

ORIGINAL

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 SECOND REGULATORY YEAR OF THE ERC-APPROVED ANNUAL REVENUE REQUIREMENT FOR ILIGAN LIGHT AND POWER, INC, (ILPI) UNDER THE PERFORMANCE BASED REGULATION (PBR) FOR THE REGULATORY PERIOD 2010-2013.

ERC CASE NO. _____

ILIGAN LIGHT AND POWER, INC.
(ILPI),

Applicant.

x-----x

APPLICATION

Applicant ILIGAN LIGHT AND POWER, INC. ("ILPI"), through the undersigned counsel, and unto this Honorable Commission, most respectfully states: That –

1. ILPI is a corporation duly organized and existing under and by virtue of the laws of the Philippines, with principal office at Bro. Raymund Jeffrey Road, Pala-o, Iligan City where it may be served with summons and other legal processes, represented in this instance by its President, Ralph B. Casiño, of legal age, Filipino, married and with office address also at Bro.

Raymund Jeffrey Road, Pala-o, Iligan City. ILPI is the exclusive franchise holder issued by the Congress of the Philippines to operate electric light and power services in the City of Iligan in the Province of Lanao del Norte.

2. On May 27, 2008, ILPI filed an application (docketed as ERC Case No. 2008-027RC) 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 Iligan Light and Power, Incorporated (ILPI) 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 quarter (25%), and set the WACC at the point value of 75th percentile. The resulting WACC is 16.27%.

Parameters	Formula	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%	3.89%	3.89%
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	113,608	128,392	136,034	141,454	148,083	553,962
Real Values (2008)	108,469	113,846	114,742	114,422	115,122	458,132

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	677,659	763,743	807,219	828,583
OPEX Approved	128,392	136,034	141,454	148,083
Working Capital Allowed	6,291	6,666	6,931	7,256
Subtotal – Capital Invested	683,951	770,408	814,150	835,839
RETURN ON CAPITAL	111,279	125,345	132,462	135,991
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	617,991	737,328	790,157	824,280
Depreciation of RAB	0	28,462	31,686	34,329	36,670
Capital Expenditure	0	147,490	83,809	68,012	44,797
Change in Assets Used Over Regulatory Lives	0	309	707	439	480
Closing Value of RAB	617,991	737,328	790,157	824,280	832,886
Average RAB for the Year	617,991	677,659	763,743	807,219	828,583

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)					
	2009	2010	2011	2012	2013	TOTAL
Nominal Values	93,217	1,756,573	744,992	322,416	113,652	2,937,633
Real Values (2008)	89,000	1,557,572	628,388	260,803	88,355	2,535,118

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

Subject to a regulatory intervention, the ARR shall be as follows with an X factor of -16.02% for purposes of computing the MAP:

Building Block	(PhP Million, Nominal)			
	2010	2011	2012	2013
Return on Capital	111.3	125.3	132.5	136.0
OPEX	128.4	136.0	141.5	148.1
Regulatory Depreciation	28.5	31.7	34.3	36.7
Corporate Income Tax	0.0	0.0	0.0	0.0
Other Taxes	1.8	0.7	0.3	0.1
Subtotal	269.9	293.8	308.6	320.9
Reduction Imposed by the Commission	-42	-42	-42	-42
Resulting ARR	227.9	251.8	266.6	278.9
GSL Allowance	1.3	1.5	1.5	1.6
TOTAL	229.2	253.3	268.1	280.5

i. Performance Incentive Scheme (PIS)

Price-Linked Incentive Scheme

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	5.66	11.94	18.23	24.51	30.80
Customer Average Interruption Duration Index (CAIDI)	Min	0.2	101.50	155.10	208.70	262.30	315.91
Planned System Average Interruption Duration Index (Planned SAIDI)	Min	0.15	433.97	1,200.61	1,967.26	2,733.91	3,500.56
Probability of Voltage Levels falling within Prescribed Limits	%	0.1		1.83%	14.68%	27.53%	40.38%
System Losses	%	0.05	8.5%	9.0%	9.5%		
Average Time to Process Application Regulated	Days	0.15	1.64	3.32	5.00	6.68	8.36

