

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- \_\_\_\_\_

ILIGAN LIGHT & POWER, INC.

Applicant.

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**APPLICATION**

COMES NOW, Applicant ILIGAN LIGHT & POWER, INC. 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 office at Bro. Raymund Jeffrey Road, Pala-o, Iligan City where it may be served with summons and other legal processes, represented in this instance by its President, Ralph B. Casiño, of legal age, Filipino, married and with office address also at Bro. Raymund Jeffrey Road, Pala-o, Iligan City. Herein Applicant is the exclusive franchise holder issued by the Congress of the Philippines to operate electric light and power services in the City of Iligan in the Province of Lanao del Norte.

2. Applicant will enter Performance-Based Regulation at the second entry point, as originally described in Annex B of Commission 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 (the “Commission”) 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 (the “Position Paper”)<sup>1</sup>. The Application submitted to the Commission made use of the methodology described in the RDWR, the Position

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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.

Paper and applied the financial spreadsheet model titled Group B Model V0.1 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:

**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	133,837,596	145,404,271	156,272,669	170,448,894
Taxes, levies & duties (other than corporate tax)	2,687,801	1,765,263	1,409,502	1,255,522
Regulatory depreciation	31,238,136	33,458,295	35,830,055	39,647,709
Return on capital	81,290,561	91,962,254	99,576,946	110,163,900
Corporate income tax	-	18,859,773	20,804,345	33,659,099
GSL Allowance on Top of ARR	1,245,270	1,457,249	1,569,468	1,775,876
<b>TOTAL REVENUE REQUIREMENT</b>	<b>250,299,366</b>	<b>292,907,105</b>	<b>315,462,985</b>	<b>356,951,000</b>

Note : All values are in nominal terms

The meaning and application of these parameters are as described in the afore-mentioned RDWR.

5. 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 Base 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	570,863,046	690,974,089	736,875,170	809,273,681
Depreciation on RAB	31,238,136	33,458,295	35,830,055	39,647,709
Capital Expenditure	151,039,966	78,652,368	107,789,099	131,300,713
Change in assets used over regulatory lives	309,213	707,008	439,467	480,301
Closing value of the RAB	690,974,089	736,875,170	809,273,681	901,406,985
<b>AVERAGE VALUE OF THE RAB</b>	<b>630,918,568</b>	<b>713,924,630</b>	<b>773,074,426</b>	<b>855,340,333</b>

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 3. 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		5.65%
Valuation of the applicant's regulatory asset base as at December 31, 2007		PhP 495,648,480
Working-capital proportion		3%

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					

**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. The estimated Philippine Consumer Price Index adopted by the Applicant is provided for by the ERC as sourced from the Bangko Sentral ng Pilipinas, however, Applicant wishes the Commission to make an upward adjustment on said index considering the actual Philippine CPI for 2008: January – 4.9%; February – 5.4%; March – 6.4%; and April – 8.3%.

7b. 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 afore-mentioned 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 12.80% 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		NOMINAL PESO				
Capex Category		2009	2010	2011	2012	2013
<b>Regulated Distribution Services Assets</b>						
<b>Network</b>	Land and Land Rights (Distribution Purposes)	-	-	-	-	1,402,512
	Structures and Improvements	517,550	3,831,259	753,689	-	4,142,994
	Station Equipment	-	-	-	-	-
	Power transformers	-	21,052,785	1,642,220	-	-
	Switchgear	-	3,660,320	327,617	-	2,376,549
	Protective equipment	5,275,287	14,301,664	6,432,677	1,843,696	16,740,674
	Metering & control equipment	5,735,313	3,790,629	4,173,423	-	8,643,323
	Communications equipment	-	-	-	-	-
	Other station equipment	1,752,186	2,678,980	1,770,322	4,330,090	3,485,017
	Poles, Towers and Fixtures	13,642,118	9,490,089	16,903,237	19,363,354	24,693,407
	Overhead Conductors and	7,160,574	8,145,325	6,282,467	7,515,121	9,800,665
	Underground Cables & Devices	247,598	2,182,229	145,063	-	1,489,690
	Underground Conduits	-	-	-	-	-
	Line (distribution) Transformers	6,611,759	6,593,330	7,058,263	7,427,917	7,772,545
	Power Conditioning Equipment	472,949	-	813,769	499,949	258,474
	Meters, Instruments & Metering Transformers	3,480,915	3,512,113	5,489,853	4,060,368	6,643,229
	Information Systems Equipment	-	-	-	-	-
	Regulated Entity Property on Consumer's Premises	-	-	-	-	-
	Street Lights and Signal Systems	-	-	-	-	-
	Submarine Cables	-	-	-	-	-
<b>Non-network</b>	Land and Land Rights (non-network)	2,447,529	1,818,960	1,477,998	566,155	117,081
	Structures and Improvements (non-network)	826,041	592,220	1,554,635	2,830,776	1,756,214
	Office Furniture and Equipment	1,060,286	225,784	179,440	138,708	179,836

