

Schedule 10

**Regulatory Reset for the Second Regulatory
Period (2006-2010) under the Transmission
Wheeling Rate Guidelines**

**Additional Analysis of TransCo's Forecast
Operation and Maintenance Expenditure**

**TransCo/PSALM
Filing to the
Energy Regulatory Commission**

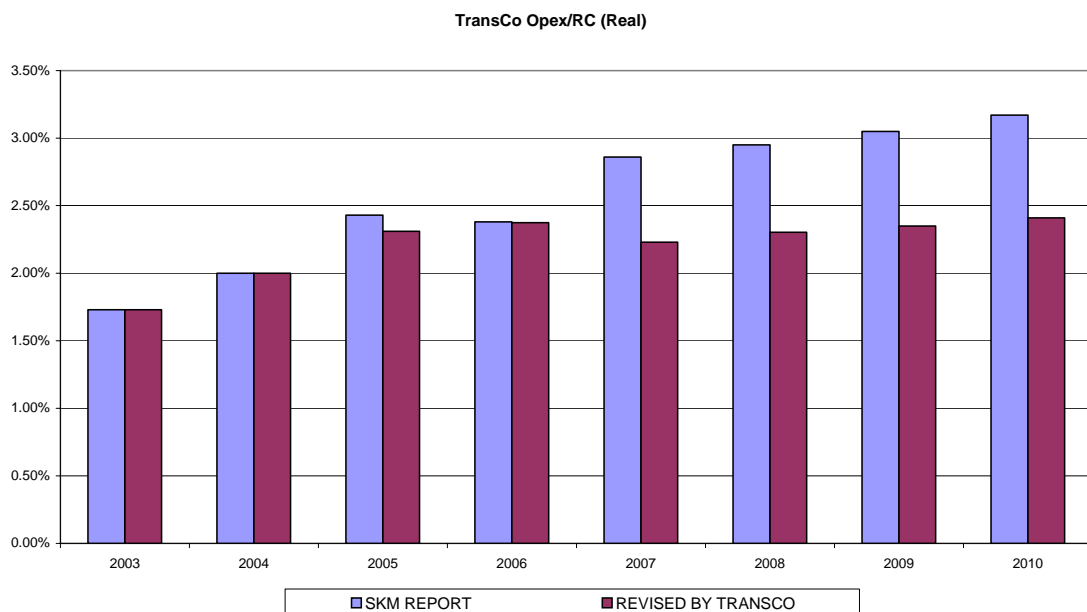
31 August 2005

1. Introduction

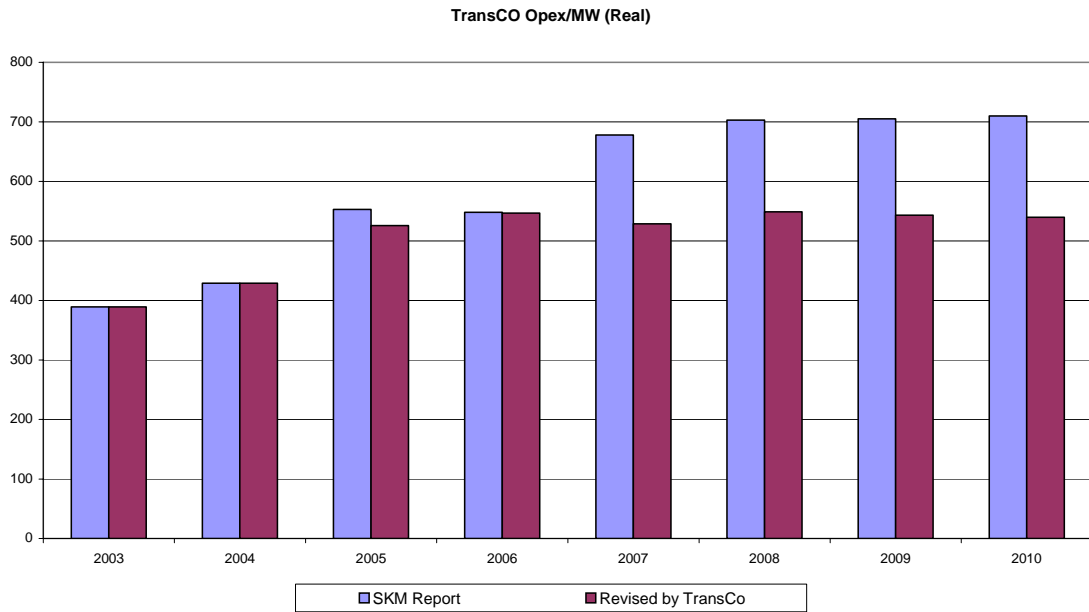
As discussed in Annex "A", TransCo revised its operating and maintenance (opex) in response to matters raised in the expert review of its initial forecasts. This schedule update the various benchmarks contained in the experts report for the revised forecasts. It also provides additional information to assist the ERC in reviewing the forecasts.

