

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



IN THE MATTER OF THE APPLICATION FOR APPROVAL OF (1) DEPRECIATED REPLACEMENT COST OF APPLICANT'S PROPERTIES AS OF DECEMBER 31, 2008 AND (2) REVISED RATE SCHEDULES TO ACHIEVE THE PROPOSED REVENUE REQUIREMENT IN ACCORDANCE WITH THE PROVISIONS OF R.A. 9136, WITH PRAYER FOR PROVISIONAL AUTHORITY

ERC CASE NO. 2009-062 RC

PANAY ELECTRIC COMPANY,  
INCORPORATED (PECO),

Applicant.

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RECORDED  
Date: JUN 04 2010  
By: *bc*

**DECISION**

Before the Commission for resolution is the application filed on September 10, 2009 by Panay Electric Company, Incorporated (PECO) for approval of the Depreciated Replacement Cost of its properties as of December 31, 2008, and revised rate schedules to achieve the proposed revenue requirement in accordance with the provisions of Republic Act No. 9136 otherwise known as the Electric Power Industry Reform Act of 2001 or the EPIRA, with prayer for provisional authority.

In the said application, PECO alleged, among others, that:

1. The rates it presently charges are those authorized by the Commission in its Decision and Orders in ERC Case No. 2007-060 RC, entitled "In the Matter of the Application for Approval of Revised Rate Schedules and Appraisal of Property, with Prayer for Provisional Authority";
2. It filed the instant application for authority to increase its distribution, supply and metering charges adopting the format prescribed by the Commission in its Resolution No. 18, Series of 2006;
3. It prays for the approval of the DRC of its assets as of December 31, 2008 as appraised by Cuervo Appraisers, Incorporated (CUERVO), including additions and retirements for the years 2005 to 2008 and the adjustment of its rates to achieve the proposed revenue requirement in accordance with the format prescribed by the Commission in the abovementioned Resolution;
4. Shown below is a comparison of the proposed rates with the existing rates per customer class.

Table I. Comparison of the Proposed Rates with the Existing Rates per Customer Class

| Customer Class         | Unit  | Proposed Rates | Existing Rates | Difference |
|------------------------|-------|----------------|----------------|------------|
| <b>Residential</b>     |       |                |                |            |
| Distribution           | kWh   | 1.0071         | 0.6321         | 0.3750     |
| Supply                 | kWh   | 0.1661         | 0.1639         | 0.0022     |
| Metering               | kWh   | 0.2584         | 0.2326         | 0.0258     |
| Retail Customer Charge | cust. | 5.0000         | 5.0000         | -          |
| <b>Intermediate</b>    |       |                |                |            |
| Distribution           | kWh   | 0.8385         | 0.6397         | 0.1988     |
| Supply                 | cust. | 35.3995        | 34.8016        | 0.5979     |
| Metering               | cust. | 49.3818        | 49.3818        | -          |
| <b>Commercial</b>      |       |                |                |            |
| Distribution           | kWh   | 0.7856         | 0.7388         | 0.0468     |
| Supply                 | cust. | 35.3995        | 34.8016        | 0.5979     |
| Metering               | cust. | 385.6537       | 385.6537       | -          |
| <b>Power</b>           |       |                |                |            |
| Distribution           | kWh   | 0.2595         | 0.2485         | 0.0110     |
| Demand Charge          | kWh   | 98.5750        | 98.5750        | -          |
| Supply                 | cust. | 35.3995        | 34.8016        | 0.5979     |
| Metering               | cust. | 915.3810       | 915.3810       | -          |

| <b>City Government</b>  |       |         |         |          |
|-------------------------|-------|---------|---------|----------|
| Distribution            | kWh   | 0.7796  | 0.3982  | 0.3814   |
| Supply                  | cust. | 35.3995 | 34.8016 | 0.5979   |
| Metering                | cust. | 49.3818 | 49.3818 | -        |
| <b>Street Lights</b>    |       |         |         |          |
| Distribution            | kWh   | 0.8094  | 0.9971  | (0.1877) |
| Supply                  | cust. | 35.3995 | 34.8016 | 0.5979   |
| Metering                | cust. | 49.3818 | 49.3818 | -        |
| <b>Other Government</b> |       |         |         |          |
| Distribution            | kWh   | 0.7804  | 0.3457  | 0.4347   |
| Supply                  | cust. | 35.3995 | 34.8016 | 0.5979   |
| Metering                | cust. | 49.3818 | 49.3818 | -        |

5. An increase in its rates is necessary for it to achieve its proposed revenue requirement which will not be achieved if it continues to charge its existing distribution, supply and metering rates. Shown below is a comparison of its existing rates and revenues *vis-à-vis* the proposed rates and revenues:

Table II. Comparison of the Revenues from the Existing Rates and the Proposed

| Customer Class         | Billing Determinant | Existing Rates | Existing Revenue | Proposed Rates | Proposed Revenues |
|------------------------|---------------------|----------------|------------------|----------------|-------------------|
| <b>Residential</b>     |                     |                |                  |                |                   |
| Distribution           | 121,252,167         | 0.6321         | 76,643,495       | 1.0071         | 122,113,982       |
| Supply                 | 121,252,167         | 0.1639         | 19,873,230       | 0.1661         | 20,139,502        |
| Metering               | 121,252,167         | 0.2326         | 28,203,254       | 0.2584         | 31,332,853        |
| Retail Customer Charge | 568,920             | 5.0000         | 2,844,600        | 5.0000         | 2,844,600         |
| <b>Intermediate</b>    |                     |                |                  |                |                   |
| Distribution           | 1,612,864           | 0.6397         | 1,031,749        | 0.8385         | 1,352,388         |
| Supply                 | 2,388               | 34.8016        | 83,106           | 35.3995        | 84,534            |
| Metering               | 2,388               | 49.3818        | 117,924          | 49.3818        | 117,924           |
| <b>Commercial</b>      |                     |                |                  |                |                   |
| Distribution           | 64,716,064          | 0.7388         | 47,812,228       | 0.7856         | 50,839,161        |
| Supply                 | 30,576              | 34.8016        | 1,064,094        | 35.3995        | 1,082,376         |
| Metering               | 30,576              | 385.6537       | 11,791,748       | 385.6537       | 11,791,748        |
| <b>Power</b>           |                     |                |                  |                |                   |
| Distribution           | 134,793,711         | 0.2485         | 33,496,237       | 0.2595         | 34,985,692        |
| Demand Charge          | 691,248             | 98.5750        | 68,139,772       | 98.5750        | 68,139,949        |
| Supply                 | 11,028              | 34.8016        | 383,792          | 35.3995        | 390,386           |
| Metering               | 11,028              | 915.3810       | 10,094,822       | 915.3810       | 10,094,822        |
| <b>City Government</b> |                     |                |                  |                |                   |
| Distribution           | 3,850,048           | 0.3982         | 1,533,089        | 0.7796         | 3,001,443         |
| Supply                 | 1,380               | 34.8016        | 48,026           | 35.3995        | 48,851            |
| Metering               | 1,380               | 49.3818        | 68,147           | 49.3818        | 68,147            |

|  |           |         |             |         |             |
|--|-----------|---------|-------------|---------|-------------|
| <b>Street Lights</b>                         |           |         |             |         |             |
| Distribution                                 | 5,448,792 | 0.9971  | 5,432,991   | 0.8094  | 4,410,502   |
| Supply                                       | 5,052     | 34.8016 | 175,818     | 35.3995 | 178,838     |
| Metering                                     | 5,052     | 49.3818 | 249,477     | 49.3818 | 249,477     |
| <b>Other Government</b>                      |           |         |             |         |             |
| Distribution                                 | 3,138,164 | 0.3457  | 1,084,863   | 0.7804  | 2,449,155   |
| Supply                                       | 1,176     | 34.8016 | 40,927      | 35.3995 | 41,630      |
| Metering                                     | 1,176     | 49.3818 | 58,073      | 49.3818 | 58,073      |
| <b>TOTAL</b>                                 | -         | -       | 310,271,460 | -       | 365,816,033 |
| Difference in Revenues (Proposed - Existing) | -         | -       | -           | -       | 55,544,573  |

6. Shown below is its rate base which is broken down by its components:

Table III. Schedule of Rate Base

| Particulars                   | Total Company (PhP)     |
|-------------------------------|-------------------------|
| Plant in service              | 66,199,361.00           |
| Construction work in progress | 106,205,688.00          |
| Materials and supplies        | 124,261,554.00          |
| Cash working capital          | 583,146.00              |
| <b>Total Rate Base</b>        | <b>1,035,512,946.00</b> |

7. Shown below is its proposed revenue requirement which is broken down by cost components:

Table IV. Summary of Proposed Revenue per Cost Component

| Particulars                                       | Total Company (PhP)   | Electric Adjustment | Proposed Revenue Requirement (PhP) |
|---|-----------------------|---------------------|------------------------------------|
| Payroll   | 66,199,361.00         | -                   | 66,199,361.00                      |
| Operation & Maintenance (less fuel, PP & Payroll) | 69,732,576.00         | -                   | 69,732,576.00                      |
| Depreciation & Amortization                       | 106,205,688.00        | -                   | 106,205,688.00                     |
| Return on Rate Base                               | 124,261,554.00        | -                   | 124,261,554.00                     |
| Less: Other Revenue Items                         | 583,146.00            | -                   | 583,146.00                         |
| <b>Total Revenue Requirement</b>                  | <b>365,816,033.00</b> | -                   | <b>365,816,033.00</b>              |

8. Shown below is the revenue summary per customer class and function. The revenues were classified by function, namely: distribution, supply and metering. The functionalization and allocation of costs used the Uniform Filing Requirements (UFR) Model prescribed

by the Commission to arrive at the Revenue Summary. The proposed revenue requirement increased from the previous application due to the increases in payroll, operation and maintenance expense, depreciation and the return on rate base;

