

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

**IN THE MATTER OF THE APPLICATION FOR  
APPROVAL OF THE ANNUAL REVENUE  
REQUIREMENT AND PERFORMANCE INCENTIVE  
SCHEME IN ACCORDANCE WITH THE  
PROVISIONS OF THE RULES FOR SETTING  
DISTRIBUTION WHEELING RATES (RDWR),**

**ERC CASE NO. 2008- RC**

**COTABATO LIGHT & POWER COMPANY (CLPC),**

Applicant.

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**APPLICATION**

COMES NOW, applicant COTABATO LIGHT & POWER COMPANY ("Applicant"), through the undersigned counsel, and unto this Honorable Commission, most respectfully states; that:

1. Applicant is a corporation duly organized and existing under and by virtue of the laws of the Philippines, with principal business address at Aboitiz Corporate Center, Banilad, Cebu City, where it may be served with summons and other legal processes, and with place of operations at Sinsuat Avenue, Cotabato City, Philippines, represented in this instance by its Vice President-Finance, ALVIN S. ARCO, of legal age, Filipino, married and with office address at Aboitiz Corporate Center, Banilad, Cebu City. Herein Applicant is the exclusive franchise holder issued by Congress of the Philippines /National Electrification Commission to operate electric light and power services in the City of Cotabato and part of Municipalities of Datu Odin Sinsuat and Sultan Kudarat, all in the Province of Shariff Kabunsuan.
2. Applicant will enter Performance-Based Regulation at the second entry point, as originally described in Annex B of ERC Resolution No. 12-02 Series of 2004 "Adopting a

Methodology for Setting Distribution Wheeling Rates”, dated December 10, 2004, and later amended by the Energy Regulatory Commission (“Commission” or “ERC”) to make provision for four entry points. The application submitted to the Commission is for the approval of the Annual Revenue Requirement and Performance Incentive Scheme required for the Second Regulatory Period described in the Rules for setting Distribution Wheeling Rates (RDWR) for Privately Owned Distribution Utilities entering Performance Based Regulation (Second and later Entry Points) issued by the Commission on December 13, 2006. This Second Regulatory Period commences on April 1, 2009 and terminates in March 31, 2013.

- 2a. Applicant proposes the Annual Revenue Requirement and Performance Incentive Scheme values thus approved to form the basis of the Commission’s determination of the X-factor, P<sub>0</sub>-factor and the Maximum Annual Prices that will apply to the Applicant and on which it will base its rate setting for the Second Regulatory Period.
3. Applicant has prepared its proposal as contained in this application in accordance with the conditions described in the afore-mentioned RDWR and in the implementing guidelines issued by the Commission in its Position Paper on the Regulatory Reset for the October 2008 to September 2012 Regulatory Period for Privately Owned Distribution Utilities subject to Performance Based Regulation, dated March 14, 2007 (Position Paper)<sup>1</sup>. The application submitted to the Commission made use of the methodology described in the RDWR, the Position Paper and applied the financial spreadsheet model titled Group\_B\_Model\_V0.3\_DV\_00.xls (Price-Cap Model) that was provided to the Applicant by the Commission.
4. The proposed Annual Revenue Requirement is based on the Building Block calculation described in the afore-mentioned RDWR, as set out below for each Regulatory Year and for which the Applicant is seeking the immediate approval of the Commission:

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<sup>1</sup> The dates for the Second Regulatory Period for the second entry group were amended by the Commission after publication of this document and are now as stated in paragraph 2.

**Table 1. Annual Revenue Requirement as per Building Block approach**

Building Block	Proposed revenue requirement per Regulatory Year (PhP)			
	2010	2011	2012	2013
Operating and maintenance expenditure	98,508,448	106,619,174	115,352,176	125,363,498
Taxes, levies & duties (other than corporate tax)	1,987,189	1,282,199	1,101,550	919,715
Regulatory depreciation	24,830,890	28,472,735	31,546,879	34,380,010
Return on capital	94,502,922	103,272,742	110,120,581	114,316,442
Corporate income tax	-	5,483,082	17,181,479	31,887,251
<b>TOTAL REVENUE REQUIREMENT</b>	219,829,409	245,129,932	275,302,665	307,366,916

Note : All values are in nominal terms

The meaning and application of these parameters are as described in the aforementioned RDWR.

- The afore-mentioned Annual Revenue Requirement is based on a proposed rolled-forward value of the Applicant's Regulatory Asset Base as described below. The opening value of the Regulatory Asset Base for 2009 is based on the value of the Regulatory Asset Based on December 31, 2007, as valued by the Commission and communicated to the Applicant, suitably amended to a March 31, 2009 value in accordance with the method described in the RDWR.

**Table 2. Summary of proposed Rolled-forward Regulatory Asset Base (RAB)**

ITEM	PhP for Regulatory Year			
	2010	2011	2012	2013
Opening value of RAB	652,200,511	716,584,180	779,388,553	815,513,458
plus Capital Expenditure	89,214,559	91,277,108	67,671,784	65,451,563
minus Regulatory Depreciation on asset base at start of Second Regulatory Period	20,002,199.43	20,002,199.43	20,002,199.43	20,002,199.43
minus Regulatory Depreciation on capital expenditure incurred during the Second Regulatory Period	4,828,690.58	8,470,535.10	11,544,679.32	14,377,810.16

Closing value of RAB	716,584,180	779,388,553	815,513,458	846,585,012
<b>AVERAGE VALUE OF RAB</b>	684,392,345	747,986,366	797,451,005	831,049,235

Note : All values are in nominal terms

6. For the calculation of the above-mentioned Annual Revenue Requirement and Rolled-forward Regulatory Asset Base, as instructed by the Commission, Applicant has applied the preliminary values for the parameters presented below:

**Table 2. Input values provided by the Commission**

Parameter	Date instructed by Commission	Preliminary value adopted
Construction work in progress factor (CWIP factor)	04/30/2008	For substation projects : 3.6% For other projects : 2.6%
P <sub>0</sub> -factor		0 PhP/kWh
X-factor		0
Valuation of the Applicant's regulatory asset base as at December 31,2007		PhP 556,277,299.00
Working-capital proportion		8%

The meaning and application of these parameters are as described in the aforementioned RDWR.

