

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, SMOOTHED MAP AND PIS FOR THE SECOND REGULATORY PERIOD; b) THE RECALCULATED MAP FOR REGULATORY YEAR 2011; and c) THE TRANSLATION INTO DISTRIBUTION RELATED RATES OF DIFFERENT CUSTOMER CLASSES FOR THE SECOND REGULATORY YEAR OF THE ERC-APPROVED ANNUAL REVENUE REQUIREMENT FOR CLPC UNDER THE PERFORMANCE BASED REGULATION (PBR) FOR THE REGULATORY PERIOD 2009-2013, WITH PRAYER FOR PROVISIONAL AUTHORITY.

COTABATO LIGHT AND POWER COMPANY, INC. (CLPC),

Applicant.

ERC CASE NO. 2009 - 178RC

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## **APPLICATION**

COMES NOW Applicant COTABATO LIGHT AND POWER COMPANY (hereinafter referred to as "CLPC" or "Applicant"), through undersigned counsels and unto this Honorable Commission, most respectfully avers:

1. CLPC is a private corporation existing under the laws of the Republic of the Philippines, with principal business address at Aboitiz Corporate Center, Banilad, Cebu City. It may be served with notices and other processes of this Honorable Commission at its place of operations on Sinsuat Avenue, Cotabato City or through its counsels at the address indicated herein.

2. CLPC holds the exclusive franchise to operate electric light and power services in the City of Cotabato and part of the Municipalities of Datu Odin Sinsuat and Sultan Kudarat, in the Province of Maguindanao.

3. Under ERC Resolution No. 54, Series of 2006, or the “Rules for Setting Distribution Wheeling Rates (RDWR) for Privately Owned Distribution Utilities Entering Performance Based Regulation (Second and Later Entry Points)” (“RDWR”), the Performance Based Regulation (PBR) entrant distribution utility will be given an Annual Revenue Requirement (ARR) which will be used to derive the Maximum Average Price (MAP). Said MAP shall then be allocated by the distribution utility in setting the rate schedule for its distribution, supply and metering charges for each customer class or segment.

4. CLPC was among the entrants at the second entry point to the PBR rate setting methodology adopted by this Honorable Commission pursuant to Section 43(f) of Republic Act No. 9136, otherwise known as the Electric Power Industry Reform Act of 2001. As such, on May 27, 2008, CLPC filed an application for approval of its ARR and Performance Incentive Scheme (PIS) for the Second Regulatory Period covering the period from April 1, 2009 to March 31, 2013. Said application was docketed as ERC Case No. 2008-029RC.

5. Thereafter, the Honorable Commission, in the aforesaid case, issued the Final Determination for the Applicant contained in its Decision dated December 15, 2008.

a. Based on the Final Determination, Applicant’s ARR for the Second Regulatory Year of the Second Regulatory Period as approved by the Honorable Commission is as follows:

<b>Building Block</b>	<b>2011 (PhP Million, Nominal)</b>
Return on Capital	123.00
OPEX	89.40
Regulatory Depreciation	32.20
Corporate Income Tax	0.00
Other Taxes	1.40
<b>Subtotal</b>	<b>246.00</b>
Reduction imposed by the Commission	42.00
<b>Resulting ARR</b>	<b>204.00</b>
GSL Allowance	1.20
<b>TOTAL</b>	<b>205.20</b>

b. The smoothed MAP for the Second Regulatory Year of the Second Regulatory Period as approved under the Final Determination is PhP1.477/kWh.

6. Applicant herein applies for a revised X-factor of -0.1497 and smoothed MAP for the Second Regulatory Period as follows:

<b>RY 2010</b>	<b>RY 2011</b>	<b>RY 2012</b>	<b>RY 2013</b>
1.4043	1.6762	1.9975	2.3764

These revisions, calculated using ERC's Price-cap Model Ver. 0.3 (attached as Annex "A" of this Application), were done for the following reasons:

a. Applicant proposes additional CAPEX amounting to Php 15,520,000.00 to address the rising non-technical system loss associated with pilferage. (Please refer to Annex "B" for details on the additional CAPEX.)

b. The persistent flood problem in Cotabato City has reduced the demand for energy therein. In July 2009, heavy rains and the silting of the river bed of Rio Grande de Mindanao, the largest river flowing through Cotabato City, caused deep flooding in approximately 70% of the 37 villages in Cotabato

City. This was further aggravated by the large growth of water hyacinth which has greatly reduced the water flow of the river and which has caused the floodwater to become stagnant in a number of streets in the city for some time now. Given its limited budget for flood control, the local government has yet to address this problem which is likely to persist and even become worse in the future. For CLPC, the impact of the flood problem has been upon the energy consumption of Applicant's residential and commercial customers. In fact, CLPC's second largest industrial customer, PhilTrade, has been significantly hit because of the close proximity of its compound to the river banks. Consequently, PhilTrade's operations has had to slow down, resulting in the reduction of its energy consumption.

c. Applicant's forecasted energy consumption will no longer be applicable as the withdrawal of LAMSAN, its largest industrial customer, will result in a huge reduction of Applicant's actual energy consumption. LAMSAN, a corn processing company specializing in the production of corn starch, has an average monthly demand of 1,600kW and an average monthly consumption of 950,000kWh. LAMSAN management has recently decided to build its own power generating plant to lower operating costs and to secure its energy needs in light of the worsening peace and order situation in the city of Cotabato.