2. Relative Performance of Time

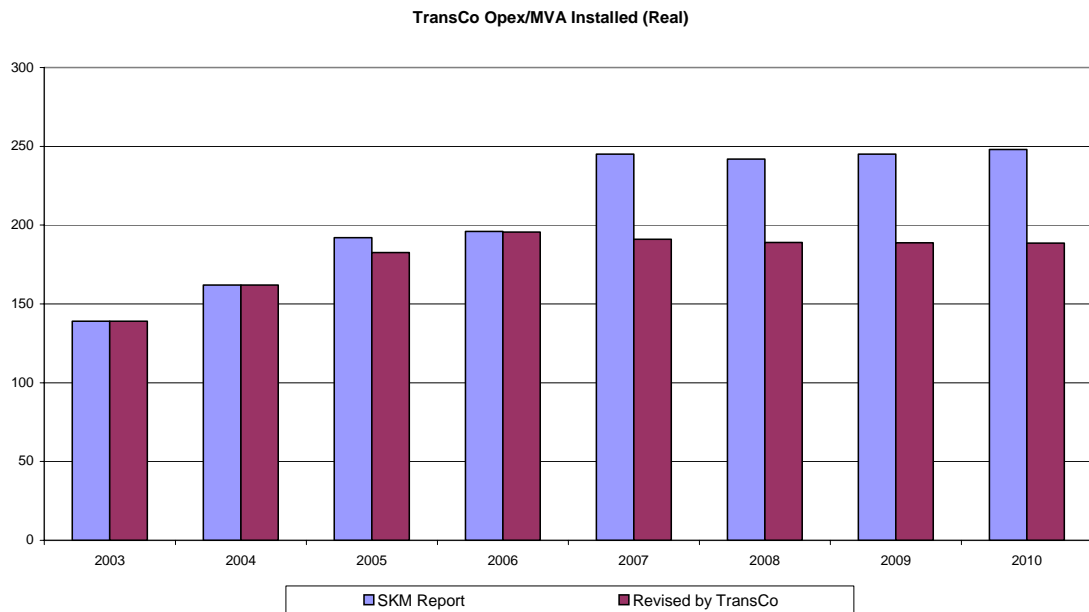
The following chart shows opex expenditure as a proportion of the replacement cost value of TransCo's assets. The revised forecast shows that opex as a proportion of replacement cost falls over the Regulatory Reset period, reversing a historical trend of rising costs.



