

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



RESOLUTION NO. 11, SERIES OF 2007

**A RESOLUTION ADOPTING THE "DRAFT DETERMINATION" ON
THE PRICE CONTROL ARRANGEMENTS FOR
THE SECOND REGULATORY PERIOD**

WHEREAS, Section 43 (f) of Republic Act No. 9136, otherwise known as the Electric Power Industry Reform Act of 2001 (EPIRA), authorizes the Energy Regulatory Commission (ERC) to adopt alternative forms of internationally-accepted rate-setting methodology it may deem appropriate;

WHEREAS, on December 10, 2004, the ERC adopted a performance-based rate setting methodology for setting the distribution wheeling rates of privately owned distribution utilities embodied in a document denominated as the "Distribution Wheeling Rate Guidelines" (DWRG);

WHEREAS, the DWRG has been updated and re-issued on July 26, 2006 as the "Rules for Setting Distribution Wheeling Rates for Privately Owned Distribution Utilities Entering Performance Based Regulation (First Entry Point)" (RDWR);

WHEREAS, under Section 7.1.2 of the RDWR, the ERC must issue a Regulatory Reset Position Paper (RRPP) for the Second Regulatory Period for the First Entry Point (July 1, 2007 to June 30, 2011) after the issuance and public

consultation of a Regulatory Reset Issues Paper to: provide its initial views on the issues to be discussed; specify the information required to be delivered; and, indicate the procedure to be undertaken by the entrant distribution utilities for the Regulatory Reset Process.

WHEREAS, on December 9, 2005, the ERC issued its RRPP for the Second Regulatory Period;

WHEREAS, in accordance with the RDWR and the RRPP, Cagayan Electric Power and Light Company, Incorporated (CEPALCO) filed its application on August 31, 2006;

WHEREAS, in the said application, CEPALCO prayed for the approval of its annual revenue requirement and performance incentive scheme covering the Second Regulatory Period from July 2007 to June 2011;

WHEREAS, under Section 7.1.7 of the RDWR, the ERC must issue a Draft Determination on the price control arrangements that are to apply for the said Second Regulatory Period;

WHEREAS, said Draft Determination shall embody the ERC's initial evaluation of CEPALCO's proposal in the abovementioned application;

WHEREAS, after due deliberation and consideration of the application, the ERC hereby **RESOLVES** to **APPROVE** and **ADOPT**, as it hereby **APPROVES** and **ADOPTS** the "**Draft Determination**" on the price control arrangements for the Second Regulatory Period hereto attached and made an integral part of this Resolution as **Annex "A"**.



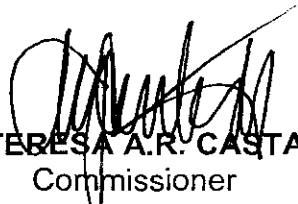
This Resolution shall take effect immediately.


Pasig City, May 15, 2007.

(On Leave)
RODOLFO B. ALBANO, JR.
Chairman


RAUF A. TAN
Commissioner


ALEJANDRO Z. BARIN
Commissioner


MARIA TERESA A.R. CASTAÑEDA
Commissioner


JOSE C. REYES
Commissioner