While the effect of LAMSAN's withdrawal will translate to a significantly negative variance between Applicant's actual and forecasted energy consumption, a review of Applicant's forecasted capital and operating & maintenance expenses discloses that the said withdrawal will nevertheless have little effect on the forecasted expenses. In addition, the loading of assets within the respective planning horizons remains to be optimal despite the tremendous impact of LAMSAN's pull-out upon Applicant's forecasted energy

consumption (Please see Annex “C” for details on the optimum loading of assets).

d. Taking into account the above, the revised forecast is as set forth below, opposite the forecasted energy consumption as contained in the Final Determination:

<b>(in MWh)</b>	<b>RY 2009</b>	<b>RY 2010</b>	<b>RY 2011</b>	<b>RY 2012</b>	<b>RY 2013</b>
Final Determination	123,267	127,862	132,457	137,051	141,647
Revised Forecast	118,610	119,829	113,538	112,348	114,141

7. As to the recalculated price cap for the Second Regulatory Year of the Second Regulatory Period, the following adjustments were considered:

a. The change in the price cap for Regulatory Year 2010 from 1.3189 to 1.4043 Php/kWh, due to the revised X-factor and smoothed MAP, resulted in an under-recovery of Php363,061.00.

b. In compliance with Resolution No. 17, Series of 2008 of the Honorable Commission directing which directs private utilities under PBR to treat actual company use as operation and maintenance expense, Applicant has included as an under-recovery the amount of Php 1,312,204.09 representing the actual company use for the period April - October 2009.

c. In the decision covering Applicant's first regulatory year rate design (ERC Case No. 2009-006RC), Applicant was directed to implement the approved distribution, supply and metering charges only one month after the start of the Second Regulatory Period. Thus, an under-recovery of Php 1,021,143.13 resulted from this one-month lag in the implementation of the approved rates.

d. Applicant's PIS system loss target of 9.5% was based on the originally forecasted decrease in non-technical loss due to its efforts to control pilferage in its franchise area. However, recent and untoward developments in Cotabato City's peace and order situation have hampered the implementation of Applicant's pilferage apprehension programs. As a matter of fact, the additional capital expenditure previously mentioned herein is intended precisely to address the problem of pilferage as Applicant does not wish to risk the safety of its personnel in the apprehension of pilferers. Exacerbating Applicant's difficulty in meeting the system loss target is the pullout of LAMSAN which will potentially raise Applicant's system loss from an average of 10.65% to 11.4%.

For these reasons, the Applicant believes that for this Regulatory Period, system loss as a performance measure will not yield the true levels of the Applicant's efficiency in terms of its operation of its distribution system. Applicant therefore proposes that the system loss index be excluded from the price-linked incentive scheme and its weighting be re-assigned to the planned SAIDI index. The proposed revised and reallocated weights for the indices is as summarized in the table below:

<b>Performance Index</b>	<b>Weighting</b>
SAIFI	0.20
CAIDI	0.20
Planned SAIDI	0.20
Voltage Variation	0.10
Time to Process	0.15
Time to Connect	0.15

The details of the Applicant's RY 2010 performance vis-à-vis the approved PIS targets are in Annex "D".

8. The updated MAP after the foregoing adjustments amounts to 1.762 Php/kWh. This was derived using ERC's price-cap model particularly the annual reset

sheet for regulatory year 2011. The computations are based on the following formula as prescribed in the RDWR:

$$\text{MAP}_t = [\text{MAP}_{t-1} \times \{1 + \text{CWI}_t - X\}] + S_t - K_t + \text{ITA}_t$$

where:

$$\begin{aligned}\text{MAP}_{t-1} &= 1.6762 \\ \text{CWI}_t &= 0.0273 \\ X &= -0.1497 \\ S_t &= 0.04064 \\ K_t &= -0.0688 \\ \text{ITA}_t &= 0\end{aligned}$$

The positive PIS performance of CLPC resulted in maximum rewards for the CAIDI, Planned SAIDI, and Voltage Variation indices and first level rewards for SAIFI, Time to Process and Time to Connect Premises Indices.

The under-recoveries comprised of the change in  $\text{MAP}_{2010}$  (amounting to Php 363,061), company use allowance removed from total system loss (amounting to Php 1,312,204.09), and the one-month delay in the implementation of the first regulatory year rates (amounting to Php 1,021,143.13) resulted to a K-factor of -0.0688.

9. In compliance with the requirements under the RDWR and the Final Determination for the conversion of the approved MAP into a distribution rate structure, Applicant herein applies for the approval of the translation into distribution rates of different customer classes of its approved MAP for the Second Regulatory Year (April 1, 2010 to March 31, 2011) of the Second Regulatory Period.