Distribution Services							
Average Time to Connect Premises to the Regulated Distribution System	Days	0.15	1.68	3.59	5.50	7.41	9.32

Guaranteed Service Level Scheme

Performance Measure	Unit	Threshold	Penalty Level (PhP)
GSL 1 Duration of Sustained Interruptions	Hours	67	37.2
GSL 2 No. of Sustained Interruptions	Numbers	18	37.2
GSL 3 Restoration Time	Hours	4	37.2
GSL 4 Time to Connect	Days	5.5	37.2

SO ORDERED.”

4. The Applicant filed a Motion for Partial Reconsideration on January 23, 2009 in ERC Case No. 2008-027RC asking the Honorable Commission to reconsider its Decision dated December 15, 2008 and amend the Energy Forecasts for the Second Regulatory Period found in the Final Determination dated December 15, 2008.

5. The Applicant received on February 5, 2009 the Order of the Honorable Commission resolving the Motion for Partial Reconsideration in ERC Case No. 2008-027RC.

The Honorable Commission resolved as follows:

“The table below shows different scenarios and numbers of X-factor and opening MAP with its explanations:

Various MAP Scenarios

	X-factor	Opening MAP PhP/kWh	2013 MAP PhP/kWh
(a) Final determination	-16.02%	0.972	1.688
(b) With reduced energy	-20.25%	1.005	1.938

consumption			
(c) With reduced energy consumption and reduced OPEX	-25.07%	1.043	2.254
(d) With reduced energy consumption, reduced OPEX and increased regulatory intervention	-16.20%	0.973	1.697

(a) The X-factor and MAP approved in the Final Determination. These figures allowed for a regulatory intervention of PhP42 million each year of the second regulatory period. (ILPI's allowed revenue was reduced by this amount to avoid undue price-shocks to consumers. It will be allowed to recover this during the Third Regulatory Period).

(b) The X-factor results from the reduced energy consumption.

(c) The X-factor results after the proposed 10% OPEX reduction is incorporated along with the energy forecast reduction.

(d) The X-factor results after increasing the regulatory intervention to PhP49 Million per year, on top of the 10% OPEX reduction and the energy forecast reduction.

The Commission has adopted scenario (d) or the X-factor results after increasing the regulatory intervention to PhP49 Million per year, on top of the 10% OPEX reduction and the energy forecast reduction to avoid the excessive price impact to the consumers.

x x x

In view of the foregoing, the Commission hereby adopts the following:

- 1.1 A revised energy consumption forecast for ILPI for the Second Regulatory Period as set out in Table 2.
- 1.2 A reduction of 10% in the operating and maintenance expenditure recommended in the Final Determination on the price setting arrangements for ILPI for the Second Regulatory Period.
- 1.3 An increased regulatory intervention of PhP49 Million per year for each year of the Second Regulatory Period in

ILPI's annual revenue allowance, recoverable in the Third Regulatory Period.

- 1.4 A revised X-factor for the Second Regulatory Period to - 16.20% per year.”

6. On February 9, 2009, Applicant filed an application (docketed as ERC Case No. 2009-009RC) for approval of the translation of its MAP for 2010 (the first regulatory year of the regulatory period 2009-2013) into distribution rates of its different customer classes under the Performance Based Regulation.

The Honorable Commission resolved Applicant's application in ERC Case No. 2009-009RC in its Decision dated March 30, 2009. The March 30, 2009 Decision stated that:

“WHEREFORE, the foregoing premises considered, the application for approval of the translation into distribution rates of its different customer classes for the first regulatory year of the ERC-approved annual revenue requirement under the Performance Based Regulation (PBR) for the Regulatory Period 2010-2013 filed Iligan Light and Power, Incorporated (ILPI) is hereby **APPROVED** with modification.

