

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



IN THE MATTER OF THE APPLICATION
FOR APPROVAL OF THE
TRANSLATION INTO DISTRIBUTION
RATES OF DIFFERENT CUSTOMER
CLASSES FOR THE SECOND
REGULATORY YEAR OF THE ERC-
APPROVED ANNUAL REVENUE
REQUIREMENT FOR THE CLARK
ELECTRIC DISTRIBUTION
CORPORATION (CEDC) UNDER THE
PERFORMANCE-BASED REGULATION
(PBR) FOR THE REGULATORY PERIOD
OCTOBER 1, 2011 TO SEPTEMBER 30,
2015

ERC CASE NO. 2012-099 RC

CLARK ELECTRIC DISTRIBUTION
CORPORATION (CEDC),

Applicant.

x-----x

DOCKETED
Date: JAN 15 2013
By: *[Signature]*

DECISION

Before the Commission for resolution is the application filed by Clark Electric Distribution Corporation (CEDC) on August 30, 2012 for the approval of the translation into distribution rates of different customer classes for the Second Regulatory Year of its approved Annual Revenue Requirement (ARR) under the Performance-Based Regulation (PBR) for the Regulatory Period October 1, 2011 to September 30, 2015.

In the said application, CEDC alleged, among others, the following:

1. It is a corporation duly organized and existing under Philippine laws, with office address at Building N2830, Bayanihan Street, Clark Freeport Zone, Pampanga;

2. It is the exclusive franchise holder issued by the Clark Development Corporation (CDC) by virtue of Executive Order No. 80 (E.O. No. 80), to operate, maintain and distribute electric power within the Clark Economic Zone;
3. On November 3, 2010, it filed an application (ERC Case No. 2010-131 RC) for approval of its ARR and Performance Incentive Scheme (PIS) covering the Second Regulatory Period from October 1, 2011 to September 30, 2015, in accordance with the provisions of the Rules for Setting Distribution Wheeling Rates (RDWR), as amended;
4. The Commission resolved ERC Case No. 2010-131 RC in its Decision dated July 16, 2011;
5. On August 24, 2011, it filed an application (ERC Case No. 2011-118 RC) for approval of the translation of its Maximum Average Price (MAP) for 2012 (the First Regulatory Year of the Regulatory Period 2011 to 2015) into distribution rates of its different customer classes under PBR;
6. The Commission resolved ERC Case No. 2010-118 RC in its Decision dated April 10, 2012;
7. Guided by the RDWR, as amended, it has calculated its MAP for the Second Regulatory Year (RY 2013) of the Second Regulatory Period to be PHP0.8984/kWh with an X-factor of PhP0.0444;

Shown below is the calculation of the resulting MAP for RY 2013 (without the application of side constraints):

$$\begin{aligned} \text{MAP}_{2013} &= [\text{MAP}_{2012} \times \{1 + \text{CWI}_{2013} - X\}] + S_{2013} - K_{2013} + \text{ITA}_{2013} \\ \text{MAP}_{2013} &= [0.8527 \times \{1 + 0.0421 - 0.0444\}] + 0.0097 - (-0.0379) + 0 \\ \text{MAP}_{2013} &= \text{PhP}0.8984/\text{kWh} \end{aligned}$$

8. Based on the Final Determination dated July 6, 2011, its Uniform Filing Requirements (UFR) and the provisions set forth in the Distribution Services and Open Access Rules (DSOAR), specifically the conversion of the MAP into different rate elements per customer class, it has converted the computed MAP₂₀₁₃ (without the application of the Side Constraints) into a distribution rates structure, as follows:

PROPOSED DISTRIBUTION RATES

CUSTOMER SEGMENT	DISTRIBUTION		SUPPLY		METERING	
	PhP/kW	PhP/kWh	PhP/Customer	PhP/kWh	PhP/Customer	PhP/kWh
Residential	-	1.3737	15.00	0.28	5.00	0.12
Small Commercial	-	1.2039	175.04	-	5.00	0.16
Comm'l / Ind'l Secondary	198.12	0.3903	486.71	-	1,185.85	-
Comm'l / Ind'l Primary	114.17	0.3903	3,574.37	-	11,796.34	-
69 kV	263.44	0.0400	16,848.56	-	60,933.91	-
Street Lights	-	0.9578	201.74	-	105.15	-

It used in its calculations the information contained in the Final Determination dated July 6, 2011 and its historical operational and financial data as prescribed by Articles III, IV, V and VI of the RDWR, as amended;

9. The Side Constraint Condition for the Second Regulatory Period which was approved by the Commission is $CWI_t + SC_t$. The value of SC_{2013} was already set at a fixed level of 12% while the CWI_{2013} is computed at 0.0421.

It has determined that while the resulting over-all MAP_{2013} which shows a total average increase of 4% vis-à-vis the approved MAP_{2012} , the converted distribution rates from said MAP_{2013} would result in the breach of the rates for some of its customer segments, namely: a) Residential; b) Small Commercial; c) Commercial/Industrial Secondary; and d) Street Lights;

Shown below is the computation of Side Constraints per Customer Class pursuant to Section 6.4 of the RDWR, as amended:

$$\begin{aligned} ((FCR_{k,t}/FQ_{k,t}) - S_t) - ((CR_{k,t-1}/AQ_{k,t-1}) - S_{t-1}) &\leq (CWI_t + SC_t) \\ (CR_{k,t-1}/AQ_{k,t-1}) - S_{t-1} &\leq (.0421 + 12\%) \\ &\leq \mathbf{16.21\%} \end{aligned}$$

CUSTOMER SEGMENT	$(FCR_{k,t}/FQ_{k,t}) - S_t$	$(CR_{k,t-1}/AQ_{k,t-1}) - S_{t-1}$	% Increase (Decrease)	STATUS
Residential	1.79	0.86	110%	Breached
Small Commercial	1.71	0.80	113%	Breached
Comm'l / Ind'l Secondary	1.14	0.88	30%	Breached
Comm'l / Ind'l Primary	0.71	0.86	-18%	-
69 kV	0.55	0.75	-26%	-
Street Lights	1.09	0.91	20%	Breached
Average	0.8886	0.8527	4%	-

10. Strictly constraining the MAP_{2013} to the limitation provided in its Final Determination will result to substantial under recoveries which it undertakes to avoid during the Second Regulatory Period, as these will result to future higher distribution rates.