7. In calculating the afore-mentioned Annual Revenue Requirement for the Second Regulatory Period, the Applicant made use of the estimated Philippine Consumer Price Index, United States of America Consumer Price Index and Philippine Peso/United States dollar exchange rate figures below (figures provided for calendar years and converted to regulatory years):

**Table 3a. Forecast Change in the Consumer Price Index for the Philippines**

	2008	2009	2010	2011	2012	2013
Calendar Year	4.0%	3.6%	3.5%	3.4%	3.4%	3.4%
Regulatory Year		3.9%	3.6%	3.5%	3.4%	3.4%
Data source :	Bangko Sentral ng Pilipinas					

**Table 3b. Forecast Change in the Consumer Price Index for the United States of America**

	2008	2009	2010	2011	2012	2013
Calendar Year	2.9%	2.0%	2.4%	2.4%	2.4%	2.4%
Regulatory Year		2.7%	2.1%	2.4%	2.4%	2.4%

Data source :	US Bureau of Labour, Us City average series CUUR000SAO
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**Table 3c. Forecast PhP/US\$ Exchange Rate (average for the year)**

Quarter ending	2008	2009	2010	2011	2012	2013
Calendar Year	41.20	42.10	42.00	42.30	42.00	42.00
Regulatory Year		41.43	42.08	42.08	42.23	42.00
Data source :	Bangko Sentral ng Pilipinas					

- 7a. For the purposes of the initial and subsequent annual price resets during the Second Regulatory Period as required in terms of the RDWR, the Applicant will update the aforementioned Consumer Price Indices and foreign exchange rates with actual values in accordance with the RDWR and will use such updated values for the price resets.
8. The afore-mentioned Annual Revenue Requirement is in part based on a proposed rate of return of 13.65% per annum. This rate of return corresponds with the Regulatory Weighted Average Cost of Capital allowed in terms of the Commission's Final Determination on the price control arrangements for utilities entering Performance Based Regulation at the first entry point. The Applicant recognizes that the Commission will revise the actual Weighted Average Cost of Capital that will apply in its Final Determination of the price control arrangements for the Second Regulatory Period for the second entry group and that this may differ from the figure used in this Revenue Application.
9. Allowance has been made in accordance with the RDWR to include assets used beyond their standard lives in the Regulatory Asset Base, at a value equal to 5% of their optimized replacement cost.
10. The proposed Capital Expenditure included in the afore-mentioned calculation of the Rolled-forward Regulatory Asset Base is as demonstrated below:

**Table 4. Proposed Capital Expenditure (per regulatory year)**

ITEM Capex Category	NOMINAL PESO				
	2009	2010	2011	2012	2013
<b>A REGULATED DISTRIBUTION SERVICES ASSETS</b>					
A1 Regulated Distribution Services Assets – Network assets					

ITEM	NOMINAL PESO				
	2009	2010	2011	2012	2013
<b>Capex Category</b>					
Land and Land Rights	-	-	4,259,288.62	-	-
Structures and Improvements	-	2,262,558.95	8,118,079.66	259,135.35	-
Station Equipment	-	-	-	-	-
Power transformers	-	-	3,183,395.14	-	-
Switchgear	5,665,232.03	3,866,779.33	6,286,188.35	5,610,442.57	-
Protective equipment	3,730,708.39	223,773.64	3,630,385.87	183,701.80	-
Metering & control equipment	61,588.65	-	829,196.95	111,916.04	-
Communications equipment	-	104,424.36	108,105.31	-	115,721.18
Other station equipment	2,666,137.69	506,520.41	1,654,192.70	-	-
Poles, Towers and Fixtures	4,789,948.85	6,070,855.17	5,890,829.20	5,976,264.89	5,522,229.38
Overhead Conductors and Devices	10,512,625.31	10,277,222.27	9,432,142.95	9,292,440.15	9,018,865.23
Power Plant	1,504,270.15	786,101.32	3,471,887.90	5,806,245.82	4,511,335.51
Underground Conductors and Devices	-	-	-	-	-
Line (distribution) Transformers	7,329,966.03	7,609,803.34	8,019,950.88	8,246,072.36	8,359,837.30
Power Conditioning Equipment	47,628.85	388,625.05	402,326.59	416,506.03	632,773.00
Meters, Instruments & Metering Transformers	9,967,402.41	15,261,268.15	13,673,654.61	14,179,925.38	14,704,589.93
Information Technology Equipment	-	-	-	-	-
Regulated Entity Property on Consumer's Premises	-	-	-	-	-
Street Lights and Signal Systems	558,118.80	1,393,938.79	1,443,316.34	1,481,979.99	1,495,635.88
Submarine Cables	-	-	-	-	-
<b>A2 Regulated Distribution Services Assets – Non-network fixed assets</b>					
Land and Land Rights	-	-	-	-	-
Structures and Improvements	845,095.53	10,488,099.55	13,753,684.45	10,897,503.51	15,762,338.24
Office Furniture and Equipment	-	52,876.76	54,740.66	56,615.52	58,540.45
Transportation Equipment	6,259,829.49	7,150,253.97	1,854,837.38	792,617.31	-
Stores Equipment	-	-	-	-	-
Tools, Shop and Garage Equipment	1,371,531.74	176,722.72	1,221,886.11	189,401.27	195,840.91
Laboratory Equipment	-	-	-	-	-
Information Systems Equipment	1,279,617.71	5,056,816.37	3,989,018.00	4,171,015.96	5,062,148.26