Table V. Revenue Summary per Customer Class and Function

| Customer Class (PhP) | Total Revenue (PhP) | Distribution Related Revenue (PhP) | Supply Related Revenue (PhP) | Metering Related Revenue (PhP) |
|----------------------|---------------------|------------------------------------|------------------------------|--------------------------------|
| Residential          | 181,664,356         | 122,113,982                        | 20,139,502                   | 39,410,872                     |
| Intermediate         | 1,676,312           | 1,352,388                          | 84,534                       | 239,390                        |
| Commercial           | 57,939,172          | 50,839,161                         | 1,082,376                    | 6,017,635                      |
| Power                | 113,154,070         | 103,125,641                        | 390,386                      | 9,638,043                      |
| City Government      | 3,384,150           | 3,001,443                          | 48,851                       | 333,855                        |
| Streetlights         | 5,232,250           | 4,410,502                          | 178,838                      | 642,910                        |
| Other Government     | 2,765,723           | 2,449,155                          | 41,630                       | 274,938                        |
| <b>TOTAL</b>         | <b>365,816,033</b>  | <b>287,292,272</b>                 | <b>21,966,118</b>            | <b>56,557,643</b>              |

9. Shown below are the lifeline kWh consumption level and the proposed level of discount. It retained the same level of consumption and discount which were approved by the Commission in ERC Case No. 2007-060 RC [*In the Matter of the Application for Approval of Revised Rate Schedules and Appraisal of Property, with Prayer for Provisional Authority*];

Table VI. Lifeline kWh Consumption Level and Discount

| kWh Consumption | Level of Discount |
|-----------------|-------------------|
| 75 and below    | 50 %              |
| 76 – 80         | 40 %              |
| 81 – 85         | 30 %              |
| 86 – 90         | 20 %              |
| 91 – 95         | 10 %              |

10. It submitted the following schedules and documents in support thereof which were attached to its application:
- a. Schedule A – Summary of Cost of Service Using Revalued Assets;
  - b. Schedule B – Weighted Average Cost of Capital Using Revalued Assets;
  - c. Schedule C – Functionalization Factors;
  - d. Schedule D – Billing Determinants and Customer Class Allocation;
  - e. Schedule E – Rate Design;
    - e.1 Sub-Schedule E-1 – Revenue Summary;
  - f. 2008 Audited Financial Statement (AFS);
  - g. Trial Balance; and

h. Schedule of DRC Appraisal as of December 31, 2008 by CUERVO.

11. By way of a petition *ex-parte* for immediate and provisional approval of the revised rates proposed in the instant application, it states that it is an established rate-making jurisprudence which had been consistently adhered to by the predecessors of the Commission that the inability of a utility to earn its authorized return (*Re: Michigan Consolidated Gas Co., 38 PUR 4<sup>th</sup> 272*), as well as the need for it to prevent a reduction of normal maintenance program (*Re: Municipality of Anchorage, 37 PUR 4<sup>th</sup> 97*) warrant a grant of provisional and immediate rate relief to the utility;
12. Its computation shows that its return on rate base (RORB) during the test year 2008 was only 6.58%, thus, its existing rates are very inadequate. A comparison of its distribution, supply and metering charges as of May 2009 with those of the other private distribution utilities and cooperatives clearly shows that the rates of PECO are way below than the others;
13. With the financial hemorrhage being experienced by it, dire consequences will inevitably result in terms of an over-all deterioration of its service. This could only be curtailed by a grant of provisional authority to it;
14. It prays that: a) the revised rates it proposed and the DRC of its properties be provisionally and immediately approved *ex-parte* under *Section 16(c) of the Public Service Act, Section 8 of the Executive Order No. 172 and Section 4 (c) of the Implementing Rules and Regulations of RA 9136*; b) it be authorized to adopt and implement them effective upon such provisional approval; and c) after hearing, said provisional authority be made permanent; and
15. It further prays that the DRC of its assets as appraised by CUERVO including additions and retirements for the years 2005 to 2008 in the total amount of Eight Hundred Ninety-Four Million Eight Hundred Three Thousand Two Hundred Sixty Pesos (PhP894,803,260.00) be likewise approved. Shown below is the proposed rates per customer class:

Table I. Proposed Rates per Customer Class

| Rate                | Unit   | CUSTOMER CLASS |              |            |         |            |               |             |
|---------------------|--------|----------------|--------------|------------|---------|------------|---------------|-------------|
|                     |        | Residential    | Intermediate | Commercial | Power   | City Govt. | Street Lights | Other Govt. |
| Distribution Charge | / kWhr | 1.0071         | 0.8385       | 0.7856     | 0.2595  | 0.7796     | 0.8094        | 0.7804      |
| Demand Charge       | / kWhr | -              | -            | -          | 98.5750 | -          | -             | -           |
| Supply Charge       | / kWhr | 0.1661         | -            | -          | -       | -          | -             | -           |
| Supply Charge       | / cust | -              | 35.3995      | 35.3995    | 35.3995 | 35.3995    | 35.3995       | 35.3995     |

|                        |        |        |         |          |          |         |         |         |
|------------------------|--------|--------|---------|----------|----------|---------|---------|---------|
| Metering Charge        | / kWhr | 0.2584 | -       | -        | -        | -       | -       | -       |
| Retail Customer Charge | / cust | 5.0000 | 49.3818 | 385.6537 | 915.3810 | 49.3818 | 49.3818 | 49.3818 |

Having found said application sufficient in form and in substance with the required fees having been paid, an Order and a Notice of Public Hearing, both dated October 12, 2009, were issued setting the case for initial hearing, pre-trial conference, expository presentation and evidentiary hearing on November 11, 2009.

PECO was directed to cause the publication of the attached Notice of Public Hearing, at its own expense, twice (2x) for two (2) successive weeks in two (2) newspapers of general circulation in the Philippines, with the date of the last publication to be made not later than ten (10) days before the scheduled date of initial hearing. It was also directed to inform the consumers within its franchise area, by any other means available and appropriate, of the filing of the instant application, its reasons therefor, and of the scheduled hearing thereon.

The Office of the Solicitor General (OSG), the Commission on Audit (COA) and the Committees on Energy of both Houses of Congress were furnished with copies of the Order and the Notice of Public Hearing and were requested to have their respective duly authorized representatives present at the initial hearing.

Likewise, the Office of the Mayor of Iloilo City was furnished with copies of the Order and the Notice of Public Hearing for the appropriate posting thereof on its bulletin board.

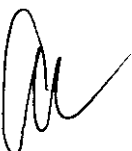
On November 6, 2009, PECO filed its "Pre-trial Brief".

On November 11, 2009, PECO filed a "Motion for the Issuance of a Second (2<sup>nd</sup>) Notice of Public Hearing". Relative thereto, on November 16, 2009, the Commission issued another Order and Notice of Public Hearing granting the said motion and setting anew the instant application for initial hearing on December 17, 2009.

On December 11, 2009, PECO filed its "Amended/Supplemental Pre-trial Brief".

During the December 17, 2009 initial hearing of this case, only PECO and the City Government of Iloilo City appeared. No other intervenors/oppositors appeared nor were there any other interventions/oppositions registered. The City Government of Iloilo City entered its appearance as an oppositor in the instant application.

At the said hearing, PECO presented its proofs of compliance with the Commission's posting and publication of notice requirements which were duly marked as Exhibits "A" to "G-1", inclusive. Thereafter, it conducted an expository presentation, for the benefit of the consumers and other concerned parties, on



what the application is all about and the reasons and justifications cited in support thereof. Said presentation was offered to prove the legal bases of the instant application and the nature, purpose and rationale thereof. At the termination of the expository presentation, both the City Government of Iloilo and the Commission propounded clarificatory questions.

Thereafter, a Pre-trial Conference was conducted.

PECO then presented the following witnesses: a) Engr. Hernando E. Gozon, Jr., Department Manager for Real Estate of CUERVO, who testified, among others, on the appraisal of the real estate of PECO and the methodologies used in determining the DRC for buildings and other structures and Sales Comparison Approach for the market value of the land; b) Engr. Ronillo G. Catapang, Department Manager for Machinery and Equipment of CUERVO, who testified, among others, on the appraisal of the machinery and equipment of PECO; and c) Mr. Neil V. Parcon, Comptroller of PECO, who testified, among others, on PECO's proposed rates, the difference between the proposed and existing rates, the increase in different components of revenue requirements, the retention of consumption level and discounts for lifeline consumers and PECO's compliance with the format prescribed by the Commission in *Resolution No. 18, Series of 2006*.

In the course of their respective direct examinations, the witnesses identified various documents in support of the application. Said documents were duly marked as exhibits.



The direct examinations having been terminated, the Commission propounded clarificatory questions on the said witnesses. Thereafter, PECO was directed to submit various documents.

On January 18, 2010, PECO filed its "Formal Offer of Exhibits" which is hereby admitted for being relevant and material in the resolution of the instant application. Subsequently, on January 25, 2010, it filed its "Compliance".

On February 23 to 25, 2010, the Commission conducted an ocular inspection on PECO's assets subject of the instant application.