Further, the constrained rates would prevent it from being able to fully implement its approved capital expenditure projects (CAPEX) and operating expenses (OPEX) for RY 2013 because of the reduction in its revenues for RY 2013 as set forth in its Final Determination dated July 8, 2011.

Moreover, the constrained rates will not reflect the true cost of electric service to its customers. Thus, the Commission should relax the Side Constraints for its RY 2013;

11. It submitted several documents in support of the instant application
12. The approval of the instant application will allow it to fulfill its obligations under PBR to implement in a timely manner its capital expenditure program and its operating and maintenance programs for the Second Regulatory Year of the Second Regulatory Period and avoid irreparable losses that will ultimately lead to the deterioration of its services, to the damage and prejudice of its consumers; and
13. It prays that the instant application be approved by the Commission and it be authorized to adopt and implement the following:
 - a. The relaxation of the Side Constraints for RY 2013; and
 - b. The proposed distribution rate structure to be effective beginning October 1, 2012.

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 September 24, 2012, were issued setting the same for jurisdictional hearing, expository presentation, pre-trial conference and evidentiary hearing on October 30, 2012.

In the same Order, CEDC 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 date of the scheduled 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 Notice of Public Hearing and were requested to have their duly authorized representatives present at the scheduled hearing.

Likewise, the Office of the Administrator/Responsible Officers of the Clark Freeport Zone Authority (CFZA) was furnished with copies of the Order and Notice of Public Hearing, for the appropriate posting thereof on its bulletin board.

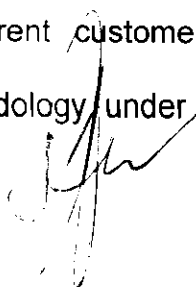
On October 25, 2012, CEDC filed its "Pre-trial Brief".

During the October 30, 2012 initial hearing, only CEDC appeared. No intervenor/oppositor appeared nor was there any intervention/opposition registered.

In the said hearing, CEDC presented its proofs of compliance with the Commission's posting and publication of notice requirements which were duly marked as Exhibits "A" to "K", inclusive. Thereafter, it conducted an expository presentation of its application.

Considering that there was no intervenor in this case, the Commission dispensed with the conduct of the pre-trial conference.

CEDC presented its lone witness, Ms. Aiza S. Garong, its Internal Auditor, who testified on the following: a) the translation of the MAP for RY 2013 into distribution rates for different customer classes; b) the conformity of the translation with the methodology under the UFR, RDWR and DSOAR; and c)



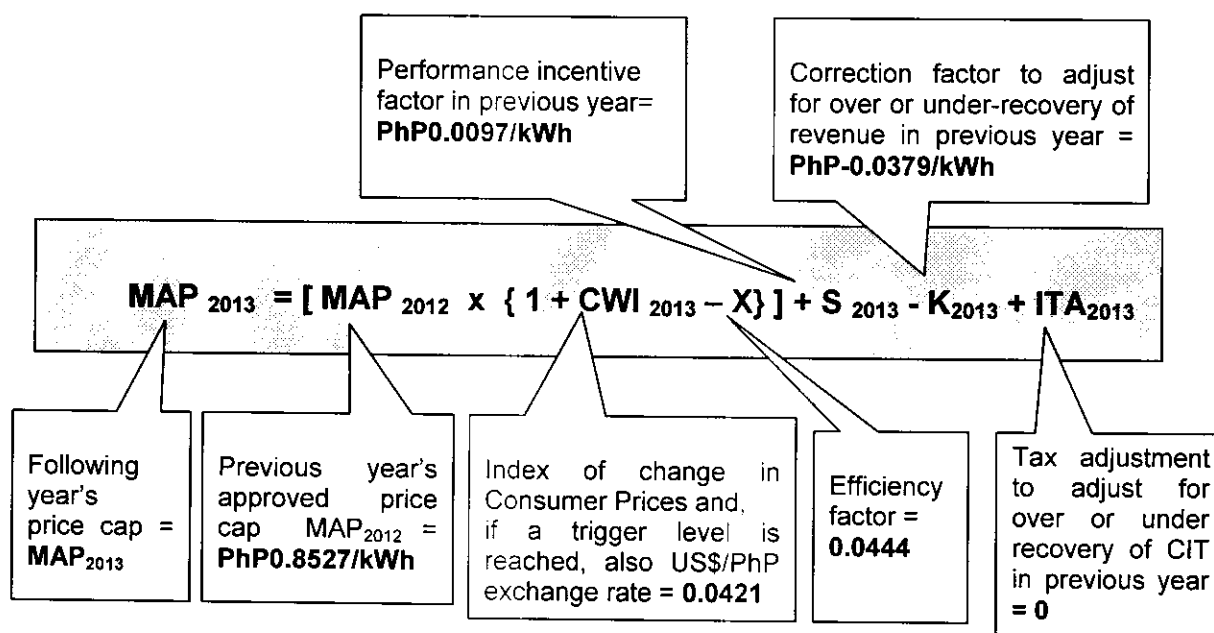
other matters relevant to the instant application. In the course of her direct examination, several documents were presented and marked as exhibits.