ITEM	NOMINAL PESO				
	2009	2010	2011	2012	2013
<b>Capex Category</b>					
Power-operated Equipment	-	-	-	-	-
Communication Plant and Equipment	-	10,575.35	-	-	11,708.09
Miscellaneous Equipment		-	-	-	-
<b>A3 Regulated Distribution Services Assets – Materials and supplies, including spares</b>	-	-	-	-	-
<b>A4 Regulated Distribution Services Assets – Transferred Subtransmission Assets</b>	-	17,527,343.53	-	-	-
<b>Subtotal A</b>	56,589,702	89,214,559	91,277,108	67,671,784	65,451,563
<b>B DISTRIBUTION CONNECTION SERVICES ASSETS</b>					
<b>B1 Distribution Connection Services Assets – Network assets</b>					
Poles, Towers and Fixtures					
Overhead Conductors and Devices					
Underground Conduits					
Underground Conductors and Devices					
Line (distribution) Transformers					
Information Systems Equipment					
<b>B2 Distribution Connection Services Assets – Non-network fixed assets</b>					
Land and Land Rights					
Structures and Improvements					
Office Furniture and Equipment					
Transportation Equipment					
Stores Equipment					
Tools, Shop and Garage Equipment					
Laboratory Equipment					
Information Systems Equipment					
Power-operated Equipment					
Communication Plant and					

ITEM Capex Category	NOMINAL PESO				
	2009	2010	2011	2012	2013
Equipment					
Miscellaneous Equipment					
<b>B3 Distribution Connection Services Assets – Materials and supplies, including spares</b>					
<b>Subtotal B</b>					
<b>C REGULATED RETAIL SERVICES ASSETS</b>					
<b>C Regulated Retail Services Assets</b>					
Meters, Instruments & Metering Transformers					
Land and Land Rights					
Structures and Improvements					
Office Furniture and Equipment					
Transportation Equipment					
Stores Equipment					
Tools, Shop and Garage Equipment					
Laboratory Equipment					
Information Systems Equipment					
Communication Plant and Equipment					
Miscellaneous Equipment					
<b>Subtotal C</b>					
<b>TOTAL</b>	56,589,702	89,214,559	91,277,108	67,671,784	65,451,563

10a. The above-mentioned proposed Capital Expenditure is increased from current levels due to projected capital expenditure for the purchase of subtransmission assets from the National Transmission Corporation (TRANSCO) and construction of a new substation and other improvements required to meet customer growth and ensure continued reliable service. The increase is also partly due to a projected capital expenditure for construction of new buildings which Applicant has not undertaken for

more than fifty (50) years. A detailed explanation of the increase in the proposed Capital Expenditure is attached as Schedule C1.4.

11. The proposed Operating & Maintenance Expenditure included in the afore-mentioned calculation of the Annual Revenue Requirement is as demonstrated below:

**Table 5. Proposed Operating & Maintenance Expenditure (per regulatory year)**

Opex Category and Sub-category	Nominal PhP				
	2009	2010	2011	2012	2013
<b>A REGULATED DISTRIBUTION SERVICES</b>					
<b>A1. Distribution : Operation</b>					
Operation supervision & engineering	4,301,317	5,082,752	5,714,743	6,368,083	7,098,895
Load dispatching	2,040,034	2,495,190	2,821,030	3,162,500	3,557,426
Structures	0	0	0	0	0
Substations	3,051,397	3,763,993	3,714,604	4,217,461	4,250,477
Overhead conductors & devices	4,885,299	5,880,791	6,334,884	6,822,617	7,366,212
Underground cables & devices	0	0	0	0	0
Line (distribution) transformers					
Streetlighting	777,592	155,524	161,007	166,691	172,358
Metering (network related only)	0	0	0	0	0
Line (distribution) transformers	0	0	0	0	0
Rents	0	0	0	0	0
Information technology	0	0	0	0	0
Miscellaneous	1,960,819	2,135,920	2,910,449	1,976,002	2,123,414
<b>A2. Distribution : Maintenance</b>					
Maintenance supervision & engineering	2,459,136	2,888,524	3,289,379	3,742,244	4,256,428
Structures	190,158	178,628	186,774	195,103	203,755
Substations	1,097,698	1,329,942	1,357,123	1,445,185	1,548,923
Overhead conductors & devices	1,516,244	1,574,628	1,630,133	1,828,228	1,890,388
Underground cables & devices	0	0	0	0	0
Street-lighting	307,644	280,132	290,006	300,229	250,203
Line (distribution) transformers	61,911	63,067	65,290	67,589	69,887
Information technology	0	0	0	0	0
Metering	0	0	0	0	0
Miscellaneous	131,041	276,722	311,594	338,810	363,508
<b>A3. Administrative &amp; General</b>					
Admin & general salaries	3,112,098	3,066,311	3,466,679	3,919,304	4,441,754
Office supplies & expenses	1,976,446	2,289,981	2,434,315	2,592,655	2,762,668
Information technology	800,937	886,168	1,004,434	1,149,602	1,289,160
Outside services employed	18,191,911	18,859,882	20,475,597	22,227,776	24,145,863
Property insurance	109,638	104,473	108,156	111,860	115,663
Injuries & damages	939,948	1,010,006	1,021,588	1,103,758	1,120,347
Employee pension & benefits	6,165,841	8,109,824	9,020,148	9,969,256	11,071,348

