	P0.0069 P867.93
Metering	P0.0012/kWh P186.56/month	---- P7,722.53/month	P0.0012 P-7,535.97
Schedule VII-P (Special Wholesale)			
Distribution	P0.1562/kWh P68.47/kW	---- P14.81/kW	P0.1562 P53.66
Supply	P0.0022/kWh P6,287.45/month	---- P213.77/month	P0.0022 P6,073.68
Metering	P0.0009/kWh P2,498.68/month	---- P11,032.19/month	P0.0009 P-8,533.51

16. The proposed rates in Table 5 are necessary to achieve the proposed reasonable revenue requirement of VECO which will not be achieved with the existing rates.

17. Hence, based upon the appraisal of its assets and the updated revenue requirements, and incorporating the new lifeline subsidiary discounts, VECO proposes for the approval of the following New Rate Schedule with Proposed New Lifeline Rates:

**Table 6. Proposed New Rate Schedule with New Lifeline Rates**

Customer Class	Proposed Rates	Lifeline Discount	Lifeline Subsidy
Schedule I (Streetlight)			
Distribution	P0.3289/watt	Not applicable	P0.0337/watt
Supply	P223.86/month		

Metering	P 0.00		
Schedule II-R (Residential) Distribution Supply Metering	P1.1977/kWh P0.3494/kWh P0.2118/kWh P48.23/month (fixed)	0-20kWh=100% 21-50 kWh=50% 51-70 kWh=35% 71-100 kWh =20%	P0.0937/kWh
Schedule III-S (General Service) Distribution Supply Metering	P1.1977/kWh P0.3494/kWh P0.2118/kWh P48.23/month (fixed)	Not applicable	P0.0937/kWh
Schedule IV-P (General Power) Distribution Supply Metering	P0.8555/kWh P224.92/month P110.40/month	Not applicable	P0.0937/kWh
Schedule V-P (Bulk Power) Distribution Supply Metering	P0.3124/kWh P89.36/kW P0.0122/kWh P314.09/month P0.0028/kWh P72.67/month	Not applicable	P0.0937/kWh
Schedule VI-P (Wholesale Power) Distribution Supply Metering	P0.2228/kWh P78.51/kW P0.0069kWh P1,081.70/month P0.0012/kWh P186.56/month	Not applicable	P0.0937/kWh
Schedule VII-P (Special Wholesale) Distribution Supply Metering	P0.1562/kWh P68.47/kW P0.0022/kWh P6,287.45/month P0.0009/kWh P2,498.68/month	Not applicable	P0.0937/kWh

18. VECO wishes to emphasize that Schedule II-R (Residential) and Schedule III-S (General Service) actually require the same service level (i.e., both are at 220 voltage levels). Nonetheless, these are presented in the table above as separate and distinct customer classes in deference to the Magna Carta for Residential Electricity Consumers. In the near future, and subject to appropriate rules of the Honorable Commission, VECO may implement a

standardization plan to segregate customers according to voltage level. Thus, it may be possible that Residential and General Service customers may be lumped into a single class.

#### ***Compliance with Pre-Filing Requirements***

19. VECO shall comply with the Rule 6 of the ERC Rules or Practice and Procedure on Pre-Filing Requirements and furnish copies of the Application with annexes to the Cebu City Council, which will be proven by the Affidavit of Service issued by the person who served the Application to the legislative body, in lieu of the certificate of service by the Council.

20. The Application will also be published in a newspaper of general circulation within its franchise area or area where it principally operates, which will be proven by an Affidavit of Publication issued by the publisher.