The direct examination of the said witness having been terminated, the Commission propounded clarificatory questions. CEDC was, then, directed to file its formal offer of evidence and several documents.

On November 12, 2012, CEDC filed its "Formal Offer of Evidence" and "Compliance and Submission" which are hereby admitted for being relevant and material in the final resolution of this case.

DISCUSSION

Pursuant to Section 4.2.1 of the RDWR and the price cap formula, CEDC computed its MAP₂₀₁₃, as follows:



The ITA is set at zero (0) in accordance with Clause 4.4.3 of the updated RDWR. Thus, applying the foregoing, the MAP₂₀₁₃ was determined, as follows:

$$\begin{aligned} \text{MAP}_{2013} &= [\text{MAP}_{2012} \times \{1 + \text{CWI}_t - X\}] + S_t - K_t + \text{ITA}_{2013} \\ \text{MAP}_{2013} &= [0.8527 \times \{1 + 0.0421 - 0.0444\}] + 0.0097 - (-0.0379) + 0 \\ \text{MAP}_{2013} &= \text{PhP}0.8984/\text{kWh} \end{aligned}$$

The foregoing values were determined based on the following:

- a. MAP Cap for Previous Year (MAP_{2012});
- b. Change in Weighted Index (CWI_t);
- c. Efficiency Factor (X);
- d. Correction Factor; and
- e. Performance Incentive Factor (S_t).

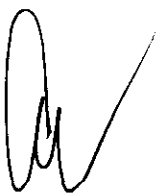
1. MAP_{2012}

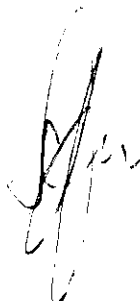

As approved by the Commission in its Decision dated April 10, 2012 in ERC Case No. 2011-118 RC, the cap of the MAP for previous year (MAP_{2012}) was PhP0.8527/kWh¹.

2. CWI_{2013}

The value of CWI_{2013} represents the Change in Weighted Index for Regulatory Year 2013, to wit:

$$\text{CWI}_t = \{(W1 \times \text{DeltaCPI}_t) + (W2 \times \text{DeltaUSER}_t)\}$$


¹ $\text{MAP}_{2012} = [\text{MAP}_{2011} \times (1 + \text{CWI} - X)]$

Unless otherwise determined by the Commission pursuant to Section 12.5.1 of the RDWR, Section 4.5 of the Rules provides for the value assigned to weighting for DeltaCPI (W1) and weighting for DeltaUSER (W2) which may be equivalent to 0.80 and 0.20, respectively, when the exchange rate trigger is met. On the other hand, if the exchange rate trigger is not met, the values may be 1.00 and zero, respectively.

The trigger depends on the conditions set forth in Section 12.5.1 of the RDWR which is prompted when an exchange rate is more than one hundred ten percent (110%) or less than ninety percent (90%) of the forecast exchange rate used in the Final Determination.

In the instant application, the values used for W1 and W2 in computing the MAP₂₀₁₃ are 1.0 and 0, respectively, since CEDC determined that the condition for the exchange rate trigger was not met. The resulting CWI₂₀₁₃ differs from the Commission's calculation due to the updated values issued by the Bangko Sentral ng Pilipinas (BSP), to wit:

PhP/US\$ exchange rate	Q1	Q2	Q3	Q4
RY 2011				
USER Actual	43.98	44.11	43.42	43.51
USER FD	44.00	44.00	44.00	44.00
Trigger Change	99.9%	100.2%	98.7%	98.9%
Condition not met	>90%	>90%	>90%	>90%
RY 2012				
USER Actual	43.71	43.67	42.98	42.45
USER FD	43.83	43.83	43.83	43.83
Trigger Change	99.7%	99.6%	98.1%	96.8%
Condition not met	>90%	>90%	>90%	>90%

Based on the foregoing, the Commission deems it prudent to use the values of 1.0 and 0 for W1 and W2, respectively.

With the calculations provided by CEDC, the Commission was able to verify the value of ΔCPI_t at 0.0461 by using the quarterly data from June 2010 to March 2012. It is worth mentioning that effective Calendar Year 2011, the National Statistics Office (NSO) changed the base year of its reported Philippine CPI figures from 2000 to 2006. Section 4.5.2 of the RDWR allows the Commission to use the same base year in the event that the NSO changes the base year for its reported CPI. In this regard, the Commission recalculated the ΔCPI_t using the updated CPI data as of September 2010 to June 30, 2012 with reported base year of 2006, as follows:

$$\begin{aligned} \Delta CPI_t &= (CPI_{t-1}/CPI_{t-2}) - 1 \\ \Delta CPI_t &= (513.30/495.20) - 1 \\ \Delta CPI_t &= \mathbf{0.0366} \end{aligned}$$

Where:

$$\begin{aligned} CPI_{t-1} &= (CPI_{(Q4, t-2)} + CPI_{(Q1, t-1)} + CPI_{(Q2, t-1)} + CPI_{(Q3, t-1)}) \\ CPI_{t-1} &= (CPI_{(Sep-11)} + CPI_{(Dec-11)} + CPI_{(Mar-12)} + CPI_{(Jun-12)}) \\ CPI_{t-1} &= 126.90 + 128.00 + 128.50 + 129.90 \\ CPI_{t-1} &= \mathbf{513.30} \\ \\ CPI_{t-2} &= (CPI_{(Q4, t-3)} + CPI_{(Q1, t-2)} + CPI_{(Q2, t-2)} + CPI_{(Q3, t-2)}) \\ CPI_{t-2} &= (CPI_{(Sep-10)} + CPI_{(Dec-10)} + CPI_{(Mar-11)} + CPI_{(Jun-11)}) \\ CPI_{t-2} &= 121.10 + 122.50 + 125.10 + 126.50 \\ CPI_{t-2} &= \mathbf{495.20} \end{aligned}$$

The Commission thoroughly reviewed CEDC's calculation of the $\Delta USER_t$ and recalculated the value using the quarterly data from June 2010 to March 2012. Consistent with Section 4.5.3 of the RDWR, the Commission used the average of the Philippine Peso/United States Dollar inter-bank-mid-rates prevailing on each of the last five (5) business days of that quarter. Said calculation has no impact on the CWI_t since the W2 parameter has a zero value.