Opex Category and Sub-category	Nominal PHP				
	2009	2010	2011	2012	2013
Regulatory liaison and compliance	1,496,052	1,586,303	1,642,220	1,698,466	1,756,214
Rents	5,062,825	4,559,649	5,192,413	5,907,278	6,718,939
Maintenance of office & general plant	2,295,200	3,464,327	3,082,026	3,514,065	3,580,518
Officers allowance & benefits	465,420	597,768	650,248	707,645	770,837
Travel	4,740,420	5,143,891	5,705,352	6,177,349	6,870,722
Training	2,380,518	2,540,433	2,366,352	2,210,243	2,370,190
Miscellaneous	1,582,843	1,411,438	1,553,987	1,721,627	1,897,986
WESM compliance (applicable to Regulated Distribution Services)					
Registration fees					
Metering fees					
Billing & settlement fees					
Costs for the PEM board, committees & working groups					
Market management software					
<b>Subtotal A</b>	72,100,387	79,736,267	86,510,530	93,641,625	102,064,083
<b>B DISTRIBUTION CONNECTION SERVICES</b>					
<b>B1. Connection Services: Operation</b>					
Operation supervision & engineering					
Load dispatching					
Structures					
Overhead conductor & devices					
Underground cables & devices					
Consumer installations					
Line (distribution) transformers					
Information technology					
<b>B2. Connection Services: Maintenance</b>					
Supervision & engineering					
Structures					
Overhead conductors & devices					
Underground cables & devices					
Consumer installations					
Line (distribution) transformers					
Information technology					
Miscellaneous					
<b>B3. Administrative &amp; General</b>					
Admin & general salaries					
Office supplies & expenses					
Information technology					
Outside services employed					
Property insurance					
Injuries & damages					
Employee pension & benefits					
Regulatory liaison and compliance					
Rents					
Maintenance of office & general plant					

Opex Category and Sub-category	Nominal PhP				
	2009	2010	2011	2012	2013
Officers allowance & benefits					
Travel					
Training					
Miscellaneous					
<b>Subtotal B</b>					
<b>C REGULATED RETAIL SERVICES</b>					
Administration & management	5,611,026	5,973,537	6,759,418	7,598,143	8,553,723
Planning, installation and maintenance of consumer metering installations	4,121,666	4,840,460	4,935,697	5,237,029	5,394,956
Meter reading expenses	1,069,179	1,133,497	1,208,656	1,287,555	1,371,271
Information technology	0	0	0	0	0
Consumer records, billing & collection	3,915,553	4,040,364	4,320,304	4,602,260	4,890,100
Bad debts	611,882	2,538,084	2,627,552	2,717,545	2,809,942
Informational & instructional advertising	194,121	202,809	212,058	221,513	231,335
Energy trading expenses (excluding energy purchases)	0	0	0	0	0
Consumer prompt payment discounts	0	0	0	0	0
Miscellaneous	40,079	43,430	44,960	46,506	48,087
<b>Subtotal C</b>	<b>15,563,507</b>	<b>18,772,181</b>	<b>20,108,644</b>	<b>21,710,550</b>	<b>23,299,415</b>
<b>TOTAL</b>	<b>87,663,894</b>	<b>98,508,448</b>	<b>106,619,174</b>	<b>115,352,176</b>	<b>125,363,498</b>

11a. The above-mentioned proposed Operating and Maintenance expenditures are increased from current levels due mainly to upgrading of distribution equipment required to meet performance standards , salary related increases mandated by the collective bargaining agreement of the Applicant with its labor union, and increase in management fees which is revenue related. A detailed explanation of the increase in the proposed Operating and Maintenance expenditure is attached as Schedule "G1.4".

12. The proposed expenditure on Taxes, Levies & Duties (other than corporate income tax) included in the afore-mentioned calculation of the Annual Revenue Requirement is as demonstrated below:

**Table 6. Summary of proposed Taxes, Levies & Duties (other than corporate income tax) expenditure (per Regulatory Year)**

	Nominal PhP				
	2009	2010	2011	2012	2013
<b>Levies</b>	142,428	1,189,922	550,577	289,480	163,518
<b>Duties</b>	562,280	664,716	578,043	681,539	591,958

	Nominal PhP				
	2009	2010	2011	2012	2013
<b>Other taxes</b>	143,057	132,550	153,579	130,532	164,240
<b>TOTAL</b>	847,765	1,987,189	1,282,199	1,101,550	919,715

12a. Majority of the increase in the above-mentioned proposed taxes, levies & duties (other than corporate income taxes) relates to capital expenditures and consultancy fees.

13. The proposed Depreciation included in the afore-mentioned calculation of the Annual Revenue Requirement, including an allowance for assets intended to be disposed of during the Second Regulatory Period after allowing for any potential income from the sales of such disposed assets, is as demonstrated below. These values include depreciation on the Applicant's Regulatory Asset Base as at the start of the Second Regulatory Period, as well as depreciation on those assets proposed to be acquired during the Second Regulatory Period.