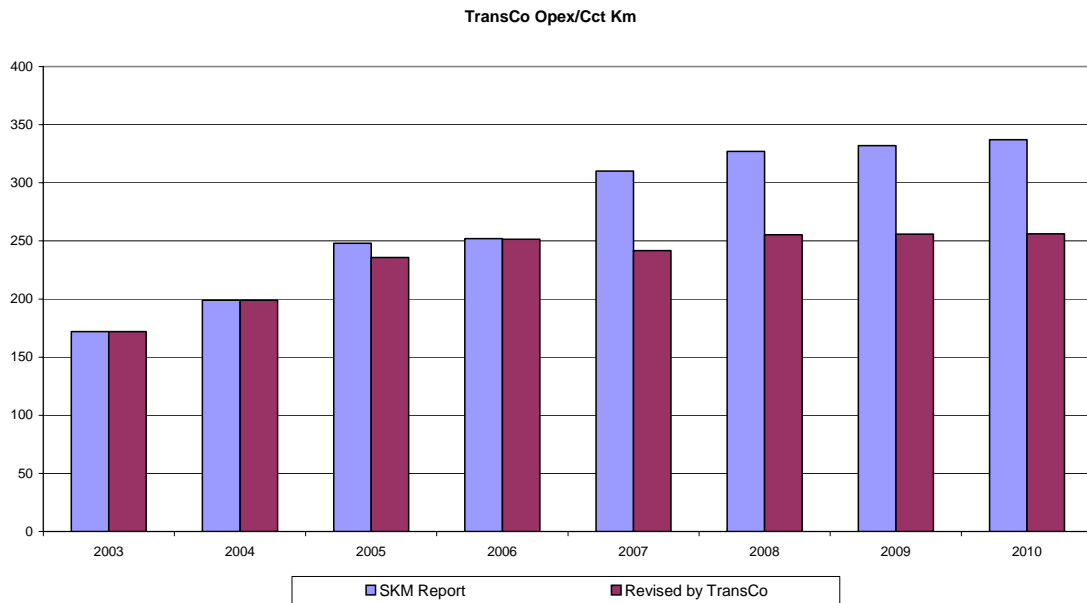
The graph below shows real opex expenditure as a proportion of the MW capacity of the transmission system. This shows real opex declining as a proportion of MW capacity, in contrast to rising costs over recent years.



Similar results are found when real opex over the forecast period is compared with installed transmission capacity measured on an MVA basis.



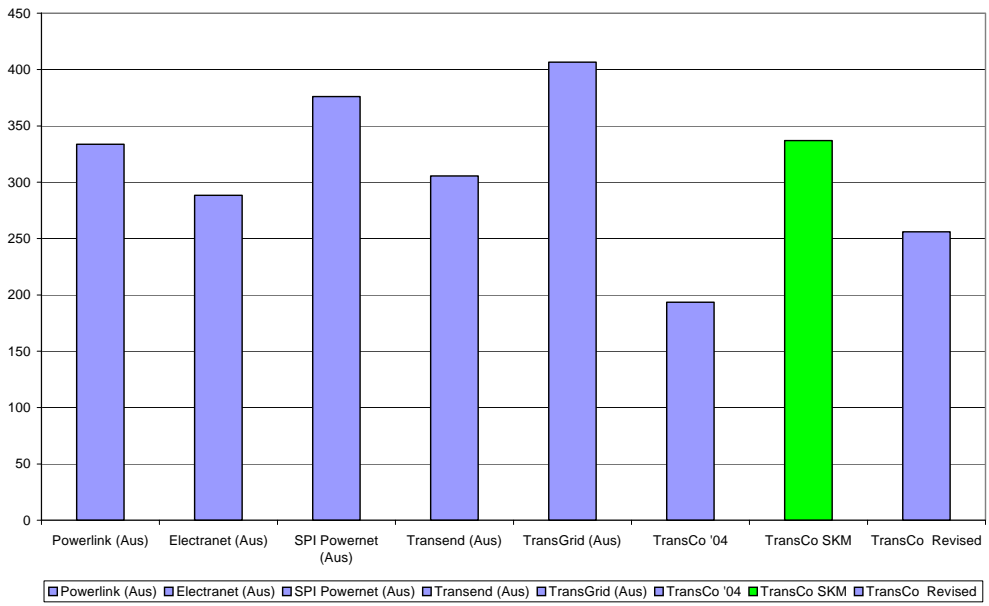
TransCo's revised opex forecasts also show efficiency gains when compared against circuit kilometres.