Nevertheless, the Commission validated the calculation of ΔUSER_t , as follows:

$$\begin{aligned} \Delta\text{USER}_t &= \left\{ \left(\frac{\text{USER}_{t-1}}{\text{USER}_{t-2}} \right) \times \left(\frac{\text{USCPI}_{t-1}}{\text{USCPI}_{t-2}} \right) \right\} - 1 \\ \Delta\text{USER}_t &= \left\{ \left(\frac{172.81}{175.02} \right) \times \left(\frac{911.43}{885.81} \right) \right\} - 1 \\ \Delta\text{USER}_t &= \mathbf{0.0160} \end{aligned}$$

Where:

$$\begin{aligned} \text{USER}_{t-1} &= \{ \text{USER}_{(Q4,t-2)} + \text{USER}_{(Q1,t-1)} + \text{USER}_{(Q2,t-1)} + \text{USER}_{(Q3,t-1)} \} \\ \text{USER}_{t-1} &= \{ \text{USER}_{(\text{Sep } 11)} + \text{USER}_{(\text{Dec } 11)} + \text{USER}_{(\text{Mar } 12)} + \text{USER}_{(\text{Jun } 12)} \} \\ \text{USER}_{t-1} &= 43.71 + 43.67 + 42.98 + 42.45 \\ \text{USER}_{t-1} &= \mathbf{172.81} \end{aligned}$$

$$\begin{aligned} \text{USER}_{t-2} &= \{ \text{USER}_{(Q4,t-3)} + \text{USER}_{(Q1,t-2)} + \text{USER}_{(Q2,t-2)} + \text{USER}_{(Q3,t-2)} \} \\ \text{USER}_{t-2} &= \{ \text{USER}_{(\text{Sep } 10)} + \text{USER}_{(\text{Dec } 10)} + \text{USER}_{(\text{Mar } 11)} + \text{USER}_{(\text{Jun } 11)} \} \\ \text{USER}_{t-2} &= 43.98 + 44.11 + 43.42 + 43.51 \\ \text{USER}_{t-2} &= \mathbf{175.02} \end{aligned}$$

$$\begin{aligned} \text{USCPI}_{t-1} &= \{ \text{USCPI}_{(Q4,t-2)} + \text{USCPI}_{(Q1,t-1)} + \text{USCPI}_{(Q2,t-1)} + \text{USCPI}_{(Q3,t-1)} \} \\ \text{USCPI}_{t-1} &= \{ \text{USCPI}_{(\text{Sep } 11)} + \text{USCPI}_{(\text{Dec } 11)} + \text{USCPI}_{(\text{Mar } 12)} + \text{USCPI}_{(\text{Jun } 12)} \} \\ \text{USCPI}_{t-1} &= 226.89 + 225.67 + 229.39 + 229.48 \\ \text{USCPI}_{t-1} &= \mathbf{911.43} \end{aligned}$$

$$\begin{aligned} \text{USCPI}_{t-2} &= \{ \text{USCPI}_{(Q4,t-3)} + \text{USCPI}_{(Q3,t-2)} + \text{USCPI}_{(Q2,t-2)} + \text{USCPI}_{(Q3,t-2)} \} \\ \text{USCPI}_{t-2} &= \{ \text{USCPI}_{(\text{Sep } 10)} + \text{USCPI}_{(\text{Dec } 10)} + \text{USCPI}_{(\text{Mar } 11)} + \text{USCPI}_{(\text{Jun } 11)} \} \\ \text{USCPI}_{t-2} &= 218.44 + 218.18 + 223.47 + 225.72 \\ \text{USCPI}_{t-2} &= \mathbf{885.81} \end{aligned}$$

Thus, the CWI_t resulted to a positive value of 0.0366, computed as follows:

$$\begin{aligned} \text{CWI}_t &= \{ (W1 \times \Delta\text{CPI}_t) + (W2 \times \Delta\text{USER}_t) \} \\ \text{CWI}_t &= \{ (1 \times 0.0366) + (0 \times 0.0148) \} \\ \text{CWI}_t &= \mathbf{0.0366 \text{ (positive value)}} \end{aligned}$$

3. X-Factor

The Commission determined the value of X or the productivity/efficiency factor for RY 2013 by adopting the computed X-factor of 4.44% as provided in the Final Determination.

4. Correction Factor (K_{2013})

The Correction Factor (K_{2013}) is used to adjust the over or under recovery of revenue in a regulatory year and is calculated in accordance with Section 4.3 of the RDWR. The Commission determined the amount of K_{2013} , as follows:

If $DA < 0$, then $K_t = DA_t \times (1 + i_t/100)$

$$\begin{aligned} K_t &= DA_t \times (1 + i_t/100) \\ K_{2013} &= -0.0371 \times (1 + 6.81\%/100) \\ K_{2013} &= -0.0371 \times 1.0681 \\ K_{2013} &= \text{PhP-0.0396/kWh (negative value)} \end{aligned}$$

Where:

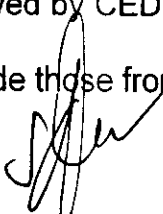
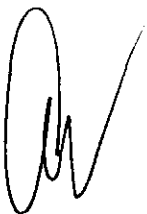
i_t = The simple average of the monthly one hundred eighty (180)-day weighted-average Manila Reference Rate in nominal percent per annum terms published by the Bangko Sentral ng Pilipinas for the period January 1, 2011 to December 31, 2011