## DISCUSSION

### **Proposed Revenue Requirement Based on Test Year 2008 (With Adjustments)**

On the basis of its AFS for the year 2008 using the RORB Methodology under the UFR, PECO proposed a revenue requirement of Three Hundred Sixty-Five Million Eight Hundred Sixteen Thousand Thirty-Three Pesos (PhP365,816,033.00), broken down in the following cost components:



| Particulars   | Total Company (PhP)   | Proposed Revenue Requirement (PhP) |
|---|-----------------------|------------------------------------|
| Payroll   | 66,199,361.00         | 66,199,361.00                      |
| Operation and Maintenance<br>(Less: Fuel, PP and Payroll) | 69,732,576.00         | 69,732,576.00                      |
| Depreciation and Amortization                             | 106,205,688.00        | 106,205,688.00                     |
| Return on Rate Base                                       | 124,261,554.00        | 124,261,554.00                     |
| Less: Other Revenue Items                                 | 583,146.00            | 583,146.00                         |
| <b>Total Revenue Requirement</b>                          | <b>365,816,033.00</b> | <b>365,816,033.00</b>              |

**Comparison of Proposed and Existing Rates**

PECO provided the estimated impact of its proposed rates on different customer classes, as follows:

| Customer Class         | Billing Determinant | Existing Rates | Existing Revenue | Proposed Rates | Proposed Revenues |
|------------------------|---------------------|----------------|------------------|----------------|-------------------|
| <b>Residential</b>     |                     |                |                  |                |                   |
| Distribution           | 121,252,167         | 0.6321         | 76,643,495       | 1.0071         | 122,113,982       |
| Supply                 | 121,252,167         | 0.1639         | 19,873,230       | 0.1661         | 20,139,502        |
| Metering               | 121,252,167         | 0.2326         | 28,203,254       | 0.2584         | 31,332,853        |
| Retail Customer Charge | 568,920             | 5.0000         | 2,844,600        | 5.0000         | 2,844,600         |
| <b>Intermediate</b>    |                     |                |                  |                |                   |
| Distribution           | 1,612,864           | 0.6397         | 1,031,749        | 0.8385         | 1,352,388         |
| Supply                 | 2,388               | 34.8016        | 83,106           | 35.3995        | 84,534            |
| Metering               | 2,388               | 49.3818        | 117,924          | 49.3818        | 117,924           |
| <b>Commercial</b>      |                     |                |                  |                |                   |
| Distribution           | 64,716,064          | 0.7388         | 47,812,228       | 0.7856         | 50,839,161        |
| Supply                 | 30,576              | 34.8016        | 1,064,094        | 35.3995        | 1,082,376         |
| Metering               | 30,576              | 385.6537       | 11,791,748       | 385.6537       | 11,791,748        |
| <b>Power</b>           |                     |                |                  |                |                   |
| Distribution           | 134,793,711         | 0.2485         | 33,496,237       | 0.2595         | 34,985,692        |
| Demand Charge          | 691,248             | 98.5750        | 68,139,772       | 98.5750        | 68,139,949        |
| Supply                 | 11,028              | 34.8016        | 383,792          | 35.3995        | 390,386           |
| Metering               | 11,028              | 915.3810       | 10,094,822       | 915.3810       | 10,094,822        |
| <b>City Government</b> |                     |                |                  |                |                   |
| Distribution           | 3,850,048           | 0.3982         | 1,533,089        | 0.7796         | 3,001,443         |
| Supply                 | 1,380               | 34.8016        | 48,026           | 35.3995        | 48,851            |
| Metering               | 1,380               | 49.3818        | 68,147           | 49.3818        | 68,147            |

|   |           |         |                    |         |                    |
|---|-----------|---------|--------------------|---------|--------------------|
| <b>Street Lights</b>                              |           |         |                    |         |                    |
| Distribution                                      | 5,448,792 | 0.9971  | 5,432,991          | 0.8094  | 4,410,502          |
| Supply  | 5,052     | 34.8016 | 175,818            | 35.3995 | 178,838            |
| Metering  | 5,052     | 49.3818 | 249,477            | 49.3818 | 249,477            |
|   |           |         |                    |         |                    |
| <b>Other Government</b>                           |           |         |                    |         |                    |
| Distribution                                      | 3,138,164 | 0.3457  | 1,084,863          | 0.7804  | 2,449,155          |
| Supply  | 1,176     | 34.8016 | 40,927             | 35.3995 | 41,630             |
| Metering  | 1,176     | 49.3818 | 58,073             | 49.3818 | 58,073             |
| <b>TOTAL</b>                                      | -         | -       | <b>310,271,460</b> | -       | <b>365,816,033</b> |
| <b>Difference in Revenues (Proposed-Existing)</b> | -         | -       | -                  | -       | <b>55,544,573</b>  |

**Proposed Rates**

The proposed Distribution, Supply and Metering charges of PECO are as follows:

| Customer Class         |            |             |              |            |          |             |               |              |
|------------------------|------------|-------------|--------------|------------|----------|-------------|---------------|--------------|
| Rate                   | Unit       | Residential | Intermediate | Commercial | Power    | City Gov't. | Street Lights | Other Gov't. |
| Distribution Charge    | PhP/ kWh   | 1.0071      | 0.8385       | 0.7856     | 0.2595   | 0.7796      | 0.8094        | 0.7804       |
| Demand Charge          | PhP/kWh    | -           | -            | -          | 98.5750  | -           | -             | -            |
| Supply Charge          | PhP/kWh    | 0.1661      | -            | -          | -        | -           | -             | -            |
| Supply Charge          | PhP/ cust. | -           | 35.3995      | 35.3995    | 35.3995  | 35.3995     | 35.3995       | 35.3995      |
| Metering Charge        | PhP/kWh    | 0.2584      | -            | -          | -        | -           | -             | -            |
| Retail Customer Charge | PhP/cust.  | 5.0000      | 49.3818      | 385.6537   | 915.3810 | 49.3818     | 49.3818       | 49.3818      |

**Proposed Changes in Functionalization Factors**

PECO adopted the functionalization and allocation factors provided in the UFR. However, it proposed a change on the factors to be used in some of the sub-category expenses under Administrative and General Expenses, as follows:

| Account Number | Account Name                                   | Proposed Factor                                       | Existing Factor   |
|----------------|--|---|---|
| 430-923-00     | Outside Services                               | Payroll, Excluding Administrative and General Payroll | Total Operations and Maintenance Expenses, Excluding Fuel and Purchased Power |
| 430-924-00     | Property Insurance Expense                     | Payroll, Excluding Administrative and General Payroll | Net Plant in Service  |
| 430-927-00     | Franchise Requirements and Regulatory Expenses | Total Directly Assigned to Distribution               | Payroll, Excluding Administrative and General Payroll                         |

**Proposed Lifeline Rate Discounts and Subsidy**

PECO proposed to retain the same consumption level and discount approved by the Commission in ERC Case No. 2007-060 RC, as follows:

| kWh Consumption | Level of Discount |
|-----------------|-------------------|
| 75 and below    | 50 %              |
| 76 – 80         | 40 %              |
| 81 – 85         | 30 %              |
| 86 – 90         | 20 %              |
| 91 – 95         | 10 %              |

Further, PECO claimed that the number of end-users that will benefit from the discounts represents thirty-six percent (36%) of the total number of Residential customers, while the kWh consumption represents four percent (4%) of the total kWh sales for the month.

Under the RORB Methodology, distribution rates are determined using the following formula:

$$\text{Rate} = \text{Revenue Requirement} / \text{Billing Determinant}$$

### Revenue Requirement

The revenue requirement is the basis on which the rate for distribution services is derived. It sets the amount of revenue that a Distribution Utility (DU) is entitled to charge its customers and is determined by the following components:

$$\begin{aligned} & \text{Operating Expenses} \\ & \text{(Payroll + O \& M Including Taxes Other Than Income Tax)} \\ & \quad + \\ & \text{Return on Capital} \\ & \text{(Net Plant In Service + Materials and Supplies + Cash Working Capital) x Rate of} \\ & \text{Return} \\ & \quad + \\ & \text{Return of Capital} \\ & \text{(Depreciation and Amortization)} \\ & \hline & \text{Revenue Requirement} \\ & \hline \end{aligned}$$

Shown below is a comparison between PECO's proposed revenue requirement and the Commission's adjusted revenue requirement:



| Particulars |  | Commission-Approved Revenue Requirement* |                    | Proposed Revenue Requirement |                    | Commission's Adjustments | Adjusted Revenue Requirement |
|-------------|--|--|--------------------|------------------------------|--------------------|--------------------------|------------------------------|
|             |  | PhP                                      |                    | PhP                          |                    |                          |                              |
| 4.1.1A      | Payroll  | PhP                                      | 50,302,069         | PhP                          | 66,199,361         | (4,482,280)              | 61,717,081                   |
| 4.1.1B      | Operation & Maintenance (less Fuel and PP)         |  | 42,103,839         |                              | 69,732,576         | (29,203,741)             | 40,528,835                   |
| 4.1.2       | Return on Rate Base                                |  | 85,654,226         |                              | 124,261,554        | (13,673,198)             | 110,588,356                  |
| 4.1.3       | Depreciation and Amortization                      |  | 89,235,633         |                              | 106,205,688        | (179,866)                | 106,025,822                  |
| 4.1.4       | Prompt Payment Discount                            |  | -                  |                              | -                  | -                        | 0                            |
|             | <b>Total Revenue Requirement</b>                   |  | <b>267,295,767</b> |                              | <b>366,399,179</b> | <b>(47,539,085)</b>      | <b>318,860,094</b>           |
| 4.1.5       | Less: Other Revenue Items                          |  | 1,941,612          |                              | 583,146            | (52,308)                 | 530,838                      |
|             | <b>Revenue Requirement net of ORI</b>              |  | <b>265,354,155</b> |                              | <b>365,816,033</b> | <b>(47,486,777)</b>      | <b>318,329,256</b>           |
|             | Adjusted Existing Revenue                          |  | 209,098,522        | **                           | 310,271,460        | -                        | 310,271,460                  |
|             | Increase/(Decrease) in Revenue                     | PhP                                      | <b>56,255,633</b>  | PhP                          | <b>55,544,573</b>  | -                        | <b>8,057,796</b>             |
|             | Billing Determinant                                | ***                                      | 332,669,695        | ****                         | 334,811,810        | -                        | 334,811,810                  |
|             | <b>Overall Average Tariff Adjustment (PhP/kWh)</b> |  | <b>0.1691</b>      |                              | <b>0.1659</b>      | -                        | <b>0.0241</b>                |

- \* Decision dated October 24, 2007 in ERC Case No. 2007-060 RC
- \*\* 2008 Actual Distribution Revenue
- \*\*\* 2004 Actual kWh Sales
- \*\*\*\* 2008 Actual kWh Sales

Using the RORB methodology under the UFR and based on a 2008 test year, PECO proposed a total revenue requirement of Three Hundred Sixty-Five Million Eight Hundred Sixteen Thousand Thirty-Three Pesos (PhP365,816,033.00). It submitted its AFS for the year 2008 to support the figures provided in its application attaching therewith various documents to justify the same.