Accordingly, ILPI is hereby directed to implement, starting May 1, 2009, its approved Distribution, Supply and Metering Charges shown as follows:

	Units	Approved Rates for the Regulatory Year 2010 (PhP)
DISTRIBUTION		
Residential	PhP/kWh	0.8059
Commercial	PhP/kWh	0.8108
General Power	PhP/kWh	0.3683
	PhP/kW	143.98
Bulk Power	PhP/kWh	0.0337
	PhP/kW	22.43
Flat Rate	PhP/kWh	0.9067
SUPPLY		
Residential	PhP/kWh	0.2004
Commercial	PhP/Cust./Month	32.71

General Power	PhP/Cust./Month	32.34
Bulk Power	PhP/Cust./Month	32.34
Flat Rate	PhP/Cust./Month	32.34
METERING		
Residential	PhP/kWh	0.2952
	PhP/Cust./Month	5.00
Commercial	PhP/Cust./Month	
Non-CT Rated	PhP/Cust./Month	59.54
CT-Rated	PhP/Cust./Month	795.39
General Power	PhP/Cust./Month	
Sec. Metered	PhP/Cust./Month	1,478.42
Primary Metered	PhP/Cust./Month	3,899.46
Bulk Power	PhP/Cust./Month	
Primary Metered	PhP/Cust./Month	4,459.35
Flat Rate	PhP/Cust./Month	-
AVERAGE TOTAL RATE	PhP/kWh	0.9729

ILPI is further directed to implement its revised lifeline levels and corresponding discounts and subsidy, as follows:

kWh Consumption	Level of Discount
0-20	100%
21-30	50%
31-40	40%
41-50	30%
51-60	20%
61-70	10%
71-80	5%
81-90	5%
91-100	5%
Subsidy Rate to Non- Lifeline Customers (PhP/kWh)	PhP0.0878/kWh

SO ORDERED.”

7. The Applicant, guided by the RDWR, as amended, has calculated the Maximum Average Price (MAP) for the Second Regulatory Year (RY2011) of the Second Regulatory Period to be 1.1256 with an X-factor of -0.1619. The resulting MAP for 2011 is shown without the application of the side constraints.

The Applicant has calculated these values in accordance with the RDWR, as amended. Below is the calculation for the MAP₂₀₁₁.

$$\text{MAP}_{2011} = [\text{MAP}_{2010} \times \{ 1 + \text{CWI}_{2011} - X \}] + S_{2011} - K_{2011} + \text{ITA}_{2011}$$

$$\text{MAP}_{2011} = [0.9703 \times \{ 1 + 3.0527\% - (-0.1619) \}] + 0.0058 - 0.0372 + 0$$

$$\text{MAP}_{2011} = 1.1256 \text{ (PhP/kWh)}$$

8. Based on the Final Determination of December 15, 2008, the ERC Order dated February 5, 2009 in ERC Case No. 2008-027RC, the Cost of Service Study as approved by the Commission in ERC Case No. 2009-009RC, and the provisions set forth in the Distribution Services and Open Access Rules (DSOAR), specifically the conversion of the Maximum Average Price into different rate elements per customer class, the Applicant has converted the computed MAP₂₀₁₁ into distribution rates as follows:

ILPI PROPOSED DISTRIBUTION RATES

Customer Class	DISTRIBUTION		SUPPLY		METERING		PhP/ kWh
	PhP/ kW	PhP/ kWh	PhP/ Cust./ Month	PhP/ kWh	PhP/Customer/ Month		
					Non-CT Rated/ Sec. Metered	CT Rated / Prim. Metered	
Flat Rate (11)	-	1.0426	13.95	-	-	-	-
Residential (21)	-	0.9124	-	0.2269	5.00	-	0.3383
Commercial (31)	-	0.9560	40.17	-	73.12	971.10	-
General Power (41)	173.57	0.4105	43.39	-	2,043.64	4,941.08	-
Bulk Power (51)	24.27	0.0385	42.10	-	-	5,805.02	-

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”). The Applicant used in its calculations the information contained in the Final Determination of December 15, 2008 and the Order dated February 5, 2009.

10. The Side Constraint Calculation for the Second Regulatory Period which was approved by the Honorable Commission is $CWI_t + SC_t$. The value of SC_{2011} is 18.50% while the CWI_{2011} has been calculated to be 3.0527%.