5. Differential Amount (DA_{2013})

CEDC proposed that the amount of Actual Weighted Average Tariff ($AWAT_{2013}$) should be equal to PhP0.6328/kWh computed using the following formula:

$$\begin{aligned} AWAT_{2013} &= \frac{CR_{2012} + RBR_{2012} + AISDA_{2012} - FISDA_{2012}}{CQ_{2012}} \\ AWAT_{2013} &= \frac{176,483,675 + 606,815 + 110,169 - 1,049,408}{278,388,330} \\ AWAT_{2013} &= \text{PhP0.6328/kWh} \end{aligned}$$

Sections 20 of the EPIRA and 4.3.1 of the RDWR provide that fifty percent (50%) of the net income from related business should be deducted from the MAP. The earnings derived by CEDC from utilizing assets which already formed part of its rate base include those from distribution transformer and pole rentals.



CEDC added PhP606,815.00 as RBR_t and PhP110,169.00 as AISDA₂₀₁₂ and deducted the amount of PhP1,049,408.00 as FISDA₂₀₁₂ to the actual revenue (CR₂₀₁₂) of PhP176,483,675.00 which resulted to an AWAT₂₀₁₃ of PhP0.6328/kWh.

Based on its annual report submission for Calendar Year 2011, the audited value of CEDC's related business revenue amounted to PhP1,213,312.90. It plowed back 50% of its related business revenue of PhP816,231.45 to reduce the rates of its consumers, to wit:

Particulars	Amount (PhP)	% of Plowback	Net Income from Related Business (PhP)
Reconnection Fees	17,150.00	100	17,150.00
Pole Rental	777,330.00	50	388,665.00
Job and Contract Fees	402,000.00	100	402,000.00
Dividend income	16,832.00	50	8,416.45
TOTAL	1,213,312.90	-	816,231.45

The Commission verified CEDC's calculations of the AWAT₂₀₁₃. In its CY 2011 monthly report submission of MOO-1 Form, it was disclosed that the actual revenue to determine its AWAT should have been PhP176,483,675.00 calculated on the basis of its actual existing rates and monthly sales volume for CY 2011, to wit:

$$AWAT_{2013} = \frac{CR_{2012} + RBR_{2012} + AISDA_{2012} - FISDA_{2012}}{CQ_{2012}}$$

$$AWAT_{2013} = \frac{176,483,675 + 816,231.45 + 110,169 - 1,049,408}{278,388,330}$$

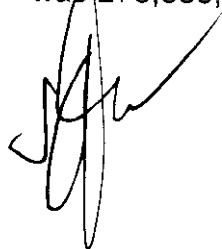
$$AWAT_{2013} = \text{PhP0.6335/kWh}$$

Consequently, the Commission computed CEDC's differential amount (DA_{2013}) as follows:

$$\begin{aligned} DA_{2013} &= AWAT_{2013} - [(0.75 \times MAP_{2011}) + (0.25 \times MAP_{2012})] \\ DA_{2013} &= 0.6335 - [(0.75 \times 0.6099) + (0.25 \times 0.8527)] \\ DA_{2013} &= 0.6335 - 0.6706 \\ DA_{2013} &= \text{PhP-0.00371/kWh (negative value)} \end{aligned}$$

Where:

- CR_{t-1} = The amount billed to CEDC's customers of the CY 2011 Regulated Distribution System
- RBR_{t-1} = Revenue from other related activities such as Reconnection Fees, Non-refundable Deposits and Pole Rental utilizing assets that form part of the regulatory asset base of CEDC for CY 2011 including the computation for the AWAT is equivalent to PhP816,231.45
- $AISDA_{t-1}$ = The actual income derived by a Regulated Entity from the sale of disposed assets that were previously part of the rolled forward regulatory asset base for a regulated distribution system, after deducting any expenses associated with the sale but excluding the value at which the disposed assets were removed from the rolled forward regulatory asset base. This includes any income derived from the disposal of assets that were previously used beyond their Regulatory Lives for CY 2011. CEDC reported an income from sale of disposed assets amounting to PhP110,169.19
- $FISDA_{t-1}$ = The estimated income to a Regulated Entity that would arise from the sale of disposed assets that were previously part of the rolled forward regulatory asset base for a regulated distribution system for CY 2011. CEDC reported income from sale of disposed assets amounted to PhP1,049,408
- CQ_{t-1} = The total amount of energy delivered through the relevant regulated distribution system to distribution connection points with respect to the regulated distribution system for CY 2011. CEDC sales volume was 278,388,330 kWh



- MAP_{t-1} = The Maximum Average Price (expressed in PhP/kWh) that the regulated entity is permitted to charge for the provision by it, during Regulatory Year t-1, of regulated distribution services in relation to the relevant regulated distribution system, as calculated in accordance with Section 4.2.1 of the RDWR
- MAP_{t-2} = Except as provided below, the Maximum Average Price (expressed in PhP/kWh) that the regulated entity is permitted to charge for the provision by it, during Regulatory Year t-2, of regulated distribution services in relation to the relevant regulated distribution system, as calculated in accordance with Section 4.2.1 of the RDWR

Where Regulatory Year t is Regulatory Year 2013, MAP_{t-2} is equal to MAP_{bs} and is calculated in accordance with Section 4.5.5 of the RDWR.