A total net downward adjustment of Forty-Seven Million Four Hundred Eighty-Six Thousand Seven Hundred Seventy-Seven Pesos (PhP47,486,777.00)

was considered resulting to a total revenue requirement of **Three Hundred Eighteen Million Three Hundred Twenty-Nine Thousand Two Hundred Fifty-Six Pesos (PhP318,329,256.00)**. The adjustments made by the Commission will be discussed in seriatim.

### Operating Expenses

#### Payroll

PECO proposed a payroll of Sixty-Six Million One Hundred Ninety-Nine Thousand Three Hundred Sixty-One Pesos (PhP66,199,361.00). It included in its payroll a profit sharing cost of Four Million Four Hundred Eighty-Two Thousand Two Hundred Eighty Pesos (PhP4,482,280.00) as part of its administrative and general salaries representing incentives given to its employees.

However, the Commission made a downward adjustment of PhP4,482,280.00 on PECO's proposed payroll and considered a total amount of Sixty-One Million Seven Hundred Seventeen Thousand Eighty-One Pesos (PhP61,717,081.00), computed as follows:

| Particulars                                 | Amount (PhP)         |
|---|----------------------|
| Proposed Payroll                            | 66,199,361.00        |
| Adjustment:                                 |                      |
| Profit Sharing Costs – Distribution Payroll | (4,482,280.00)       |
| <b>Adjusted Payroll</b>                     | <b>61,717,081.00</b> |



The Commission disallowed the above-mentioned provisions for profit sharing costs because this additional benefit to PECO's employees should not be recovered through the rates. If PECO is bent on providing additional benefits to its employees, the same must be sourced from its savings and/or net profit and not from its consumers. The granting of said benefits, being a management prerogative, should have been sourced from its net income and should not form part of the revenue requirement. Such disallowance, however, does not preclude PECO from giving the same to its employees provided that the cost or expenses associated with them are not passed on to its customers.

Accordingly, the Commission considered PECO's total payroll expense in the amount of **Sixty-One Million Seven Hundred Seventeen Thousand Eighty-One Pesos (PhP61,717,081.00)** for its one hundred fifteen (115) filled-up positions.

#### **Operation and Maintenance (O & M) Expenses**

PECO's AFS for 2008 reflected a total O & M expense of Three Billion Four Hundred Seventy-Four Million Thirty-Eight Thousand Sixty-One Pesos (PhP3,474,038,061.00). However, PECO made downward adjustments resulting to a proposed O & M of Sixty-Nine Million Seven Hundred Thirty-Two Thousand Five Hundred Seventy-Six Pesos (PhP69,732,576.00), as shown below:



| Particulars                                   | Amount (PhP)            |
|---|-------------------------|
| Total O & M per Audited FS                    | 3,474,038,061.00        |
| Less: Exclusions                              |                         |
| Mechanical Production                         | 3,242,620,267.00        |
| Transmission/Distribution                     | 14,167,795.00           |
| Power Plant Administration                    | 6,947,825.00            |
| Customer Assistance/Utility Service           | 5,471,194.00            |
| Meter Laboratory                              | 1,227,766.00            |
| Operation Services/Motorpool                  | 957,195.00              |
| Property                                      | 10,653.00               |
| Depreciation                                  | 90,292,514.00           |
| Depreciation on the Appraisal Increase        | 15,913,174.00           |
| Impairment Losses                             | 16,508,672.00           |
| Total Exclusions                              | <b>3,394,117,055.00</b> |
| Total O & M per Audited FS, net of exclusions | <b>79,921,006.00</b>    |
| Less: PECO Adjustments                        |                         |
| Interest expense                              | 5,426,373.00            |
| FOREX Gain                                    | 4,499,781.00            |
| Miscellaneous General Expenses                | 262,276.00              |
| Total Adjustments                             | <b>10,188,430.00</b>    |
| <b>Proposed O &amp; M</b>                     | <b>69,732,576.00</b>    |

As a rule, the only operating expenses allowed are those which are reasonably incurred in connection with the business operations to yield revenue or income, required or necessary in the operation of a utility, recurring in nature and should redound to the service or benefit of the end-users.

DUs should be enjoined to incur only "prudent and reasonable costs" for inclusion in the determination of retail rates. While a DU enjoys the benefit of passing its cost of purchased power and other reasonable costs to end-users, it is duty bound, as a public utility, to ensure that its costs of operations, including payroll, are kept at a minimum. The DU must bear in mind that its very nature is that of a service company for its end-users with a mandate to advocate and transact judiciously for and in their behalf.

"Reasonable cost" refers to the cost of goods and services which, while may not be the lowest in price, needs to be incurred with consideration of quality, efficiency, reliability and security, which are characteristics of the service delivered by the DU. Prudent costs demand the utility to ensure that its purchases of goods and services are at their minimum, without sacrificing the foregoing characteristics.

The Commission deducted the total amount of **Twenty-Nine Million Two Hundred Three Thousand Seven Hundred Forty-One Pesos (PhP29,203,741.00)** from PECO's proposed O & M. Hence, the adjusted O & M amounted to **Forty Million Five Hundred Twenty-Eight Thousand Eight Hundred Thirty-Six Pesos (PhP40,528,836.00)**, broken down as follows:

| Particulars                               | Amount (PhP)         |
|---|----------------------|
| Proposed O & M                            | 69,732,576.00        |
| Add (Deduct) adjustments                  |                      |
| Miscellaneous General Expense             |                      |
| (1) Local franchise taxes                 | (21,389,259.00)      |
| (2) Foreign exchange losses               | (4,499,781.00)       |
| (3) Interest expense on customer deposits | (2,352,212.00)       |
| (4) Representation expense                | (650,200.00)         |
| (5) Fringe benefits tax                   | (56,293.00)          |
| (6) Books, publications and newspapers    | (44,170.00)          |
| (7) Miscellaneous expenses                | (211,826.00)         |
| Total Adjustments                         | (29,203,741.00)      |
| <b>Adjusted O &amp; M</b>                 | <b>40,528,836.00</b> |

The following are the adjustments made by the Commission relative to PECO's proposed O & M:



### Miscellaneous General Expenses

Per verification of the ledger account of PECO's maintenance expenses, the Commission found that it included payments for: a) Local franchise taxes (LFT); b) Foreign exchange (FOREX) losses; c) Interest expense on customer deposits; d) Representation expense; e) Fringe benefit tax; f) Payment for books, publications and newspapers; and g) Other expenses to which PECO failed to submit evidence in support thereof.

The Commission disallowed the foregoing expenses because they are unnecessary in the operation of PECO, additional burden should not be passed on the consumers as the same do not redound to their benefit and unsubstantiated expense should not be considered. As regards the recovery of local franchise taxes, this may be addressed in a separate mechanism devised therefor. The disallowances were made in accordance with the long standing policy of the Commission that certain expenses should not be recovered from the consumers through the rates.

Accordingly, the Commission considered PECO's adjusted O & M in the amount of **Forty Million Five Hundred Twenty-Eight Thousand Eight Hundred Thirty-Six Pesos (PhP40,528,836.00)**.



### Return on Capital

The Return on Capital, as a component of the revenue requirement, is determined using the following formula:

$$\text{Return on Capital} = (\text{Net Plant In Service} + \text{Materials and Supplies} + \text{Cash Working Capital}) \times \text{Rate of Return}$$

### Net Plant in Service (NPS)

The following were considered in the determination of PECO's NPS: a) Sound Value of the assets as reflected in the Appraisal Report of an ERC accredited appraiser; b) the Inspection Report prepared by an ERC personnel who conducted an ocular inspection of the fixed assets; and c) Construction Work In Progress (CWIP).

In support of its application, PECO submitted the Appraisal Report of CUERVO dated June 26, 2009 (CA File No. 02-2009-0092-001). Based on the said report as of December 31, 2008, PECO's existing property, plant and equipment have a total Cost of Reproduction, New of One Billion Five Hundred Seventy-Four Million One Hundred Ninety-Five Thousand Pesos (PhP1,574,195,000.00) and a Sound Value of Eight Hundred Ninety-Four Million Eight Hundred Three Thousand Pesos (PhP894,803,000.00).

The Commission conducted an ocular inspection on the fixed assets of PECO subject of the instant application as listed in the Appraisal Report to verify



its existence, use, usefulness and legal ownership. The Commission found that there were fixed assets not in use, idle, held in storage or no longer in existence but which were still included in the said Appraisal Report and the proposed rate base.

Accordingly, the Commission considered PECO's adjusted sound value per appraisal of assets in the amount of **Eight Hundred Ninety-Two Million Two Hundred Seventy-Nine Thousand Five Hundred Sixty Pesos (PhP892,279,560.00)**. This was used as basis in the computation of the RORB and the corresponding allowable depreciation included in PECO's revenue requirement.

Shown below is a breakdown of the resulting adjusted sound value:

| <b>Particulars</b>              | <b>Amount (PhP)</b>   |
|---------------------------------|-----------------------|
| Sound Value per Appraisal       | 894,803,260.00        |
| Adjustments:                    |                       |
| Electrical Equipment-Substation | (2,200,000.00)        |
| Machinery Equipment             | (168,700.00)          |
| Transportation Equipment        | (155,000.00)          |
| Net Adjustments                 | (2,523,700.00)        |
| <b>Adjusted Sound Value</b>     | <b>892,279,560.00</b> |

The Commission does not find it necessary to recalculate PECO's rate base due to the current appreciation of the Philippine Peso over the US Dollar. The value of the assets as appraised considered other factors such as but not limited to the following: FOREX exchange rates, Consumer Price Index (CPI), remaining life of the assets and physical condition. Thus, resetting the rate base solely on the basis of the movements in the FOREX would not be prudent.