**Table 7. Summary of proposed Depreciation (per Regulatory Year)**

ITEM Depreciation Category	NOMINAL PESO				
	2009	2010	2011	2012	2013
<b>A REGULATED DISTRIBUTION SERVICES ASSETS</b>					
<b>A1 Regulated Distribution Services Assets – Network assets</b>					
Land and Land Rights	-	-	-	-	-
Structures and Improvements	-	56,563.97	259,515.97	265,994.35	265,994.35
Station Equipment		-	-	-	-
Power transformers	978,672.73	978,672.73	1,049,414.85	1,049,414.85	1,049,414.85
Switchgear	596,322.18	725,214.83	934,754.44	1,121,769.19	1,121,769.19
Protective equipment	372,996.05	380,455.17	501,468.03	507,591.43	507,591.43
Metering & control equipment	176,386.86	176,386.86	204,026.75	207,757.29	207,757.29
Communications equipment	-	10,442.44	21,252.97	21,252.97	32,825.08
Other station equipment	258,295.60	283,621.62	366,331.26	665,144.50	665,144.50
Poles, Towers and Fixtures	3,350,521.09	3,471,938.19	3,589,754.78	3,589,754.78	3,700,199.37
Overhead Conductors and Devices	1,053,336.95	1,346,971.88	1,616,461.67	1,881,959.97	2,139,641.83
Power Plant	654,404.49	671,873.41	749,026.47	878,054.16	978,306.06
Underground Conductors and Devices	-	-	-	-	-
Line (distribution) Transformers	2,390,450.28	2,607,873.23	2,837,014.68	3,072,616.75	3,311,469.25
Power Conditioning Equipment	103,867.73	116,821.90	130,232.79	144,116.32	165,208.76

ITEM Depreciation Category	NOMINAL PESO				
	2009	2010	2011	2012	2013
Services					
Meters, Instruments & Metering Transformers	3,662,188.07	4,284,728.10	4,842,505.95	5,420,935.68	6,020,767.61
Information Technology Equipment	-	-	-	-	-
Regulated Entity Property on Consumer's Premises	-	-	-	-	-
Street Lights and Signal Systems	546,421.01	592,885.64	640,996.19	690,395.52	740,250.05
Submarine Cables	-	-	-	-	-
<b>A2 Regulated Distribution Services Assets – Non-network fixed assets</b>					
Land and Land Rights	-	-	-	-	-
Structures and Improvements	852,728.87	1,114,931.36	1,458,773.47	1,731,211.06	2,125,269.51
Office Furniture and Equipment	91,142.74	96,430.41	101,904.48	107,566.03	113,420.08
Transportation Equipment	3,263,257.28	4,721,628.66	5,099,942.74	5,261,605.59	5,261,605.59
Stores Equipment	-	-	-	-	-
Tools, Shop and Garage Equipment	437,411.84	446,422.96	508,727.17	518,384.78	528,370.75
Laboratory Equipment	343,446.72	343,446.72	343,446.72	343,446.72	343,446.72
Information Systems Equipment	754,009.58	1,785,401.79	2,599,005.02	3,449,728.69	4,482,208.40
Power-operated Equipment	-	-	-	-	-
Communication Plant and Equipment	74,361.78	75,419.31	75,419.31	75,419.31	76,590.12
Miscellaneous Equipment	41,977.58	41,977.58	41,977.58	41,977.58	41,977.58
<b>A3 Regulated Distribution Services Assets – Materials and supplies, including spares</b>	-	-	-	-	-
<b>A4 Regulated Distribution Services Assets – Transferred Subtransmission Assets</b>	-	500,781.24	500,781.24	500,781.24	500,781.24
<b>Subtotal A</b>	20,002,199.43	24,830,890.02	28,472,734.54	31,546,878.75	34,380,009.59
<b>B DISTRIBUTION CONNECTION SERVICES ASSETS</b>					
<b>B1 Distribution Connection Services Assets – Network assets</b>					

ITEM Depreciation Category	NOMINAL PESO				
	2009	2010	2011	2012	2013
Poles, Towers and Fixtures					
Overhead Conductors and Devices					
Underground Conduits					
Underground Conductors and Devices					
Line (distribution) Transformers					
Information Systems Equipment					
<b>B2 Distribution Connection Services Assets – Non-network fixed assets</b>					
Land and Land Rights					
Structures and Improvements					
Office Furniture and Equipment					
Transportation Equipment					
Stores Equipment					
Tools, Shop and Garage Equipment					
Laboratory Equipment					
Information Systems Equipment					
Power-operated Equipment					
Communication Plant and Equipment					
Miscellaneous Equipment					
<b>B3 Distribution Connection Services Assets – Materials and supplies, including spares</b>					
<b>Subtotal B</b>					
<b>C DISTRIBUTION CONNECTION SERVICES ASSETS</b>					
<b>C Distribution Connection Services Assets</b>					
Meters, Instruments & Metering Transformers					
Land and Land Rights					
Structures and Improvements					
Office Furniture and Equipment					
Transportation Equipment					
Stores Equipment					

ITEM Depreciation Category	NOMINAL PESO				
	2009	2010	2011	2012	2013
Tools, Shop and Garage Equipment					
Laboratory Equipment					
Information Systems Equipment					
Communication Plant and Equipment					
Miscellaneous Equipment					
<b>Subtotal C</b>					
<b>Forecast disposal of assets</b>					
<b>TOTAL</b>	20,002,199.43	24,830,890.02	28,472,734.54	31,546,878.75	34,380,009.59

13a. The afore-mentioned depreciation is calculated on a straight-line basis, based on the standard asset lives approved by the Commission where these are available.