6. Performance Incentive Factor (S₂₀₁₃)

CEDC calculated the S factor in accordance with the formula under Section 10.3.3 of its Position Paper, to wit:

$$S_t = \frac{[S_{SAIFI,t} + S_{CAIDI,t} + S_{SAIDI,t} + S_{VoltViol,t} + S_{SysLoss,t} + S_{Proc,t} + S_{Con,t} + S_{Calt,t}] \times 0.025 ARR_t}{FQ_t}$$

Where:

- ARR_t = The allowed annual revenue for Regulatory Year 2013, as approved by the Commission in the Final Determination
- FQ_t = The total amount of energy (expressed in kWh) that is forecasted to be delivered during Regulatory Year 2013, as approved by the Commission in the Final Determination

$$S_{SAIFI,t} = W_{SAIFI} \times Perf_{SAIFI,t-1}$$

Where:

- $S_{SAIFI,t}$ = S-component for SAIFI for RY2013
 W_{SAIFI} = Weighting given to the SAIFI S-component
 $Perf_{SAIFI,t-1}$ = SAIFI performance assessment for the year ending on December 31 of RY2012

$$S_{CAIDI,t} = W_{CAIDI} \times Perf_{CAIDI,t-1}$$

Where:

- $S_{CAIDI,t}$ = S-component for CAIDI for RY2013
 W_{CAIDI} = Weighting given to the CAIDI S-component
 $Perf_{CAIDI,t-1}$ = CAIDI performance assessment for the year ending on December 31 of RY2012

$$S_{SAIDI,t} = W_{SAIDI} \times Perf_{SAIDI,t-1}$$

Where:

- $S_{SAIDI,t}$ = S-component planned SAIDI for Regulatory Year 2013
 W_{SAIDI} = Weighting given to the SAIDI S-component
 $Perf_{SAIDI,t-1}$ = Planned SAIDI performance assessment for the year ending on December 31 of RY2012.

$$S_{VoltViol,t} = W_{VoltViol} \times Perf_{VoltViol,t-1}$$

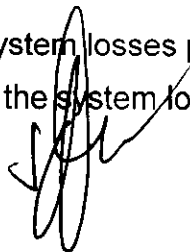
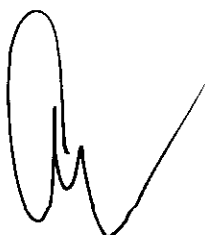
Where:

- $S_{VoltViol,t}$ = S-component for voltage regulation performance for RY2013
 $W_{VoltViol}$ = Weighting given to the voltage regulation S-component
 $Perf_{VoltViol,t-1}$ = Voltage regulation performance assessment for the year ending on December 31 of RY2012

$$S_{Sysloss,t} = W_{Sysloss} \times Perf_{Sysloss,t-1}$$

Where:

- $S_{Sysloss,t}$ = S-component for system losses performance for RY2013
 $W_{Sysloss}$ = Weighting given to the system losses S-component



$Perf_{Sysloss,t-1}$ = System losses performance assessment for the year ending on December 31 of RY2012

$$S_{Proc,t} = W_{Proc} \times Perf_{Proc,t-1}$$

Where:

$S_{Proc,t}$ = S-component for time to process applications for regulatory distribution services for RY2013

W_{Proc} = Weighting given to the process time S-component

$Perf_{Proc,t-1}$ = Process time performance assessment for the year ending on December 31 of RY2012

$$S_{Con,t} = W_{Con} \times Perf_{Con,t-1}$$

Where:

$S_{Con,t}$ = S-component for time to provide connection to the Regulated Distribution System for RY2013

W_{Con} = Weighting given to the service connection time S-component

$Perf_{Con,t-1}$ = Connection time performance assessment for the year ending on December 31 of RY2012

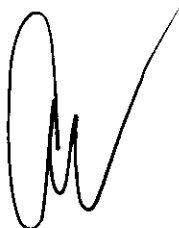
$$S_{Call,t} = W_{Call} \times Perf_{Call,t-1}$$

Where:

$S_{Call,t}$ = S-component for call-center performance for RY2013

W_{Call} = Weighting given to the call-center performance S-component

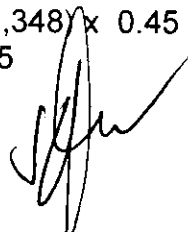

$Perf_{Call,t-1}$ = Call-center performance assessment for the year ending on December 31 of RY2012



Performance Index	Actual Performance	Performance Value	Weighting	Weighted Performance
System Average Interruption Frequency Index(SAIFI)	3.13 times	1.19	0.2	0.1
Customer Average Interruption Duration Index (CAIDI)	33.7 minutes	50.74	0.2	-0.2
Planned System Average Interruption Duration Index (Planned SAIDI)	110.60 minutes	96.72	0.15	0
Probability of Voltage Levels Falling Within Prescribed Limits	4.00%	0.0	0.1	0.1
System Losses	8.50%	3.75	0.05	0.05
Average Time to Process Applications for Regulated Distribution Services (Normal Applications)	3 days	1.00	0.05	0.05
Average Time to Process Applications for Regulated Distribution Services (Primary Line Extensions)	6 days	1.00	0.05	0.05
Average Time to Process Applications for Regulated Distribution Services (Secondary Line Extensions)	20 days	1.00	0.05	0.05
Average Time to Connect Premises to the Regulated Distribution System (Normal Applications)	3 days	1.00	0.15	0.15
Average Time to Connect Premises to the Regulated Distribution System (Secondary Line Extensions)	12.5 days	1.00	0.05	0.05
Average Time to Connect Premises to the Regulated Distribution System (Primary Line Extension)	30 days	1.00	0.05	0.05
Weighted Performance for Jan-Dec 2011				0.45
Commission's Approved ARR for MAP ₂₀₁₃ (without GSL) PhP				254,076,684
2.5% of the ARR for MAP ₂₀₁₃				6,351,917
Total Incentive				2,858,363
Divided by the Approved Forecast kWh for RY 2013				294,461,348
Performance Incentive Factor, MAP₂₀₁₃				PhP0.0097/kWh