ITEM		NOMINAL PESO				
Capex Category		2009	2010	2011	2012	2013
	Transportation Equipment	6,551,647	793,151	3,363,266	8,545,547	631,555
	Stores Equipment	265,149	155,986	109,481	28,308	117,081
	Equipment	377,041	1,131,451	950,796	944,860	1,600,903
	Laboratory Equipment	1,535,875	-	-	-	-
	Information Systems Equipment	5,170,151	1,668,791	1,164,881	1,030,403	1,385,067
	Power-operated Equipment	-	-	-	-	-
	Equipment	654,612	5,288	-	-	-
	Miscellaneous Equipment	8,728,812	15,702,113	7,746,041	5,607,886	16,708,256
<b>Materials</b>	Materials and supplies, including spares	-	105,754	328,444	339,693	-
<b>Subtrans</b>	Transferred subtransmission	-	40,148,188	-	31,855,021	10,581,360
<b>Sub-total Regulated Distribution Services</b>		<b>72,513,393</b>	<b>141,586,411</b>	<b>68,667,580</b>	<b>96,927,851</b>	<b>120,526,432</b>
<b>Distribution Connection Services Assets</b>						
<b>Network</b>	Poles, Towers and Fixtures	-	-	-	-	-
	Devices	2,395,904	2,513,597	2,675,441	2,867,386	3,089,270
	Underground Circuits	-	-	-	-	-
	Underground Cables & Devices	-	-	-	-	-
	Line (distribution) Transformers	-	-	-	-	-
	Information Systems Equipment	-	-	-	-	-
<b>Non-network</b>	Land and Land Rights (non-network)	-	-	-	-	-
	Structures and Improvements (non-network)	-	-	-	-	-
	Office Furniture and Equipment	-	-	-	-	-
	Transportation Equipment	-	-	-	-	-
	Stores Equipment	-	-	-	-	-
	Equipment	-	-	-	-	-
	Laboratory Equipment	-	-	-	-	-
	Information Systems Equipment	-	-	-	-	-
	Power-operated Equipment	-	-	-	-	-
	Equipment	-	-	-	-	-
	Miscellaneous Equipment	-	-	-	-	-
<b>Materials</b>	Materials and supplies, including spares	-	-	-	-	-
<b>Sub-total Distribution Connection</b>		<b>2,395,904</b>	<b>2,513,597</b>	<b>2,675,441</b>	<b>2,867,386</b>	<b>3,089,270</b>
<b>Regulated Retail Services Assets</b>						
	Meters, Instruments & Metering Transformers	6,485,144	6,939,958	7,309,346	7,993,862	7,685,011
	Land and land rights	-	-	-	-	-
	Structures & improvements	-	-	-	-	-
	Office Furniture and Equipment	-	-	-	-	-
	Transportation Equipment	-	-	-	-	-
	Stores Equipment	-	-	-	-	-
	Equipment	-	-	-	-	-
	Laboratory Equipment	-	-	-	-	-
	Information Systems Equipment	-	-	-	-	-
	Equipment	-	-	-	-	-
	Miscellaneous Equipment	-	-	-	-	-
<b>Sub-total Regulated Retail Services</b>		<b>6,485,144</b>	<b>6,939,958</b>	<b>7,309,346</b>	<b>7,993,862</b>	<b>7,685,011</b>
<b>TOTAL CAPEX</b>		<b>81,394,441</b>	<b>151,039,966</b>	<b>78,652,368</b>	<b>107,789,099</b>	<b>131,300,713</b>

10a. The above-mentioned proposed Capital Expenditure is increased from current levels for the following reasons:

10b. The increases reflect new capital expenditure required to meet growing energy demand, increased customer numbers, service quality and performance measurement improvements, compliance to the Grid and Distribution Codes,

the Distribution Service and Open Access Rules (“DSOAR”) and other ERC Technical Compliances, security and reliability of grid connection and the replacement of ageing or obsolete equipment. It also includes the purchase cost for the National Transmission Corporation’s sub-transmission assets.