|  |  |   |          |  |  |
|--|--|---|----------|--|--|
| Establish a methodology for the Tariff Glide Path for RSEC-WR.   |  | <ul style="list-style-type: none"> <li>a) Develop guidelines/rules for the Proposed Tariff Glide Path for Electric Cooperatives under the RSEC-WR.</li> <li>b) Conduct Public Expository Consultation on the proposed rules/guidelines on the Tariff Glide Path for Electric Cooperatives.</li> <li>c) Implement the approved Tariff Glide Path Rules/Guidelines.</li> </ul>  |          |  |  |
| Develop a SPUG Distribution Grid Code and its implementing Rules & Regulations.                                    |  | <ul style="list-style-type: none"> <li>a) Develop a separate Distribution Grid Code for Distribution Utilities in the SPUG Areas and its implementing Rules and Regulations.</li> <li>b) Conduct Public Expository Consultation on the proposed SPUG Distribution Grid Code.</li> <li>c) Seek approval from the Commission on the proposed Distribution grid Code and posting at the ERC Website.</li> </ul>          |          |  |  |
| Establish rules and regulations on the proposed Performance Index Benchmarking for Private Distribution Utilities. |  | <ul style="list-style-type: none"> <li>a) Develop guidelines/rules on the proposed Performance Index Benchmarking For private Utilities</li> <li>b) Conduct Public Expository Consultation on the proposed rules/guidelines on the Performance Index Benchmarking for Private Utilities.</li> <li>c) Implement the approved Performance Index Benchmarking for private Utilities.</li> </ul>                          | ON-GOING |  |  |
| Establish a methodology on the Asset Valuation Handbook for Private Distribution Utilities.                        |  | <ul style="list-style-type: none"> <li>a) Develop a methodology on the Asset valuation and prepare a manual/hanbook on the Asset Valuation for Private Utilities</li> <li>b) Conduct Public Expository Consultation on the proposed methodology/hanbook on Asset Valuation for Private Utilities.</li> <li>c) Implement the approved methodology and hanbook on the Asset Valuation for Private Utilities.</li> </ul> | ON-GOING |  |  |

|                            |
|----------------------------|
| 7 - Exceptional            |
| 6 - Commendable            |
| 5 - Above Average          |
| 4 - Good Solid Performance |
| 3 - Solid Performance      |
| 2 - Below Average          |
| 1 - Unacceptable           |

| MILESTONES/<br>PERFORMANCE OBJECTIVES   | WEIGHT<br>ALLOCATION | ACCOMPLISHMENTS   | STATUS    | RATING  |                 |
|---|----------------------|---|-----------|---|-----------------|
|   |                      |   |           | RAW SCORE   | WEIGHT<br>SCORE |
| Establish a Rate Making Methodology for Efficiency Benchmarking of Philippine Electric Cooperatives                                     | 100                  | a) Develop a classification and benchmarking model for electric cooperatives based on characteristics that impact on cost and efficiency analysis and benchmarking. | COMPLETED |   |                 |
|   |                      | b) Conduct Expository Consultations with the Electric Cooperatives on the groupings based on the classification and benchmarking model.                             | COMPLETED |   |                 |
|   |                      | c) Develop guidelines/rules for setting the Electric Cooperatives' Wheeling Rates (RSEC-WR).  | COMPLETED |   |                 |
|   |                      | d) Conduct Public Hearing on the proposed Rule-Making and Rules for Setting the EC's Wheeling Rates.  | COMPLETED |   |                 |
|   |                      | e) Evaluate application of On-Grid EC's application for rate adjustment based on RSEC-WR Methodology.   | COMPLETED |   |                 |
|   |                      | f) Implement the adjusted rates for Ecs RSEC-WR new rates.  | COMPLETED |   |                 |
|   |                      | a) Develop guidelines/rules for the Proposed Tariff Glide Path for Electric Cooperatives under the RSEC-WR.   | ON-GOING  |   |                 |
|   |                      | b) Conduct Public Expository Consultation on the proposed rules/guidelines on the Tariff Glide Path for Electric Cooperatives.                                      | ON-GOING  |   |                 |
|   |                      | c) Implement the approved Tariff Glide Path Rules/Guidelines.   | ON-GOING  |   |                 |
|   |                      | Develop a SPUG Distribution Grid Code and its Implementing Rules & Regulations.   | 100       | a) Develop a separate Distribution Grid Code for Distribution Utilities in the SPUG Areas and its Implementing Rules and Regulations. |                 |
| b) Conduct Public Expository Consultation on the proposed SPUG Distribution Grid Code.  |                      |   |           |   |                 |
| c) Seek approval from the Commission on the proposed Distribution grid Code and posting at the ERC Website.                             |                      |   |           |   |                 |
| a) Develop guidelines/rules on the proposed performance index Benchmarking for private Utilities.                                       | ON-GOING             |   |           |   |                 |
| b) Conduct Public Expository Consultation on the proposed rules/guidelines on the Performance Index Benchmarking for Private Utilities. | ON-GOING             |   |           |   |                 |
| c) Benchmarking for Private Utilities.  | ON-GOING             |   |           |   |                 |
| a) Prepare a manual/handbook on the Asset Valuation and Private Utilities.  | ON-GOING             |   |           |   |                 |
| b) Conduct Public Expository Consultation on the proposed methodology/handbook on Asset Valuation for Private Utilities.                | ON-GOING             |   |           |   |                 |
| c) Implement the approved methodology and handbook on the Asset Valuation for Private Utilities.  | ON-GOING             |   |           |   |                 |
| Publish a methodology on the Asset Valuation Handbook for Private Distribution Utilities.   | 100                  |   |           | a) Publish a methodology on the Asset Valuation Handbook for Private Distribution Utilities.  |                 |
|   |                      | b) Develop a methodology on the Asset Valuation and Benchmarking for Private Utilities.   |           |   |                 |
|   |                      | c) Benchmarking for Private Utilities.  |           |   |                 |
|   |                      | a) Establish rules and regulations on the proposed performance index Benchmarking for Private Distribution Utilities.   |           |   |                 |
|   |                      | b) Publish rules and regulations on the proposed performance index Benchmarking for Private Distribution Utilities.   |           |   |                 |
|   |                      | c) Establish a methodology on the Asset Valuation Handbook for Private Distribution Utilities.  |           |   |                 |

PECO's NPS as of December 31, 2008 considered in the rate base computation is as follows:

| <b>Property, Plant and Equipment</b>                         | <b>Amount (PhP)</b>   |
|--|-----------------------|
| Assets as of December 31, 2008 Appraisal Report, Sound Value | 894,803,260.00        |
| Less: Adjustments  |                       |
| Reproduction Cost, New                                       | 33,996,100.00         |
| Less: Accumulated Depreciation                               | 31,472,400.00         |
| Sound Value  | (2,523,700.00)        |
| <b>Adjusted Net Plant in Service</b>                         | <b>892,279,560.00</b> |

#### **Construction Work In Progress (CWIP)**

Based on the documents submitted by PECO, the CWIP pertains to the 69 kV Loop System Phase D classified as major project as approved by the Commission in ERC Case No. 2001-375 [In the Matter of the Application for Authority to Purchase, Install and Operate a 69 kV Loop System, with Prayer for Provisional Authority]. As of December 31, 2008, the project was already ninety-eight percent (98%) complete with a total cost incurred amounting to Three Million Two Hundred Fifty-Seven Thousand Six Hundred Thirty-Three Pesos (PhP3,257,633.00).

During the ocular inspection conducted by the Commission on February 23 to 25, 2010, it was disclosed that the aforementioned project formed part of the rate base and already energized. In this regard, the Commission deems it



prudent to exclude the said project as CWIP to form part of PECO's rate base as this would be tantamount to double recovery.

### **Materials and Supplies**

PECO proposed the amount of Twelve Million Two Hundred Forty-Nine Thousand Eighty-Five Pesos (PhP12,249,085.00) for materials and supplies. A thorough verification of its ledger accounts and Appraisal Report disclosed that the proposed materials and supplies are within the inventory of materials and supplies as reported in its 2008 AFS. Electrical materials and supplies which are essential in providing electricity are allowed in the determination of rate base.

Based on the foregoing, the Commission finds PECO's proposed amount of **Twelve Million Two Hundred Forty-Nine Thousand Eighty-Five Pesos (PhP12,249,085.00)** for materials and supplies to be reasonable.

### **Cash Working Capital (CWC)**

PECO proposed a two (2) month CWC for O & M expenses and twenty (20) days for power costs.

Working capital is a fund that a business must have available to meet its payroll and expenses until the services or products are paid by the customers. Utilities are usually allowed an amount for working capital as part of their rate base.



The cash working capital allowance should approximate the cash requirements based on an estimated net lag in the cash flow of a distribution utility. The Commission took into consideration PECO's proposed CWC, Cash Flow, availment of the Prompt Payment Discounts (PPD), collection efficiency, indebtedness pertaining to its cash flow or any current liabilities and Average Collection Period (ACP).

The Commission calculated the net lag days of PECO based on the submitted sample bills and supplier invoices from Panay Power Corporation (PPC). It was determined that PECO has a negative twelve (12) net lag days. Thus, it was able to collect twelve (12) days in advance before its outstanding purchase power obligations became due.

|                     | PECO       | PPC |
|---------------------|------------|-----|
| Billing Cycle       | 15         | 15  |
| Invoicing Period    | 9          | 10  |
| Payment Period      | 19         | 30  |
|                     | 43         | 55  |
| <b>Net Lag Days</b> | <b>-12</b> |     |

The determination of PECO's net lags was, likewise, supported by the following information:

- a. By using PECO's AFS, the calculation of the ACP, which measures how quickly other entities pay their bills from the time they issue the same, resulted in an average collection period of sixty (60) days even when government accounts are included in the analysis;
- b. The current ratios (2007 and 2008) disclosed that its current assets are enough to pay its current liabilities; and



- c. It continuously avails of the PPD granted by PPC, thus, giving the presumption that it is able to collect power charges from its consumers very efficiently, even before the tenth (10<sup>th</sup>) day of each month.

Consistent with its policy, the Commission deems it prudent to give PECO a two (2)-month CWC for O & M expenses amounting to Seventeen Million Forty Thousand Nine Hundred Eighty-Six Pesos (PhP17,040,986.00), computed as follows:

| <b>Computation of Cash Working Capital</b>                     | <b>Amount (PhP)</b>  |
|--|----------------------|
| Adjusted O & M   | 40,528,835.00        |
| Adjusted Payroll   | 61,717,081.00        |
| Total  | 102,245,916.00       |
| Less: Taxes and Non-Cash Items                                 | -                    |
| Provision for Bad Debts  | -                    |
| O & M – net of taxes & non-cash items                          | 102,245,916.00       |
| <b>2-month CWC for O &amp; M<br/>(PhP89,584,281.00 x 2/12)</b> | <b>17,040,986.00</b> |

The Commission believes that PECO should only be allowed a CWC of **Seventeen Million Forty Thousand Nine Hundred Eighty-Six Pesos (PhP17,040,986.00)**.