Section 4.3.2 of the RDWR authorizes a maximum of 2.5% of the ARR of the direct reward-based incentive scheme based on the S Factor formula. The positive PIS performance of CEDC resulted in maximum rewards for SAIFI, Planned SAIDI, Voltage Regulation, System Losses, Time to Process Applications and Time to Connect Premises and First Level Rewards for CAIDI. Hence, there is an added benefit to CEDC amounting to **PhP0.0097/kWh**, derived as follows:

$$\begin{aligned}
 S_{2013} &= (254,076,684/294,461,348) \times 0.45 \times 0.025 \\
 S_{2013} &= 0.8628 \times 0.45 \times 0.025 \\
 S_{2013} &= \mathbf{PhP0.0097/kWh}
 \end{aligned}$$

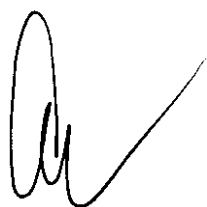
7. Side Constraints

In terms of the RDWR, side constraints apply to annual rate increases for any single rate category. This is based on the CWI-factor and an allowance made in the Final Determination. The Commission recalculated the rate increase limit for RY 2013 rates at the CWI plus 12% which was allowed in the Final Determination.

Based on the documents submitted by CEDC, the Commission thoroughly verified and recalculated the average rate for RY 2012 of all its customer classes that breached the Side Constraints.

The Commission found that all of CEDC's customer classes breached the Side Constraints. The increase in actual consumption (kWh) tends to decrease the previous year's (2012) effective rate for that particular customer class (effective rate = PhP/kWh). Hence, the actual rate (which was lowered) will appear to have a bigger increase compared to the year 2013 effective rate. The decrease in actual consumption will have an impact in the over-all MAP resulting to under-recovery.

The breach in the Side Constraints on CEDC customers was due to: a) the increase in actual energy sales for the period January 2011 to December 2011 (297,483 MWh) vis-à-vis the forecasted energy sales for regulatory year 2012 (242,936 MWh) or an increase of 22.45%; b) the delay in the implementation of its RY 2012 rate which should have started in October 2011 but was only implemented in July 2012; and c) the reclassification of its customer classes for RY 2012 which was implemented starting July 2012.



8. MAP₂₀₁₃ Translation Into Distribution Tariffs

It bears stressing that the MAP is based purely on a cost per kWh given a reasonable estimate of its sales mix taking into consideration the projected energy consumption. During the annual rate verification process, the RDWR requires the adjustment of rates based on actual economic indices, energy consumption, average distribution price and service quality performance. Any change in the sales mix may result to either a lower or higher actual average rates.

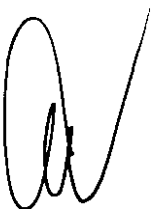
For purposes of mitigating the impact of the actual changes in the sales mix, the Commission translated the recalculated MAP₂₀₁₃ of PhP0.8953/kWh based on CEDC's August 2012 sales mix with the same sales level as approved in the Final Determination. The overall effective rate impact from CEDC's existing rates is a decrease of PhP0.0801/kWh, broken down as follows:

Due to Sales Mix Change	PhP/kWh	PhP/kWh
MAP ₂₀₁₂ at MAP ₂₀₁₂ Mix*	0.8527	-
MAP ₂₀₁₂ at MAP ₂₀₁₃ Mix**	0.9754	(0.1227)
Due to Approved Increase in MAP		
MAP ₂₀₁₃	0.8953	-
MAP ₂₀₁₂	0.8527	0.0426
Total Increase (Decrease)	-	(0.0801)

Note: *Based on forecast RY2013 sales mix

**Based on August 2012 sales mix

It can be gleaned from the foregoing table that by updating the sales mix using CEDC's latest available data of August 2012 mix, the resulting rate impact is estimated at PhP-0.1227/kWh. This mitigates any over or under-recovery in its next rate application by setting a rate which approximates the allowable MAP.



The table shows the over-all increase on CEDC's approved MAP₂₀₁₂ and the recalculated MAP₂₀₁₃ in the amount of PhP0.0426/kWh.

Since the recalculated MAP was based on the forecasted sales mix, the monthly actual sales mix will determine whether the actual rates will be above or below the said recalculated MAP. Variation in the sales mix may result to an erratic pattern of the average rates specially if the consumption behavior of the different types of customers varies significantly from the forecast.

In terms of rate design, CEDC has been using cost-to-serve principles consistent with the rate unbundling Decision of the Commission. The distribution rates tend to be higher for smaller customers (Residential and Street Lights) and lower for larger customers (Small Commercial, Commercial/Industrial-Secondary and Primary and 69 KV). In its analysis, the Commission noted that the reclassification of its customer classes such as Commercial, Industrial and 69 KV customers and the delay in the implementation of its MAP₂₀₁₂ resulted to an increase in kWh sales which in turn resulted to a decrease in actual average rate.

Taking into account the sales mix, the effect of any under or over-recovery in the succeeding regulatory years of the Second Regulatory Period is mitigated. If the sales mix is not considered, the effect would be an increase in rates amounting to PhP0.0426/kWh.

Shown below is a comparison between CEDC's existing and proposed rates vis-à-vis the Commission's recalculated rates for each customer class:

Three handwritten signatures in black ink are positioned at the bottom of the page. The first signature on the left is a stylized, cursive 'A'. The middle signature is a more complex, cursive signature. The third signature on the right is a shorter, more compact cursive signature.