14. The proposed Corporate Income Tax included in the afore-mentioned calculation of the Annual Revenue Requirement is based on a Philippines corporate tax rate of thirty percent (30%) and is calculated as demonstrated below:

**Table 8. Summary of proposed Corporate Income Tax (per Regulatory Year)**

	2010	2011	2012	2013
<b>Corporate Tax (nominal PhP)</b>	-	5,483,082	17,181,479	31,887,251

15. The calculation of the afore-going proposed Corporate Income Tax is based on the forecast sales of energy as demonstrated below:

**Table 9. Summary of forecast energy consumption (per Regulatory Year)**

	2009	2010	2011	2012	2013
<b>Energy consumption (MWh)</b>	123,266	127,862	132,457	137,051	141,647

16. The estimates of the afore-mentioned energy sales are based on the following forecast co-incident, annual, sustained peak demand on the whole distribution network:

**Table 10. Summary of forecast peak demand (per Regulatory Year)**

	2009	2010	2011	2012	2013
<b>Demand (MW)</b>	26,585	27,097	27,607	28,118	28,627

17. The calculation of the afore-mentioned Corporate Income Tax is based on an estimated price-path for the Second Regulatory Period that was determined using the afore-mentioned proposed Allowed Annual Revenue and an assumed zero X-factor and  $P_0$ -factor. The estimated Maximum Annual Prices thus calculated for the Second Regulatory Period is as demonstrated below:

**Table 11. Assumed Maximum Annual Prices for the Second Regulatory Period**

	2010 Regulatory year	2011 Regulatory year	2012 Regulatory year	2013 Regulatory year
<b>Maximum Annual Price (PhP/kWh)</b>	1.4195	1.7401	2.1313	2.6105

- 16a. The Applicant recognizes that the Commission will determine the actual X-factor and  $P_0$ -factor after its consideration of this application for Allowed Annual Revenue and will determine the actual price-path for the Second Regulatory Period after incorporating such amendments to these proposals as the Commission deems necessary. As part of its consideration the Commission may also amend one or more of the parameters on which the calculations of the Allowed Annual Revenue are based. The actual approved price path is therefore likely to differ from that estimated above.

18. Since the Maximum Average Prices calculated under Performance-Based Regulation are not directly comparable with unbundled rates, for illustrative purposes the Applicant has prepared a comparison of its current rates for providing distribution wheeling services with those that would result from the implementation of the afore-mentioned estimated Maximum Annual Prices. This is presented below:

**Table 12. Comparison of estimated rates with current rates (illustrative only)**

	Current Rates	Illustrative Rates (2010)	Illustrative Rates (2011)	Illustrative Rates (2012)	Illustrative Rates (2013)
<b>Customer Class</b>					
<b>Residential</b>					
Distribution (PhP/kWh)	0.8538	1.1328	1.3960	1.7184	2.1146
Supply (PhP/kWh)	0.2422	0.3058	0.3777	0.4657	0.5742
Metering (PhP/kWh)	0.4442	0.5927	0.7376	0.9149	1.1330
Metering (PhP/customer/month)	5.00	5.00	5.00	5.00	5.00

Inter-class cross-subsidy (PhP/kWh)	-	-	-	-	-
Total PhP/kWh	1.5402	2.0313	2.5113	3.099	3.8218
Total PhP/customer/month	5.00	5.00	5.00	5.00	5.00
<b>Average PhP/kWh distribution wheeling rate</b>	<b>1.5715</b>	<b>2.0613</b>	<b>2.5412</b>	<b>3.1289</b>	<b>3.8516</b>
<b>Gen Retail Service 1 [<math>\leq 20</math> kW]</b>					
Distribution (PhP/kWh)	0.6269	0.8317	1.0250	1.2617	1.5526
Supply (PhP/kWh)	0.0939	0.1186	0.1464	0.1806	0.2226
Metering (PhP/customer/month)	314.59	536.25	672.11	841.01	1,051.54
Inter-class cross-subsidy (PhP/kWh)	-	-	-	-	-
Total PhP/kWh	0.7208	0.9503	1.1714	1.4423	1.7752
Total PhP/customer/month	314.59	536.25	672.11	841.01	1,051.54
<b>Average PhP/kWh distribution wheeling rate</b>	<b>1.4847</b>	<b>1.9269</b>	<b>2.3326</b>	<b>2.8247</b>	<b>3.4240</b>
<b>Gen Retail Service 2 [<math>\geq 20</math> kW &amp; <math>\leq 40</math> kW]</b>					
Distribution (PhP/kWh)	0.2560	0.3396	0.4186	0.5152	0.6340
Distribution demand charge (PhP/kW)	80.92	104.57	128.70	158.23	194.50
Supply (PhP/customer/month)	38.67	51.50	62.67	76.38	93.10
Metering (PhP/customer/month)	544.19	927.63	1,162.64	1,454.81	1,819.00
Inter-class cross-subsidy (PhP/kWh)	-	-	-	-	-
Total PhP/kWh	0.2560	0.3396	0.4186	0.5152	0.6340
Total PhP/kW	80.92	104.57	128.70	158.23	194.50
Total PhP/customer/month	582.86	979.13	1,225.31	1,531.19	1,912.10
<b>Average PhP/kWh distribution wheeling rate</b>	<b>0.7108</b>	<b>0.9215</b>	<b>1.1266</b>	<b>1.3766</b>	<b>1.6824</b>
<b>Gen Retail Service 3 [<math>&gt; 40</math> kW &amp; <math>\leq 200</math> kW]</b>					
Distribution Charge (PhP/kWh)	0.2309	0.3063	0.3775	0.4647	0.5719
Distribution (PhP/kW)	79.31	102.48	126.14	155.09	190.63
Supply (PhP/customer/month)	38.67	51.50	62.67	76.38	93.10
Metering (PhP/customer/month)	544.19	927.63	1,162.64	1,454.81	1,819.00
Inter-class cross-subsidy (PhP/kWh)	-	-	-	-	-
Total PhP/kWh	0.2309	0.3063	0.3775	0.4647	0.5719
Total PhP/kW	79.31	102.48	126.14	155.09	190.63
Total PhP/customer/month	582.86	979.13	1,225.31	1,531.19	1,912.10
<b>Average PhP/kWh distribution wheeling rate</b>	<b>0.5279</b>	<b>0.7279</b>	<b>0.8903</b>	<b>1.0878</b>	<b>1.3292</b>
<b>Gen Retail Service 4 [<math>&gt; 200</math> kW]</b>					
Distribution (PhP/kWh)	0.2078	0.2757	0.3398	0.4182	0.5147