#### **Summary of Rate Base**

Having considered all the adjustments, the following summarizes the components of the rate base in the final amount of **Nine Hundred Twenty-One Million Five Hundred Sixty-Nine Thousand Six Hundred Thirty-One Pesos (PhP921,569,631.00)**:




| Particulars                   | PECO<br>(PhP)           | Commission's<br>Adjustments<br>(PhP) | Difference<br>(PhP)   |
|-------------------------------|-------------------------|--------------------------------------|-----------------------|
| Adjusted Net Plant In Service | 894,803,260.00          | (2,523,700.00)                       | 892,279,560.00        |
| Construction Work In Progress | 3,257,633.00            | (3,257,633.00)                       | -                     |
| Cash Working Capital          | 125,202,968.00          | (108,161,982.00)                     | 17,040,986.00         |
| Materials and Supplies        | 12,249,085.00           | -                                    | 12,249,085.00         |
| <b>TOTAL</b>                  | <b>1,035,512,946.00</b> | <b>(113,943,315.00)</b>              | <b>921,569,631.00</b> |

### Return on Rate Base (RORB)

For privately-owned DUs, a cost base method known as the RORB methodology is being adopted. Power rates are set to recover cost of service prudently incurred plus a reasonable rate of return. The rate of return pertains to the percentage which, when multiplied by the allowed rate base, provides a return that will fairly compensate the company for the risk inherent to the investment of capital. This simply means that a regulated utility is allowed a return that will cover its operating costs and provide it an opportunity to earn a reasonable rate of return on the assets utilized in the business.

On the basis of existing jurisprudence, the twelve percent (12%) rate of return will be maintained in this case.

The Commission approved a RORB of **One Hundred Ten Million Five Hundred Eighty-Eight Thousand Three Hundred Fifty-Six Pesos (PhP110,588,356.00)**, computed as follows:



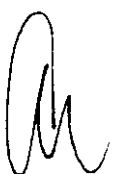
| Particulars                | PECO<br>(PhP)         | Commission's<br>Adjustments<br>(PhP) | Difference<br>(PhP)   |
|----------------------------|-----------------------|--------------------------------------|-----------------------|
| Adjusted Total Rate Base   | 1,035,512,946.00      | (113,943,315.00)                     | 921,569,631.00        |
| Rate of Return             | 12.00%                | 12.00%                               | 12.00%                |
| <b>Return on Rate Base</b> | <b>124,261,554.00</b> | <b>(13,673,198.00)</b>               | <b>110,588,356.00</b> |

**Return of Capital (Depreciation and Amortization Expense)**

Based on its 2008 AFS, PECO proposed a total depreciation in the amount of One Hundred Six Million Two Hundred Five Thousand Six Hundred Eighty-Eight Pesos (PhP106,205,688.00). This was computed on a straight line basis using its existing depreciation rate in the same manner it was used in the Decision dated October 24, 2007 and the Order dated August 4, 2008 in ERC Case No. 2007- 060 RC.

Depreciation is allowed as a component of the revenue requirement to provide a return of capital. This allowance is required to be set aside by the DU specifically for the purpose of rehabilitation, maintenance, upgrading and replacement of assets. It is calculated on a straight line basis being a generally acceptable method of computing depreciation for rate making purposes. It should be noted that the same is, likewise, consistent with the methodology used by the independent appraisal company and auditor. The asset lives considered are within the standard asset lives allowed for rate making purposes.

Shown below is the adjustment on depreciation cost on the disallowed assets amounting to One Hundred Six Million Twenty-Two Thousand Five Hundred Twenty Pesos (PhP106,022,520.00):



| Asset Class                      | Sound Value Appraisal | Incremental Appraisal Increase | 2004 Appraisal Increase | 2008 Appraisal Increase | Depreciation Rate | Depreciation Expense – Appraisal | Depreciation Expense – Cost | Total Depreciation |
|----------------------------------|-----------------------|--------------------------------|-------------------------|-------------------------|-------------------|----------------------------------|-----------------------------|--------------------|
| Land                             | 97,424,757            | 82,269,600                     | 87,656,757              | 169,926,357             | -                 | -                                | -                           | -                  |
| Building and Improvements        | 2,100,052             | -                              | 13,686,045              | 13,686,045              | 5.00%             | 684,302                          | 608,007                     | 1,292,309          |
| Meters                           | 58,539,745            | 87,669,581                     | 167,393,479             | 255,063,060             | 8.33%             | 13,943,877                       | 3,921,859                   | 17,865,736         |
| Furniture and Equipment          | 65,791                | -                              | 1,013,998               | 1,013,998               | 5.00%             | 50,700                           | 214,823                     | 265,523            |
| Station Equipment                | -                     | -                              | -                       | -                       | -                 | -                                | 9,071,118                   | 9,071,118          |
| Poles and Fixtures               | -                     | -                              | -                       | -                       | -                 | -                                | 4,373,059                   | 4,373,059          |
| O.H. Conductors and Devices      | -                     | -                              | -                       | -                       | -                 | -                                | 5,781,236                   | 5,781,236          |
| Line Transformers                | -                     | -                              | -                       | -                       | -                 | -                                | 1,580,571                   | 1,580,571          |
|                                  | 225,155,879           | 188,835,603                    | 545,913,141             | 734,748,744             | 8.33%             | 61,204,570                       | 20,805,984                  | 82,010,554         |
| Transportation Equipment         | -                     | -                              | -                       | -                       | -                 | -                                | 650,858                     | 650,858            |
| Computer Equipment               | -                     | -                              | -                       | -                       | -                 | -                                | 664,973                     | 664,973            |
| Tools, Shop and Garage Equipment | -                     | -                              | -                       | -                       | -                 | -                                | 406,433                     | 406,433            |
| Miscellaneous Equipment          | -                     | -                              | -                       | -                       | -                 | -                                | 222,028                     | 222,028            |
|                                  |                       |                                | 13,220,527              | 13,220,527              | 0.20              | 2,644,105                        | 1,944,292                   | 4,588,397          |
|                                  | 383,286,224           | 358,774,784                    | 828,883,947             | 1,187,658,731           | -                 | 78,527,555                       | 27,494,965                  | 106,022,520        |

PECO's proposal of One Hundred Six Million Two Hundred Five Thousand Six Hundred Eighty-Eight Pesos (PhP106,205,688.00) was based on the depreciable cost of the asset. On the other hand, the Commission determined the total depreciation expense of One Hundred Six Million Twenty-Two Thousand Five Hundred Twenty Pesos (PhP106,022,520.00) by taking into consideration PECO's sound value of the assets as discussed earlier. This included the 1997 appraisal values plus asset additions less asset disposals until 2004, exclusive of the appraisal increase as of December 31, 2008. This approach is more appropriate because it reflects the current market value of the asset which is consistently being considered for purposes of rate making.

After considering the foregoing adjustments, the Commission allowed a depreciation expense in the amount of **One Hundred Six Million Twenty-Two Thousand Five Hundred Twenty Pesos (Ph106,022,520.00)**.

**Other Revenue Items (ORI)**

PECO adjusted its ORI component in the amount of Five Hundred Eighty-Three Thousand One Hundred Forty-Six Pesos (PhP583,146.00) to include pole and transformer rentals.

The Commission considered Other Revenues as items to be deducted from the revenue requirement used to calculate the rates for the end-users. Since all the expenses associated with the provision of the services that gave rise to these items of revenue were included in the revenue requirement, the income generated therefrom should also be considered. Moreover, since the assets (pole and transformer) that gave rise to these items of revenue (rentals) are allowed a return and depreciation allowance in the revenue requirement, the revenue generated must be fully deducted from its revenue requirement, as follows:

| <b>Other Revenue Items</b> | <b>PECO's Proposal (PhP)</b> | <b>Commission's Adjustments (PhP)</b> | <b>Difference (PhP)</b> |
|----------------------------|------------------------------|---------------------------------------|-------------------------|
| Pole Rental                | 530,838.00                   | 0                                     | 530,838.00              |
| Other Income               | 52,308.00                    | (52,308.00)                           | 0                       |
| <b>Total</b>               | <b>583,146.00</b>            | <b>(52,308.00)</b>                    | <b>530,838.00</b>       |



It is worth mentioning that in its Compliance dated January 25, 2010, PECO submitted the breakdown of other income provided in the instant application. It was disclosed that PECO indicated only the amount of Five Hundred Thirty Thousand Eight Hundred Thirty-Eight Pesos (PhP530,838.00) for pole rentals instead of Five Hundred Eighty-Three Thousand One Hundred Forty-Six Pesos (PhP583,146.00), as alleged in its application. Thus, the Commission deems it necessary to adjust it by Fifty-Two Thousand Three Hundred Eight Pesos (PhP52,308.00) and consider a total ORI of **Five Hundred Thirty Thousand Eight Hundred Thirty-Eight Pesos (PhP530,838.00)**.

#### **Functionalization, Classification and Customer Class Allocation**

##### **Functionalization and Allocation Factors**

PECO proposed changes in its functionalization factors which contravene the rate-making principle that the cost drivers should match the particular expense. The Commission maintained the functionalization factors used in the Decision dated October 24, 2007 and the Order dated August 4, 2008 in ERC Case No. 2007- 060 RC. At present, the Commission sees no cogent reason for it to deviate from the existing functionalization and allocation factors as contained in the UFR. Said factors were the results of an in-depth study conducted therefor.



### **Billing Determinants**

PECO proposed to use its actual kWh sales for the test year 2008 as billing determinants. Though PECO submitted both its Coincident Peak Demand (CP) and Non-Coincident Peak Demand (NCP), it utilized demand allocation factors from the resulting kWh sales ratio per customer class.