		Approved MAP 2012 Rates	Approved MAP 2013 Rates	Difference
Distribution				
Residential	PhP/kWh	0.6394	0.5698	(0.0696)
Small Commercial	PhP/kWh	0.6271	0.5589	(0.0682)
Commercial/Industrial- Secondary	PhP/kWh	0.3903	0.3478	(0.0425)
	PhP/kW	237.63	211.78	(25.8525)
Commercial/Industrial - Primary	PhP/kWh	0.3903	0.3478	(0.0425)
	PhP/kW	189.55	168.93	(20.6217)
69 KV	PhP/kW	314.09	279.92	(34.1708)
Street Lights	PhP/kW	0.6361	0.5669	(0.0692)
Supply				
Residential	PhP/kWh	0.1100	0.1896	0.0796
	PhP/kWh	15.00	25.86	10.86
Small Commercial	PhP/Cust./Mo.	18.06	31.14	13.08
Commercial/Industrial -Secondary	PhP/Cust./Mo.	610.07	1051.81	441.74
Commercial/Industrial - Primary	PhP/Cust./Mo.	1,346.37	2,321.24	974.87
69 KV	PhP/Cust./Mo.	15,617.86	26,926.38	11,308.52
Street Lights	PhP/Cust./Mo.	427.29	736.68	309.39
Metering				
Residential	PhP/kWh	0.0737	0.0770	0.0033
	PhP/Cust./Mo.	5.00	5.00	0.00
Small Commercial	PhP/kWh	0.1331	0.1387	0.0056
	PhP/Cust./Mo.	5.00	5.00	0.00
Commercial / Industrial -Secondary	PhP/Cust./Mo.	815.68	848.29	32.61
Commercial / Industrial -Primary	PhP/Cust./Mo.	8,642.37	8,987.90	345.53
69 kV	PhP/Cust./Mo.	57,880.01	60,194.11	2,314.10
Street Lights	PhP/Cust./Mo.	51.17	53.22	2.05
Average Rate	PhP/kWh	0.8527	0.8953	-

WHEREFORE, the foregoing premises considered, the application filed by Clark Electric Distribution Corporation (CEDC) for approval of the translation into distribution rates of different customer classes for the Second Regulatory Year of its approved Annual Revenue Requirement (ARR) under the Performance-Based Regulation (PBR) for the Regulatory Period October 1, 2011 to September 30, 2015 is hereby **APPROVED**.


Accordingly, CEDC is hereby directed to:


- a. **ADOPT** the MAP 2013 of PhP0.8953/kWh; and
- b. **IMPLEMENT**, starting the next billing cycle from receipt hereof, its approved Distribution, Supply and Metering Charges as shown below:

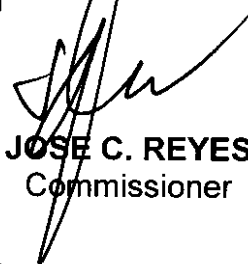
CUSTOMER CLASS	UNITS	COMMISSION'S APPROVED RY 2013 RATES
Distribution		
Residential	PhP/kWh	0.5698
Small Commercial	PhP/kWh	0.5589
Commercial/Industrial-Secondary	PhP/kWh	0.3478
	PhP/kW	211.78
Commercial/Industrial - Primary	PhP/kWh	0.3478
	PhP/kW	168.93
69 KV	PhP/kW	279.92
Street Lights	PhP/kW	0.5669
Supply		
Residential	PhP/kWh	0.1896
	PhP/kWh	25.86
Small Commercial	PhP/Cust./Mo.	31.14
Commercial/Industrial -Secondary	PhP/Cust./Mo.	1,051.81
Commercial/Industrial - Primary	PhP/Cust./Mo.	2,321.24
69 KV	PhP/Cust./Mo.	26,926.38
Street Lights	PhP/Cust./Mo.	736.68
Metering		
Residential	PhP/kWh	0.0770
	PhP/Cust./Mo.	5.00
Small Commercial	PhP/kWh	0.1387
	PhP/Cust./Mo.	5.00
Commercial / Industrial -Secondary	PhP/Cust./Mo.	848.29
Commercial / Industrial -Primary	PhP/Cust./Mo.	8,987.90
69 kV	PhP/Cust./Mo.	60,194.11
Street Lights	PhP/Cust./Mo.	53.22
Average Rate	PhP/kWh	0.8953

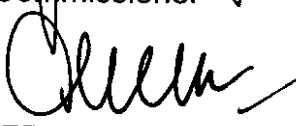
SO ORDERED.

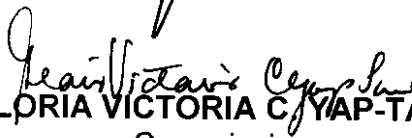
Pasig City, December 17, 2012.


ZENAIDA G. CRUZ-DUCUT
 Chairperson *per se*

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

 **JOSE C. REYES**
 Commissioner

 **ALFREDO J. NON**
 Commissioner

 **GLORIA VICTORIA C. YAP-TARUC**
 Commissioner

Copy Furnished:

1. **Quiason Makalintal Barot Torres Ibarra and Sison**
Counsel for the Applicant
21st Floor, Robinsons-Equitable Tower 4, ADB Avenue corner Poveda
Street, 1605 Ortigas Center, Pasig City
2. **Clark Electric and Distribution Corporation (CEDC)**
Attention: **Radito P. Tuazon**
Chief Operating Officer
Bldg. N2830, Bayanihan St., Clark Freeport Zone,
Pampanga
3. **Commission on Audit**
Commonwealth Avenue,
Quezon City
4. **Senate Committee on Energy**
GSIS Building, Roxas Boulevard,
Pasay City
5. **House Committee on Energy**
Batasan Hills, Quezon City
6. **Office of the President**
Philippine Chamber of Commerce and Industry (PCCI)
3rd Floor, ECC Building, Sen. Gil Puyat Avenue, Makati City
7. **Office of the Administrator/responsible officer**
Clark Freeport Zone Authority (CFZA)
Clark Freeport Zone, Pampanga
8. **Office of the Solicitor General**
134 Amorsolo Street, Legaspi Village,
Makati City, Metro Manila