The Applicant has determined that the resulting MAP_{2011} and the converted distribution rates from said MAP_{2011} would result in the breach of the rates for its Bulk Power customers. Below is the computation of the Side Constraints:

$((FCR_{k,t} / FQ_{k,t}) - S_t) - ((CR_{k,t-1} / AQ_{k,t-1}) - S_{t-1})$	\leq	$(CWI_t + SC_t)$
$(CR_{k,t-1} / AQ_{k,t-1}) - S_{t-1}$	\leq	$(3.0527\% + 18.50\%)$
	\leq	21.5527%

CUSTOMER CLASS	$(FCR_{k,t} / FQ_{k,t}) - S_t$	$(CR_{k,t-1} / AQ_{k,t-1}) - S_{t-1}$	% Increase	STATUS
Flat Rate (11)	1.0441	0.9096	14.79%	Within Side Constraints
Residential (21)	1.5079	1.3293	13.44%	Within Side Constraints
Commercial (31)	1.1456	0.9850	16.31%	Within Side Constraints
General Power (41)	1.0807	0.9572	12.91%	Within Side Constraints
Bulk Power (51)	0.1022	0.0834	22.61%	Side Constraints Breached

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

Schedule	Information Provided
A	Computation of the Maximum Average Price (MAP) for the Regulatory Year Ending March 31, 2011

A.1	Computation of the Change in Weighted Index (CWI)
A.2	Computation of the Actual Weighted Average Tariff (AWAT)
A.3	Details of Income from Related Business (RBR)
A.4	Computation of the Differential Amount (DA)
A.5	Computation of the Correction Factor (K)
A.6	Computation of the S-Factor (S)
B	Translation of Revenue at MAP into Distribution Wheeling Rates for the Different Customer Classes
B.1	Computation of the Proportionate Share of Each Customer Class of the Total Revenue Requirement
B.2	Computation of the Average Historical Rate for Each Customer Class
B.3	Historical Revenue Earned from Each Customer Class
B.4	Billing Determinants
B.5	Approved Summary of Cost of Service Result and Allocation Factors Used
C	Comparison of Proposed and Existing Distribution Wheeling Rates Per Customer Class
D	Computation of Side Constraints on the Proposed Distribution Wheeling Rates
E	Proposed Rate Schedule For Each Customer Class

12. 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 the RY2011, 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, ILPI most respectfully prays of this Honorable Commission, after due notice and hearing, that this application be approved and that ILPI be authorized to adopt and implement the proposed distribution rates, as shown below, as well the attached Rate Schedules for each Customer Class contained in Schedule E of this Application.

ILPI PROPOSED DISTRIBUTION RATES

Customer Class	DISTRIBUTION		SUPPLY		METERING		
	PhP/ kW	PhP/ kWh	PhP/ Cust./ Month	PhP/ kWh	PhP/Customer/ Month		PhP/ kWh
					Non-CT Rated/ Sec. Metered	CT Rated / Prim. Metered	
Flat Rate (11)	-	1.0426	13.95	-	-	-	-
Residential (21)	-	0.9124	-	0.2269	5.00	-	0.3383
Commercial (31)	-	0.9560	40.17	-	73.12	971.10	-
General Power (41)	173.57	0.4105	43.39	-	2,043.64	4,941.08	-
Bulk Power (51)	24.27	0.0385	42.10	-	-	5,805.02	-

Other reliefs equitable under the premises are likewise prayed for.

RESPECTFULLY SUBMITTED.

Pasig City, December 15, 2009.

**QUIASON MAKALINTAL BAROT
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VERIFICATION/CERTIFICATION

I, **RALPH B. CASINO**, of legal age, Filipino and with office address at Bro. Jeffrey Road, Pala-o, Iligan City, after having been duly sworn in accordance with law, hereby deposes and states: That –

1. He is the President of Iligan Light and Power, Inc. (ILPI), 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 ILPI.

3. ILPI 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.

RALPH B. CASINO

Affiant

SUBSCRIBED AND SWORN to before me this ____th day of December 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.