For purposes of formulating a more accurate billing determinant for each customer class, the Commission adopted the actual kWh sales for the year 2008 equivalent to 334,811,810, as used by PECO.

On the demand allocation factors – NCP and CP, the Commission made a simulation of the resulting rates using the peak demand data submitted by PECO. The said simulation resulted to a significant difference in rates among the different customer classes. It was further determined that the data do not reflect the typical load factor for both commercial and streetlights customers. For these reasons, the Commission adopted the demand allocation factors from the resulting kWh sales ratio per customer class as proposed by PECO.

### **Summary of Resulting Revenues Per Function and Per Class**

Based on the functionalization, classification and allocation of the approved revenue requirement for PECO, the table below provides the following revenues functionalized by customer category:



| Customer Class      | Total Revenue (PhP)   | Distribution Related Revenue (PhP) | Supply Related Revenue (PhP) | Metering Related Revenue (PhP) |
|---------------------|-----------------------|------------------------------------|------------------------------|--------------------------------|
| Residential Service | 155,677,468.00        | 105,515,113.00                     | 14,680,048.00                | 35,482,306.00                  |
| Intermediate        | 1,462,720.00          | 1,178,201.00                       | 61,618.00                    | 222,900.00                     |
| Commercial          | 51,050,521.00         | 44,436,967.00                      | 788,964.00                   | 5,824,590.00                   |
| Power               | 100,127,914.00        | 90,264,659.00                      | 284,559.00                   | 9,578,695.00                   |
| City Government     | 2,984,452.00          | 2,624,518.00                       | 35,609.00                    | 324,326.00                     |
| Street Lights       | 4,587,556.00          | 3,849,173.00                       | 130,359.00                   | 608,024.00                     |
| Other Government    | 2,438,626.00          | 2,141,464.00                       | 30,345.00                    | 266,817.00                     |
| <b>TOTAL</b>        | <b>318,329,256.00</b> | <b>250,010,096.00</b>              | <b>16,011,502.00</b>         | <b>52,307,658.00</b>           |

### Rate Design

The functionalization, allocation and customer classification yielded the following rate design:

| Customer Type                        | Residential   | Intermediate   | Commercial      | Power           | City Government | Streetlights   | Other Government |
|--------------------------------------|---------------|----------------|-----------------|-----------------|-----------------|----------------|------------------|
| <i>Proposed Rates:</i>               |               |                |                 |                 |                 |                |                  |
| <b>Distribution Charges</b>          |               |                |                 |                 |                 |                |                  |
| Distribution System Charge PhP/kWh   | 1.0071        | 0.8385         | 0.7856          | 0.2595          | 0.7796          | 0.8094         | 0.7804           |
| Demand Charge PhP/kW                 | -             | -              | -               | 98.5750         | -               | -              | -                |
| <b>Supply Charges</b>                |               |                |                 |                 |                 |                |                  |
| Retail Customer Charge PhP/cust/mo   | -             | 35.3995        | 35.3995         | 35.3995         | 35.3995         | 35.3995        | 35.3995          |
| Supply System Charge PhP/kWh         | 0.1661        | -              | -               | -               | -               | -              | -                |
| <b>Metering Charges</b>              |               |                |                 |                 |                 |                |                  |
| Retail Customer Charge PhP/cust/mo   | 5.0000        | 49.3818        | 385.6537        | 915.3810        | 49.3818         | 49.3818        | 49.3818          |
| Metering System Charge PhP/kWh       | 0.2584        | -              | -               | -               | -               | -              | -                |
| <b>Total Energy Charge</b>           | <b>1.4316</b> | <b>0.8385</b>  | <b>0.7856</b>   | <b>0.2595</b>   | <b>0.7796</b>   | <b>0.8094</b>  | <b>0.7804</b>    |
| <b>Total Monthly Customer Charge</b> | <b>5.0000</b> | <b>84.7813</b> | <b>421.0532</b> | <b>950.7805</b> | <b>84.7813</b>  | <b>84.7813</b> | <b>84.7813</b>   |
| <b>Total Demand Charge</b>           | <b>-</b>      | <b>-</b>       | <b>-</b>        | <b>98.5750</b>  | <b>-</b>        | <b>-</b>       | <b>-</b>         |

ERC Case No. 2009-062 RC  
 DECISION/April 12, 2010  
 Page 34 of 42

| <i>Existing Rates</i>         |             |        |         |          |          |         |         |         |
|-------------------------------|-------------|--------|---------|----------|----------|---------|---------|---------|
| Distribution Charges          |             |        |         |          |          |         |         |         |
| Distribution System Charge    | PhP/kWh     | 0.6321 | 0.6397  | 0.7388   | 0.2485   | 0.3982  | 0.9971  | 0.3457  |
| Demand Charge                 | PhP/kW      |        |         |          | 98.5750  |         |         |         |
| Supply Charges                |             |        |         |          |          |         |         |         |
| Retail Customer Charge        | PhP/cust/mo |        | 34.8016 | 34.8016  | 34.8016  | 34.8016 | 34.8016 | 34.8016 |
| Supply System Charge          | PhP/kWh     | 0.1639 |         |          |          |         |         |         |
| Metering Charges              |             |        |         |          |          |         |         |         |
| Retail Customer Charge        | PhP/cust/mo | 5.0000 | 49.3818 | 385.6537 | 915.3810 | 49.3818 | 49.3818 | 49.3818 |
| Metering System Charge        | PhP/kWh     | 0.2326 |         |          |          |         |         |         |
| Total Energy Charge           |             | 1.0286 | 0.6397  | 0.7388   | 0.2485   | 0.3982  | 0.9971  | 0.3457  |
| Total Monthly Customer Charge |             | 5.0000 | 84.1834 | 420.4553 | 950.1826 | 84.1834 | 84.1834 | 84.1834 |
| Total Demand Charge           |             | -      | -       | -        | 98.5750  | -       | -       | -       |

| <i>Commission-Approved Rates:</i> |             |        |          |          |          |          |          |          |
|-----------------------------------|-------------|--------|----------|----------|----------|----------|----------|----------|
| Distribution Charges              |             |        |          |          |          |          |          |          |
| Distribution System Charge        | PhP/kWh     | 0.8674 | 0.5513   | 0.7267   | 0.2975   | 0.5513   | 0.7267   | 0.5950   |
| Demand Charge                     | PhP/kW      |        |          |          | 159.9484 |          |          |          |
| Supply Charges                    |             |        |          |          |          |          |          |          |
| Retail Customer Charge            | PhP/cust/mo |        | 26.3327  | 25.7226  | 25.8879  | 26.0297  | 25.7422  | 25.2873  |
| Supply System Charge              | PhP/kWh     | 0.1207 |          |          |          |          |          |          |
| Metering Charges                  |             |        |          |          |          |          |          |          |
| Retail Customer Charge            | PhP/cust/mo | 5.0000 | 95.2565  | 189.8992 | 871.4242 | 237.0802 | 120.0680 | 222.3479 |
| Metering System Charge            | PhP/kWh     | 0.2917 |          |          |          |          |          |          |
| Total Energy Charge               |             | 1.2798 | 0.5513   | 0.7267   | 0.2975   | 0.5513   | 0.7267   | 0.5950   |
| Total Monthly Customer Charge     |             | 5.0000 | 121.5891 | 215.6218 | 897.3121 | 263.1099 | 145.8102 | 247.6352 |
| Total Demand Charge               |             | -      | -        | -        | 159.9484 | -        | -        | -        |

| <i>Variance: Commission-Approved Rates vs. Proposed Rates</i> |             |          |          |            |           |          |          |          |
|---|-------------|----------|----------|------------|-----------|----------|----------|----------|
| TOTAL   | PhP/kWh     | (0.1518) | (0.2872) | (0.0589)   | 0.0380    | (0.2283) | (0.0827) | (0.1854) |
|   | PhP/kW      | -        | -        | -          | 61.3734   | -        | -        | -        |
|   | PhP/cust/mo | -        | 36.8078  | (205.4314) | (53.4684) | 178.3286 | 61.0289  | 162.8539 |
| <i>Variance: Commission-Approved Rates vs. Existing Rates</i> |             |          |          |            |           |          |          |          |
| TOTAL   | PhP/kWh     | 0.2512   | (0.0884) | (0.0121)   | 0.0490    | 0.1531   | (0.2704) | 0.2493   |
|   | PhP/kW      | -        | -        | -          | 61.3734   | -        | -        | -        |
|   | PhP/cust/mo | -        | 37.4057  | (204.8335) | (52.8705) | 178.9265 | 61.6268  | 163.4518 |

PECO's proposed rate structure consisted of charges for the following specific functions: a) Distribution Charge; b) Supply Charge; and c) Metering Charge.

### **Distribution Charge**

The distribution charges for PECO's Residential, Intermediate, Commercial, City Government, Street Lights and Other Government customers shall be billed using a fixed rate per kilowatt-hour (kWh). On the other hand, for its Power customers, the distribution charge shall be billed using a combination of a fixed rate per kWh and a fixed rate per kilowatt (kW).

### **Supply Charge**

For the supply function, PECO proposed a fixed peso per kWh charge for its Residential customers and fixed peso per customer per month charges for all its other customer classes.

The Commission, likewise, finds the same to be reasonable because it is consistent with the approved unbundling of rates for PECO.

For purposes of future contestable market, the Commission deems it prudent for PECO to adopt the foregoing distribution wheeling rates comprised of distribution and supply charges. The Commission believes that wheeling rates are parallel to the cost of service functionalized under Distribution.



**Metering Charge**

For the metering function, PECO proposed the following rate structure: a) Residential customers shall be levied a combination of a fixed monthly rate per meter of PhP5.00 and a fixed monthly rate of per kWh; and b) all other customer classes shall be billed fixed monthly rate per customer.

The rate structure for both functions is consistent with the approved unbundled rate structures. Thus, the Commission finds the same to be reasonable.