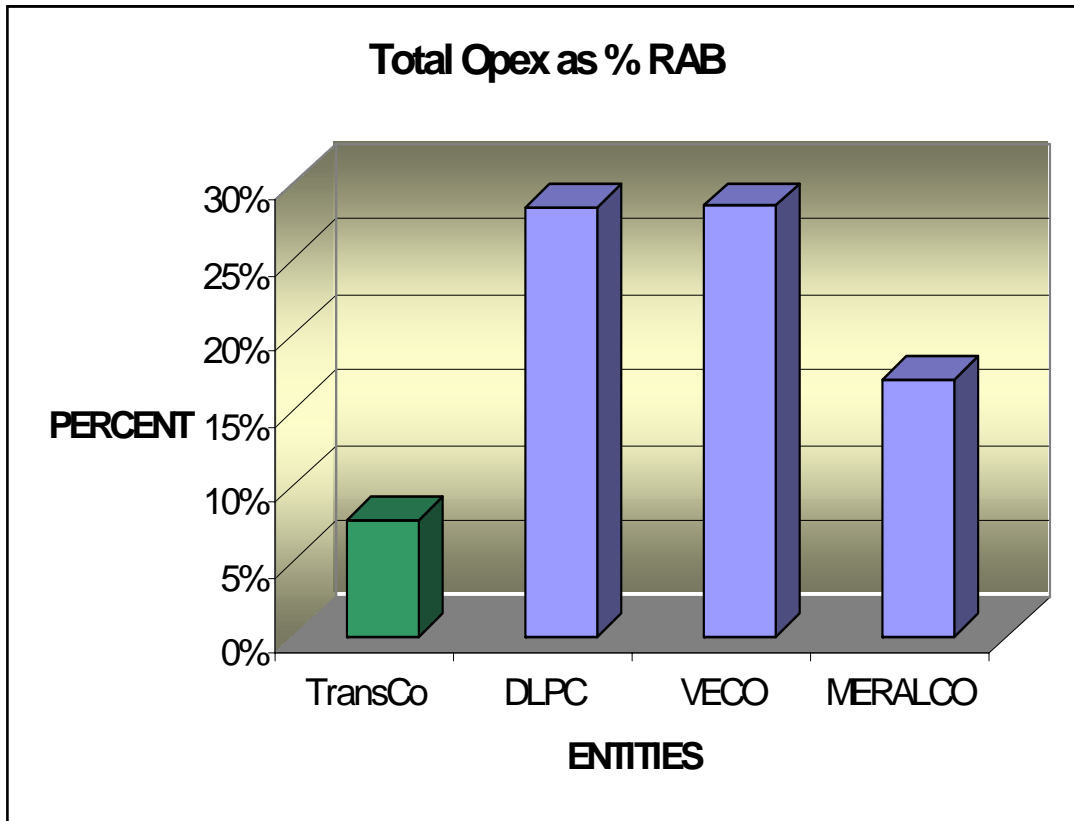
3. Performance Relative to Other Firms

The following graph shows that TransCo continues to compare very favorably in terms of opex per kilometer, when contrasted with transmission companies in other jurisdictions for which data was available.

Opex/Km - 2004 - 2010



TransCo also compares very favorably with other Philippine network companies.



COMPREHENSIVE REPORT ON THE NATIONAL TRANSMISSION CORPORATION'S COMPENSATION VIS-À-VIS THE MERCER REMUNERATION REPORT

BACKGROUND:

- TransCo's present pay level was compared with that of the other Power Utilities Companies (PUC's) using the 2004 Mercer Total Remuneration Survey.
- Fifteen (15) participating companies under the Energy Industry Group in the Philippines, are as follows:
 1. Asea Brown Boveri Inc.
 2. CBK Power Company Ltd.
 3. CE Luzon Geothermal Power Company
 4. East Asia Power Diesel Corporation
 5. Forum Exploration Inc.
 6. Intergen Management Services (Phils) Inc. (Quezon Power)
 7. Mirant Philippines Energy Corporation
 8. Northern Mindanao Power Corporation (Alto Power Management Corp.)
 9. Philippine Geothermal Inc.
 10. PNOC – Energy Development Corporation
 11. PNOC – Exploration Corporation
 12. San Roque Power Corporation
 13. STEAG State Power Inc.
 14. Subic Power Corporation
 15. Wartsila Philippines Inc.
- As shown in the attached line graphs (Annexes A1-A4), the survey indicates that as of December 2004, TransCo's Annual Total Remuneration (ATR) and Annual Base Salary (ABS) lag behind the 2004 ATR and ABS of the participating companies.

MANPOWER TURNOVER:

- A number of employees have opted to leave TransCo. Most of them look for opportunities outside the country where they can utilize their expertise. Statistics show that **99** employees have already filed their voluntary resignation where **70%** of them migrated in Canada, US, Australia and other countries.