#### ***Other Documents In Support of the Application***

21. The following annexes are also attached and submitted in further support of the Application:

21.1. Schedule of rate depreciation and method used per asset category (Annex “B”); and

21.2. Documents in support of the compliance with the Uniform Filing Requirements (Annex “C”).

### **PRAYER**

WHEREFORE, the foregoing premises considered, VECO respectfully prays that this Honorable Commission:

1. Grant provisional authority, upon filing of the instant Application with the supporting documents and after initial evaluation by the Honorable Commission, to (a) approve the appraisal of its assets at **Php 6,104,589,560** which is based on the sound value of such assets,

and (b) approve the proposed revenue requirement of **Php 2,123,914,333** and translated into the following rate schedule with updated lifeline values:

<b>Customer Class</b>	<b>Proposed Rates</b>	<b>Lifeline Discount</b>	<b>Lifeline Subsidy</b>
Schedule I (Streetlight) Distribution Supply Metering	P0.3289/watt P223.86/month P 0.00	Not applicable	P0.0339/watt
Schedule II-R (Residential) Distribution Supply Metering	P1.1977/kWh P0.3494/kWh P0.2118/kWh P48.23/month (fixed)	0–20kWh=100% 21-50 kWh=50% 51-70 kWh=35% 71-100 kWh =20%	P0.0937/kWh
Schedule III-S (General Service) Distribution Supply Metering	P1.1977/kWh P0.3494/kWh P0.2118/kWh P48.23/month (fixed)	Not applicable	P0.0937/kWh
Schedule IV-P (General Power) Distribution Supply Metering	P0.8555/kWh P224.92/month P110.40/month	Not applicable	P0.0937/kWh
Schedule V-P (Bulk Power) Distribution Supply Metering	P0.3124/kWh P89.36/kW P0.0122/kWh P314.09/month P0.0028/kWh P72.67/month	Not applicable	P0.0937/kWh
Schedule VI-P (Wholesale Power) Distribution Supply Metering	P0.2228/kWh P78.51/kW P0.0069kWh P1,081.70/month P0.0012/kWh P186.56/month	Not applicable	P0.0937/kWh
Schedule VII-P (Special Wholesale) Distribution Supply	P0.1562/kWh P68.47/kW P0.0022/kWh P6,287.45/month	Not applicable	P0.0937/kWh

Metering	P0.0009/kWh P2,498.68/month		
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2. Allow VECO to implement mitigating measures to reduce the impact of the effects of the Application on non-lifeline residential customers (i.e., residential customers that do not enjoy the lifeline discount as proposed herein);
3. After due notice and trial, grant this Application permanent authority.

Finally, VECO similarly prays for other equitable relief under the circumstances.

Cebu City (for Pasig City), April 3, 2009

**J. P. GARCIA & ASSOCIATES**  
Counsel for Applicant Visayan Electric Company, Inc.  
Unit 902, Ayala Life -FGU Center  
Mindanao Avenue, Cebu Business Park  
Cebu City

By:

**JOAN A. GIDUQUIO-BARON**  
IBP O.R. No. 754163; January 5, 2009, Cebu City  
PTR No. 8510004; January 5, 2009, Cebu City  
Roll of Attorneys No. 41829  
MCLE Compliance No. I – 0016324  
MCLE Compliance No. II - 0015874

**VERIFICATION/CERTIFICATION**

REPUBLIC OF THE PHILIPPINES }  
CEBU CITY/PROVINCE                    } s.s.

I, ARLO A. G. SARMIENTO, of legal age and resident of Cebu City, after being duly sworn to in accordance with law hereby depose and say that:

I am the Vice President – Utility Economics Group of herein Applicant;

I have caused the preparation of the foregoing Application;

I have read the contents thereof and that the same are true and correct to the best of my knowledge and information;

I have not cause commenced any other action or proceeding involving the same issue in the Supreme Court, the Court of Appeals or any agency or tribunal, and to the best of my knowledge, no such action or proceeding is pending in the same entities above-stated. If I should learn that a similar action or proceeding has been filed or pending before said court, agency or tribunal, I undertake to inform this Honorable Commission within 5 days from knowledge thereof.

Cebu City, (for Pasig City), March 20, 2009.

**ARLO A. G. SARMIENTO**  
*Affiant*

SUBSCRIBED AND SWORN TO before me this \_\_\_\_\_ at Cebu City, affiant exhibiting to me his CTC No. \_\_\_\_\_ issued at Cebu City on \_\_\_\_\_.

Doc. No. \_\_\_\_  
Page No. \_\_\_\_  
Book No. \_\_\_\_  
Series of 2009.