**Estimated Impact on Average Residential Customer**

Shown below is a comparison between the estimated impact of all adjustments on the revenue requirement on the monthly bill of a Residential end-user consuming 100 kWh a month using PECO's existing rates as of February 2010 and the rates as determined by the Commission:

| Based on Actual Existing Rate<br>100 kWh |         |               |                                  | Revised Rates |               |
|--|---------|---------------|----------------------------------|---------------|---------------|
|  | PhP/kWh | PhP           |                                  | PhP/kWh       | PhP           |
| Distribution Charge                      | 0.6321  | 63.21         | Distribution Charge              | 0.8674        | 86.74         |
| Supply Charge                            | 0.1639  | 16.39         | Supply Charge                    | 0.1207        | 12.07         |
| Metering Charge                          | -       | -             | Metering Charge                  | -             | -             |
| Retail Customer Charge/<br>Month         | -       | 5.00          | Retail Customer Charge/<br>Month | -             | 5.00          |
| Metering System Charge                   | 0.2326  | 23.26         | Metering System Charge           | 0.2917        | 29.17         |
| Total Distribution Charge                | -       | 107.85        | Total Distribution Charge        | -             | 132.98        |
| Universal Charge                         | -       | -             | Universal Charge                 | -             | -             |
| Missionary                               | 0.0373  | 3.73          | Missionary                       | 0.0373        | 3.73          |
| Environment                              | 0.0025  | 0.25          | Environment                      | 0.0025        | 0.25          |
| <b>Total Bill</b>                        | -       | <b>111.84</b> | <b>Total Bill</b>                | -             | <b>136.96</b> |
| <b>PhP/kWh</b>                           | -       | <b>1.03</b>   | <b>PhP/kWh</b>                   | -             | <b>1.26</b>   |
| Inc./(Dec.) in Pesos                     |         |               |                                  |               | 25.13         |
| Inc./(Dec.) in Rates                     |         |               |                                  |               | 0.230         |

## **Other Rate Related Items**

### **Removal of Inter-Class Cross Subsidy**

In the Decision dated May 19, 2004 and Order dated February 4, 2005 in ERC Case Nos. 2001-903 and 2002-07, PECO was directed to phase-out its inter-class cross subsidy within a period of three (3) years starting with one-third (1/3) removal in the first year and the remaining two-thirds (2/3) corresponding to the second and third years at an annual rate similar to that of the first year.

Based on its monthly submission of customer bills, PECO started implementing the removal of its inter-class cross subsidy in August 2005. Following the prescribed schedule, PECO should have completed the said removal by July 2007. Again, using sample bills of its customers as of February 2010, the Commission was able to verify that PECO had completely removed its inter-class cross subsidy.

### **Lifeline Rate and Level**

PECO proposed a lifeline level similar to its existing rates as approved by the Commission in its Decision dated October 24, 2007 in ERC Case No. 2007-060 RC covering Residential customers consuming up to 95 kWh.

In computing the lifeline rates, the Commission made reference to its earlier Decision dated November 10, 2008 in ERC Case No. 2008-016 RC [In the Matter of the Application for Approval of the New Lifeline Rate for the



Marginalized End-Users in Accordance with the Provisions of Sections 43(j) and 73 of Republic Act No. 9136 and the Implementing Rules and Regulations, Bureau of Trade Regulation and Consumer Protection-Department of Trade and Industry – Applicant] wherein it took cognizance of the fact that the public is in for hard times in view of the pervading global financial crises. It is also in line with its mandate to protect the interest of the consumers insofar as they are affected by the rates. Consequently, it decided to grant a one hundred percent (100%) discount to Residential customers consuming 0-20 kWh and maintain the level of kWh consumption threshold so that no customer previously enjoying a discount would be deprived thereof as a result of the new lifeline structure.

Accordingly, the Commission deems it necessary to modify PECO's lifeline structure.

For purposes of determining the lifeline consumption thresholds and corresponding discounts for PECO, the Commission made a comparison between its existing and proposed rates, as follows:

| kWh Consumption                                 | Level of Discount           |                          | Commission-Approved Consumption Threshold & Discount Level |                         |
|---|-----------------------------|--------------------------|--|-------------------------|
|   | Per Approved Existing Rates | Per Proposed Application | kWh Consumption  | Lifeline Discount Level |
| 75 and Below                                    | 50%                         | 50%                      | 0 – 20   | 100%                    |
| 76 – 80   | 40%                         | 40%                      | 21 – 50  | 50%                     |
| 81 – 85   | 30%                         | 30%                      | 51 – 60  | 45%                     |
| 86 – 90   | 20%                         | 20%                      | 61 – 70  | 35%                     |
| 91 – 95   | 10%                         | 10%                      | 71 – 80  | 20%                     |
| -   | -                           | -                        | 81 – 95  | 10%                     |
| <b>Subsidy Charge to Non-Lifeline Customers</b> | <b>PhP0.0999/kWh</b>        | <b>PhP0.0999/kWh</b>     | <b>Subsidy Charge to Non-Lifeline Customers</b>            | <b>PhP0.1025/kWh</b>    |

With the implementation of the new lifeline structure, Residential customers of PECO consuming 0-20 kWh per month will enjoy a one hundred percent (100%) discount in their rates, subject only to the payment of a PhP5.00/month metering charge.

**Schedule of Rates**

After considering all the adjustments made on PECO's application, the Commission approved the following rate schedule:

| Customer Class   | Distribution Charge |        | Supply Charge |               | Metering Charge |               |
|------------------|---------------------|--------|---------------|---------------|-----------------|---------------|
|                  | PhP/kWh             | PhP/kW | PhP/kWh       | PhP/Cust./Mo. | PhP/kWh         | PhP/Cust./Mo. |
| Residential      | 0.8674              | -      | 0.1207        | -             | 0.2917          | 5.0000        |
| Intermediate     | 0.5513              | -      | -             | 26.3327       | -               | 95.2565       |
| Commercial       | 0.7267              | -      | -             | 25.7226       | -               | 189.8992      |
| Power            | 0.2975              | 159.95 | -             | 25.8879       | -               | 871.4242      |
| City Government  | 0.5513              | -      | -             | 26.0297       | -               | 237.0802      |
| Street Lights    | 0.7267              | -      | -             | 25.7422       | -               | 120.0680      |
| Other Government | 0.5950              | -      | -             | 25.2873       | -               | 222.3479      |

**WHEREFORE**, the foregoing premises considered, the application filed by Panay Electric Company, Incorporated (PECO) for approval of the Depreciated Replacement Cost of its properties as of December 31, 2008, and revised rate schedules to achieve the proposed revenue requirement in accordance with the provisions of Republic Act No. 9136, otherwise known as the Electric Power Industry Reform Act of 2001 or the EPIRA, with prayer for provisional authority, is hereby **APPROVED WITH MODIFICATION**.




Accordingly, PECO is hereby granted the following:

- a. A total revenue requirement of **Three Hundred Eighteen Million Three Hundred Twenty-Nine Thousand Two Hundred Fifty-Six Pesos (PhP318,329,256.00)** equivalent to an average rate adjustment of **PhP0.0241/kWh**;
- b. An Appraisal of Property with a Reproduction Cost New of **One Billion Five Hundred Thirteen Million One Hundred Ninety-Eight Thousand Nine Hundred Pesos (PhP1,513,198,900.00)**;
- c. An Adjusted Sound Value of **Eight Hundred Ninety-Two Million Two Hundred Seventy-Nine Thousand Five Hundred Sixty Pesos (PhP892,279,560.00)**; and
- d. Lifeline Levels and Corresponding Discounts and Lifeline Subsidy Charge as follows:

|   |   |               |
|---|---|---------------|
| Maximum Lifeline Level                      | : | 95 kWh        |
| Maximum % of Discount                       | : | 100%          |
| Subsidy to Non-Lifeline Customers           | : | PhP0.1025/kWh |
| % of Residential Customers Who Will Benefit | : | 39.24%        |


Relative thereto, PECO is hereby authorized to **IMPLEMENT** the foregoing schedule of rates and revised lifeline levels and corresponding discounts and subsidy effective in its next billing cycle:

| Customer Class          | Distribution Charge |        | Supply Charge |               | Metering Charge |               |
|-------------------------|---------------------|--------|---------------|---------------|-----------------|---------------|
|                         | PhP/kWh             | PhP/kW | PhP/kWh       | PhP/Cust./Mo. | PhP/kWh         | PhP/Cust./Mo. |
| <b>Residential</b>      | 0.8674              | -      | 0.1207        | -             | 0.2917          | 5.0000        |
| <b>Intermediate</b>     | 0.5513              | -      | -             | 26.3327       | -               | 95.2565       |
| <b>Commercial</b>       | 0.7267              | -      | -             | 25.7226       | -               | 189.8992      |
| <b>Power</b>            | 0.2975              | 159.95 | -             | 25.8879       | -               | 871.4242      |
| <b>City Government</b>  | 0.5513              | -      | -             | 26.0297       | -               | 237.0802      |
| <b>Street Lights</b>    | 0.7267              | -      | -             | 25.7422       | -               | 120.0680      |
| <b>Other Government</b> | 0.5950              | -      | -             | 25.2873       | -               | 222.3479      |

| kWh Consumption                                     | Level of Discount    |
|---|----------------------|
| 0 – 20  | 100%                 |
| 21 – 50   | 50%                  |
| 51 – 60   | 45%                  |
| 61 – 70   | 35%                  |
| 71 – 80   | 20%                  |
| 81 – 95   | 10%                  |
| <b>Subsidy Charge to<br/>Non-Lifeline Customers</b> | <b>PhP0.1025/kWh</b> |

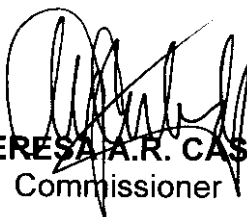
**SO ORDERED.**


Pasig City, April 12, 2010.

  
**ZENAIDA G. CRUZ-DUCUT**  
Chairperson *gnabz*

(On Official Travel)  
**RAUF A. TAN**  
Commissioner

  
**ALEJANDRO Z. BARIN**  
Commissioner

  
**MARIA TERESA A.R. CASTAÑEDA**  
Commissioner

  
**JOSE C. REYES**  
Commissioner

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Iloilo City
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9. **Atty. Edgardo Gil**  
City Legal Officer  
City Legal Office  
Iloilo City