10. The translation into distribution-related rates is consistent with the methodology used in the Uniform Filing Requirement (UFR) in the rate unbundling, using updated scenarios and values. The proposed translation of rates calculation is attached hereto as Annex "E".

11. The smoothed MAP<sub>2011</sub> of PhP1.762 per kWh (net of Regulatory Intervention) was broken down into the average unbundled components of Distribution Charge, Supply Charge and Metering Charge, with the resulting figures as follows:

Distribution Charge	PhP1.407/kWh
Supply Charge	PhP0.096/kWh
Metering Charge	PhP0.259/kWh
<b>TOTAL</b>	<b>PhP1.762/kWh</b>

12. The definitions of the rate schedules for each of the Applicant's customer segments are hereto attached and marked as Annex "F".

13. Summarized below is Applicant's proposed distribution-related rate structure:

	Distribution		Supply		Metering	
	PhP/kWh	PhP/kW	PhP/kWh	PhP/Cust/Mo	PhP/kWh	PhP/Meter/Mo
<b>Residential/GR1</b>	1.6382	-	0.1460	-	0.4033	5.00
<b>General retail 2</b>	0.5433	145.88	-	100.33	-	172.85
<b>General retail 3</b>	0.4404	130.19	-	200.65	-	246.77
<b>General retail 4</b>	0.5375	426.48	-	1,436.92	-	3,483.11
<b>Streetlight</b>	1.7760	-	-	66.58	-	-

14. Summarized below are the proposed minimum charges per customer segment. Note that for General Retail 4, Applicant is proposing that the minimum charge shall still apply to customers who have opted to source their power from an entity other than Applicant but would still be connected to Applicant's distribution system.

	Distribution (Php/kW)	Supply (Php/Cust/Mo)	Metering (Php/Meter/Mo)
Residential/GR1	-	-	5.00
General Retail 2	145.88	100.33	172.85
General Retail 3	130.19	200.65	246.77
General Retail 4	426.48	1,436.92	3,483.11
Streetlight	-	66.58	-

15. A comparison of the proposed basic rates and the existing basic rates per customer segment is shown in Annex "G".

16. To enable CLPC to implement in a timely manner its capital expenditure program and address its operating and maintenance requirements for the Second Regulatory Period, particularly for the Regulatory Year 2011 and avert financial prejudice to both CLPC and its consumers, it is necessary and indispensable that a provisional authority be immediately issued authorizing CLPC to implement the new rates pending hearing on the merit of the instant Application.

17. In compliance with ERC Rules of Practice and Procedure, Applicants have furnished each of the legislative bodies of the City of Cotabato and the Municipalities of Datu Odin Sinsuat and Sultan Kudarat, in the Province of Maguindanao, copies of this Application with all its annexes and accompanying documents. Copies of the certification from the presiding officer or the secretary of the legislative body of each of the said local governments, or his/her duly authorized representative/s, attesting to the fact that the legislative body was served a copy of the Application with all its annexes and accompanying documents and the date of such service are attached as Annexes "H", "I" and "J" of this Application.

18. Applicants have also caused the publication of the Application in a newspaper of general circulation within the franchise area of CLPC. Copies of the newspaper publication and the corresponding Affidavit of Publication are attached hereto as Annexes "K" and "L", respectively.

**PRAYER**

**WHEREFORE**, Applicant COTABATO LIGHT AND POWER COMPANY, INC. respectfully prays that this Application be approved, authorizing Applicant to adopt the herein proposed:

- a) Revised X-factor of -0.1497
- b) Smoothed MAP for the second regulatory period as follows:

<b>RY 2010</b>	<b>RY 2011</b>	<b>RY 2012</b>	<b>RY 2013</b>
1.4043	1.6762	1.9975	2.3764

- c) Revised weighting for price linked indices of the PIS as follows:

<b>Performance Index</b>	<b>Weighting</b>
SAIFI	0.20
CAIDI	0.20
Planned SAIDI	0.20
Voltage Variation	0.10
Time to Process	0.15
Time to Connect	0.15

- d) Recalculated MAP for regulatory year 2011 amounting to 1.762 Php/kWh
- e) Distribution-related rate structure and rate schedules for the second regulatory year summarized as follows:

	<b>Distribution</b>		<b>Supply</b>		<b>Metering</b>	
	PhP/kWh	PhP/kW	PhP/kWh	PhP/Cust/Mo	PhP/kWh	PhP/Meter/Mo
<b>Residential/GR1</b>	1.6382	-	0.1460	-	0.4033	5.00
<b>General retail 2</b>	0.5433	145.88	-	100.33	-	172.85
<b>General retail 3</b>	0.4404	130.19	-	200.65	-	246.77
<b>General retail 4</b>	0.5375	426.48	-	1,436.92	-	3,483.11
<b>Streetlight</b>	1.7760	-	-	66.58	-	-

Pending the necessary public hearing, Applicant further prays for the issuance of a temporary/provisional authority to implement the proposed distribution-related rate structure and rate schedules.

Applicant prays for such other relief just and equitable under the premises.

Marikina City for the City of Pasig, Metro Manila. December \_\_ 2009.

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