Distribution (PhP/kW)	78.54	101.49	124.92	153.58	188.78
Supply (PhP/customer/month)	38.67	51.50	62.67	76.38	93.10
Metering (PhP/customer/month)	2,188.81	3,731.08	4,676.32	5,851.44	7,316.26
Inter-class cross-subsidy (PhP/kWh)	-	-	-	-	-
Total PhP/kWh	0.2078	0.2757	0.3398	0.4182	0.5147
Total PhP/kW	78.54	101.49	124.92	153.58	188.78
Total PhP/customer/month	2,227.48	3,782.58	4,738.99	5,927.82	7,409.36
<b>Average PhP/kWh distribution wheeling rate</b>	<b>0.4515</b>	<b>0.6357</b>	<b>0.7748</b>	<b>0.9438</b>	<b>1.1502</b>
<b>Flat Lighting Service</b>					
Distribution (PhP/kWh)	0.6557	0.8699	1.0721	1.3197	1.6240
Supply (PhP/customer/month)	38.67	51.50	62.67	76.38	93.10
Inter-class cross-subsidy (PhP/kWh)	-	-	-	-	-
Total PhP/kWh	0.6557	0.8699	1.0721	1.3197	1.6240
Total PhP/customer/month	38.67	51.50	62.67	76.38	93.10
<b>Average PhP/kWh distribution wheeling rate</b>	<b>0.6636</b>	<b>0.8815</b>	<b>1.0874</b>	<b>1.3394</b>	<b>1.6493</b>

19. The Applicant proposes to adopt a Price-Linked Performance Incentive Scheme as required in terms of the RDWR. According to this Performance Incentive Scheme the Applicant will be rewarded if the service performance levels of its electricity distribution business exceed the target levels proposed below, and will be penalized if the service performance level of its electricity distribution business falls below the proposed targets. This reward or penalty will be directly incorporated into the Maximum Annual Prices from the second year of the Second Regulatory Period onward. The proposed Price-linked Performance Incentive Scheme is based on the performance measures and performance targets demonstrated below. Stepped performance target levels are proposed, which will influence the size of the reward or penalty.

**Table 13. Summary of proposed Price-linked Performance Incentive Scheme**

Performance index	Units	Weight	Reward		Target	Penalty	
			Level A	Level B	Level C	Level D	Level E
System average interruption frequency index (SAIFI)	Number	0.20	1.23	3.3	5.37	7.44	9.5
Customer average interruption duration index (CAIDI)	/minutes	0.20	155.57	667.21	1,178.85	1,690.49	2,202.13
Planned system average interruption duration index (SAIDI)	/minutes	0.15	15.96	46.26	76.57	106.88	137.19

Probability of voltage levels falling within prescribed limits	%	0.10	2.5%	3.5%	4.5%	5.5%	6.5%
System losses	%	0.05	7%	8.5%	9.5%		
Average time to process applications for Regulated Distribution Services	Days	0.10	5	6.5	8	9.5	11
Average time to connect premises to the Regulated Distribution System	Days	0.10	2.8	3.9	5	6.1	7.2
Average time to answer calls at call centre	seconds	0.10	N/A	N/A	N/A	N/A	N/A

20. The Applicant proposes to adopt a Guaranteed Service Level Performance Incentive Scheme as required in terms of the RDWR. According to this Guaranteed Service Level scheme, customers will be directly compensated, in the form of reductions in their monthly electricity bills, if service performance falls below certain minimum thresholds. The thresholds and the penalties that will apply are as demonstrated below:

**Table 14. Summary of proposed Guaranteed Service Level Incentive Scheme**

Performance Measure	Unit	Threshold	Penalty level (PhP)
GSL1 Duration of Sustained Interruptions	Hours	6	Php 84.00
GSL2 No. of Sustained Interruptions	Numbers	6	Php 84.00
GSL3a Restoration Time (Broken Service Wire)	Hours	Within 1.3	Php 84.00
GSL3b Restoration Time (Broken Sec Line)	Hours	Within 1.6	Php 84.00
GSL3c Restoration Time (Distribution Transformer Outage)	Hours	Within 1.8	Php 84.00
GSL4 Time to Connect	Days	Within 5	Php 84.00

- 20a. The Applicant will be entitled to an additional revenue amount equal to 0.5% of its Annual Revenue Requirement, which is intended to be applied to the Guaranteed Service Level Scheme and can be used to either provide for penalties under the scheme, or for network or operational improvements to avoid such penalties.
21. Applicant will comply with the requirements in Section 4(e), Rule 3 of the Rules and Regulations of Republic Act No. 9136, in relation to Rule 6 of the Commission Rules of Practice and Procedure, prior to the filing of this application with the Commission.