- Twenty-two (22) linemen resigned from the service. They were hired by an international company who offered a minimum of P120,000 salary per month. This is 486% higher than what they are receiving in TransCo.
- TransCo serves a vital role in boosting Philippine economy. Losing highly trained and skilled workforce will be detrimental to the operations of TransCo. The effort to train new recruits may be costly to TransCo.
- To ensure the retention of technical people and attract the best in the industry, there is therefore a need to upgrade the compensation of employees and corporate officials of the National Transmission Corporation (TransCo) at rates comparable with those prevailing in the energy industry group.

BENCHMARKING PROCEDURES:

1. In coming up with a precise data for a competitive compensation plan for TransCo, a benchmark on the current position of TransCo vis-à-vis that of the energy companies insofar as compensation is concerned has been undertaken.
2. TransCo purchased the 2004 Total Remuneration Survey (TRS) of the William H. Mercer HR Consulting Firm. For 2005, TransCo participated in the 2005 TRS.
3. Gathering of reliable compensation and benefits profile was provided by the different HR personnel of the participating companies.
4. William M. Mercer HR Consulting Firm conducts a yearly Total Remuneration Survey for the Philippine Energy Industry. They offer compensation and benefits survey that analyzes data in terms of annual base and total cash including total remuneration and employment cost, which provide the following information:
 - a. base pay, allowance, incentive/bonuses and cash/non-cash benefits information on the industry's benchmark positions;
 - b. analysis by revenue and manpower size, geographic responsibility and industry segment; and
 - c. features to select own target peer group and conduct automated analysis vis-à-vis other organization.

5. We used to benchmark TransCo positions vis-à-vis position class provided in the survey by matching the job qualification and responsibilities.

SURVEY RESULT VIS-À-VIS TRANSCO COMPENSATION PROFILE:

- The 2004 survey statistics provided in the said Regressed Market Report maybe used in determining the appropriate compensation adjustment in TransCo.
- Table below provides the TransCo's compensation vis-à-vis the 2004 and projected 2005 ATR and ABS of the participating energy companies:

2004:

Area	On the Average TransCo is ___% H/L		
	25 th Percentile	Market Regressed Line (MRL)	75 th Percentile
Annual Total Remuneration <i>(The total of all cash items plus the value of the long term incentives plus the value of all benefits for the individuals position).</i>	60% Lower	115% Lower	193% Lower
Annual Base Salary <i>(Annual base salary plus annual fixed bonuses).</i>	46% Lower	93% Lower	148% Lower

2005 with projected 10% Increase:

Area	On the Average TransCo is ___% H/L		
	25 th Percentile	Market Regressed Line (MRL)	75 th Percentile
Annual Total Remuneration <i>(The total of all cash items plus the value of the long term incentives plus the value of all benefits for the individuals position).</i>	76% Lower	136% Lower	222% Lower
Annual Base Salary <i>(Annual base salary plus annual fixed bonuses).</i>	60% Lower	112% Lower	173% Lower

Annexes B to D show the data on pay analysis to determine TransCo's position vis-à-vis the Energy Industry Group.

RECOMMENDED ADJUSTMENT OF TRANSCO'S COMPENSATION:

- Increase PS assumptions that will close the gap of current TransCo level from the privately-owned Energy Industry group.
- Proposed compensation adjustment shall be based on the Mercer report adopting either the 25th, MRL, 75TH percentile and 10% of current TransCo level effective 2005 and thereafter. HR recommendation is to adopt the base pay at the MRL or 50th percentile.

REVISED BASIC PAY RATES AND PERSONAL SERVICES:

Highlights of the revised proposal are as follows:

1. Basic pay for 2007 is increased at 100% from the current level. Based on the 2002 average basic pay in NPC, if we project an annual 10% adjustment up to 2007, the proposed 100% increase approximates the 2007 NPC pay plan. The 10% adjustment is on the conservative assumption considering that NPC on the average adjust at around 14% on the average (e.g. 1 step-5.5% for S, 2 steps-11% for low VS, 3 steps-16.5% for High VS and 4 steps-22% for Outstanding performer)
2. Provision for rice subsidy allowance, commuter's allowance and 20% RATA for JG 15 and above. (Section Chief of CBK is receiving 15,000 RATA)
3. Fixed 10% Provident Fund employer share instead of the targeted 15% by 2010.

The revised personal services assumption will result only to 50% increase in the OPEX by 2007. The proposed basic pay for 2007 approximate only the 2004 50th percentile.