22. In support of this application for the approval of its Allowed Annual Revenue and Performance Incentive Scheme, the Applicant has attached the following required documents as described in the RDWR and the Position Paper:

**Table 15. Supporting Information attached**

<b>Schedule</b>	<b>Information provided</b>
<b>A</b>	<b>Regulatory Asset Base</b>
A1	Summary of the optimized depreciated replacement cost (ODRC) and the depreciated historical cost of the Regulatory Asset Base as at the initial valuation date (the Regulatory Asset Base).
A2	Summary of the optimized depreciated replacement cost and the depreciated historical cost of the Original Regulatory Asset Base as at the start of the Second Regulatory Period, with supporting calculations for indexing applied.
A3	Assets forecast to be acquired during the period between the initial valuation date and the start of the Second Regulatory Period.
A3.1	- Schedule of assets to be acquired
A3.2	- Value of the assets to be acquired
A3.3	- <b>Justification for assets to be acquired</b>
A5	Forecast asset disposal during the period between the initial valuation date and the start of the Second Regulatory Period.
A5.1	- Schedule of assets to be disposed of
A5.2	- Value of the assets to be disposed of
A5.3	- Forecast income from the sale of disposed assets
A6	ODRC depreciation schedules for the Regulatory Asset Base for the period between the initial valuation date and the start of the Second Regulatory Period.
A6.1	- Assets included in the Original Regulatory Asset Base
A6.2	- Assets acquired in the lead-up to the Second Regulatory Period
A7	Historical cost depreciation schedules for the Regulatory Asset Base for the period between the initial valuation date and the start of the Second Regulatory Period.
A7.1	- Assets included in the Original Regulatory Asset Base
A7.2	- Assets acquired in the lead-up to the Second Regulatory Period
A8	Application of the construction work in progress (CWIP) factor to the Regulatory Asset Base as at the start of the Second Regulatory Period.
A9	Summary of the optimized depreciated replacement cost (ODRC) and the depreciated historical cost of the full Regulatory Asset Base as at the start of the Second Regulatory Period (the opening value of the rolled-forward Regulatory Asset Base).

<b>Schedule</b>	<b>Information provided</b>
<b>B</b>	<b>Financial indices forecast for Second Regulatory Period</b>
B1	Philippine quarterly CPI
B2	United States quarterly CPI
B3	PhP/US\$ quarterly exchange rate
B4	180-Day Manila Reference Rate
<b>C</b>	<b>Forecast capital expenditure for the Second Regulatory Period</b>
C1	Summary of capital expenditure forecasts for each year of the Second Regulatory Period
C1.1	- Real values, divided in PhP and US\$ components
C1.2	- Total real values, in PhP
C1.3	- Total nominal values, in PhP
C1.4	- Justification for capital expenditure (major and minor projects)
C2	Broken down historical capital expenditure
<b>D</b>	<b>Forecast disposals during the Second Regulatory Period</b>
D1	Value of assets to be disposed of (based on ODRC register)
D2	Forecast income from the sale of disposed assets
<b>E</b>	<b>Forecast depreciation during the Second Regulatory Period</b>
E1	Depreciation of the opening asset base
E1.1	- ODRC basis
E1.2	- Historical cost basis
E2	Depreciation of the assets forecast to be acquired during the Second Regulatory Period
E2.1	- ODRC basis
E2.2	- Historical cost basis
<b>F</b>	<b>Forecast assets used beyond standard lives</b>
F1	Forecast addition to assets used beyond standard lives
F2	Forecast removal from assets used beyond standard lives
<b>G</b>	<b>Forecast operating &amp; maintenance expenditure</b>
G1	Summary of forecast operating & maintenance expenditure
G1.1	- Annual expenditure, divided in real PhP and US\$ components
G1.2	- Total annual expenditure, in real PhP
G1.3	- Total annual expenditure, in nominal PhP
G1.4	- Justification for operating & maintenance expenditure forecasts
G2	Historical operating & maintenance expenditure

<b>Schedule</b>	<b>Information provided</b>
G3	Summary of expenditure on taxes (other than corporate income tax), duties and levies
G3.1	- Annual expenditure, in real PhP
G3.2	- Annual expenditure, in nominal PhP
G3.3	- Justification for expenditure
G3.4	- Historical taxes, levies & duties
<b>H</b>	<b>Forecast energy consumption and demand</b>
H1	Forecast energy consumption figures (kWh)
H1.1	- Breakdown of consumption figures into customer classes
H1.2	- Supporting evidence
H2	Forecast energy demand figures (MW)
H2.1	- Breakdown of demand figures into customer classes
H2.2	- Supporting evidence
<b>I</b>	<b>Regulatory financial statements</b>
<b>J</b>	<b>Performance incentive scheme details</b>
J1	Price-linked incentive scheme
J1.1	- Details of scheme proposed
J1.2	- Proposed target levels
J1.3	- Supporting information & calculations
J2	Guaranteed service level scheme
J2.1	- Details of scheme proposed
J2.2	- Proposed target levels
J2.3	- Proposed penalty levels
J2.4	- Supporting information & calculations
<b>K</b>	<b>Additional information for price-cap model</b>
K1	Contact details for input sheets
K2	2008 Regulatory year billing & consumption data
K3	Related business revenue for 2008 regulatory year
K4	Tax losses carried forward from 2009 regulatory year
K5	Inputs for financial statement projections
<b>L</b>	<b>Detailed calculations for Second Regulatory Period</b>
	Rolled forward regulatory asset base
	Annual revenue requirement
	Corporate income tax forecasts
	Forecast price-caps for the opening and subsequent years of the Second

<b>Schedule</b>	<b>Information provided</b>
	Regulatory Period
<b>M</b>	<b>Calculation of demonstrative unbundled rates</b>

23. Applicant most respectfully requests for approval of this application to allow it to fulfill its obligations under Performance Based-Regulation and in order to avoid irreparable losses which will ultimately result in the deterioration of its services, to the damage, and prejudice of the public, in general, and its consumers, in particular.

## **PRAYER**

**WHEREFORE**, premises considered, COTABATO LIGHT & POWER COMPANY prays, after due notice and hearing and consideration, that the application be approved and that a final authority be issued to Applicant authorizing it to adopt the above Annual Revenue Requirements and Performance Incentive Scheme.

Other reliefs just or equitable under the premises are likewise prayed for.

Marikina City for Pasig City, Philippines, 21 May 2008.

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