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)**

ITEM		NOMINAL PESO				
Opex Category and Sub-category		2009	2010	2011	2012	2013
<b>Regulated Distribution Services</b>						
<b>Operati on</b>	Operation supervision &	1,423,942	1,620,901	1,827,081	2,104,412	2,440,124
	Load dispatching	-	-	-	-	-
	Structures	-	-	-	-	-
	Substations	-	-	-	-	-
	Overhead conductors & devices	15,857,718	17,010,923	17,979,877	19,149,995	20,437,879
	Underground cables & devices	-	-	-	-	-
	Streetlighting	-	-	-	-	-
	Metering	-	-	-	-	-
	Line (distribution) transformers	-	-	-	-	-
	Rents	80,565	91,477	95,796	102,474	107,129
	Information	384,033	916,051	404,168	451,535	556,843
	Miscellaneous	1,736,206	1,759,214	1,779,616	1,846,000	1,906,157
	<b>Mainte nance</b>	Maintenance supervision & engineering	771,300	932,906	1,094,114	1,260,189
Structures		-	-	-	-	-
Substations		1,511,681	1,983,793	2,782,417	2,907,963	3,351,855
Overhead conductors & devices		13,817,127	15,353,936	17,146,485	18,301,613	19,305,186
Underground cables & devices		-	-	-	-	-
Streetlighting		-	-	-	-	-
Line (distribution) transformers		-	-	-	-	-
Information technology		203,711	232,503	265,452	303,429	347,111
Metering		-	-	-	-	-
Miscellaneous		-	-	-	-	-
<b>Admin &amp; Gen</b>	Admin & general salaries	14,928,155	17,820,512	20,249,407	23,060,622	26,589,817
	Office supplies & expenses	9,749,768	11,147,876	12,079,315	12,627,128	13,494,041

ITEM		NOMINAL PESO				
Opex Category and Sub-category		2009	2010	2011	2012	2013
	Information	1,049,016	1,170,522	1,302,545	1,453,069	1,624,813
	Outside services employed	1,708,172	3,175,778	3,472,747	3,591,689	3,791,080
	Property insurance	1,356,556	1,539,779	1,589,949	1,670,951	1,727,764
	Injuries & damages	111,941	116,083	120,175	124,291	128,516
	Employee pension & benefits	16,051,852	17,247,968	18,954,821	20,307,332	21,731,011
	Regulatory liaison & compliance	3,243,404	2,071,132	2,302,121	2,394,556	3,934,799
	Rents	649,437	1,218,598	1,409,353	1,457,623	1,507,182
	Maintenance of office & general plant	578,802	769,463	920,355	1,010,134	1,121,518
	Officers allowance & benefits	7,124,849	7,749,702	8,521,741	9,179,297	9,944,569
	Travel	1,216,779	1,276,445	1,411,871	1,473,815	1,541,487
	Training	3,607,169	2,395,407	2,314,194	2,431,908	2,487,150
	Miscellaneous	-	-	-	-	-
<b>WESM</b>	Registration fees	-	-	-	-	-
	Metering fees	-	-	-	-	-
	Billing & settlement fees	-	-	-	-	-
	Administration fees	-	-	-	-	-
	Costs for the PEM board, committees & working groups	-	-	-	-	-
	Market management software & upgrades	-	-	-	-	-
<b>Sub-total Regulated Distribution Services</b>		<b>97,162,182</b>	<b>107,600,969</b>	<b>118,023,600</b>	<b>127,210,026</b>	<b>139,537,253</b>
<b>Distribution Connection Services</b>						
<b>Operati</b>	Operation supervision &	-	-	-	-	-
<b>on</b>	Load dispatching	-	-	-	-	-
	Structures	-	-	-	-	-
	Overhead and underground connections	-	-	-	-	-
	Underground cables & devices	-	-	-	-	-
	Consumer	-	-	-	-	-
	Line (distribution) transformers	-	-	-	-	-
	Information technology	-	-	-	-	-
<b>Mainte</b>	Maintenance supervision & engineering	-	-	-	-	-
<b>nance</b>	Structures	-	-	-	-	-
	Overhead and underground connections	-	-	-	-	-
	Underground cables & devices	-	-	-	-	-
	Consumer	-	-	-	-	-
	Line (distribution) transformers	-	-	-	-	-
	Information	-	-	-	-	-
	Miscellaneous	-	-	-	-	-

ITEM		NOMINAL PESO				
Opex Category and Sub-category		2009	2010	2011	2012	2013
<b>Admin &amp; Gen</b>	Admin & general salaries	-	-	-	-	-
	Office supplies & expenses	-	-	-	-	-
	Information	-	-	-	-	-
	Outside services employed	-	-	-	-	-
	Property insurance	-	-	-	-	-
	Injuries & damages	-	-	-	-	-
	Employee pension & benefits	-	-	-	-	-
	Regulatory liaison & compliance	-	-	-	-	-
	Rents	-	-	-	-	-
	Maintenance of office & general plant	-	-	-	-	-
	Officers allowance & benefits	-	-	-	-	-
	Travel	-	-	-	-	-
	Training	-	-	-	-	-
	Miscellaneous	-	-	-	-	-
<b>Sub-total Distribution Connection Services</b>		-	-	-	-	-
<b>Regulated Retail Services</b>		-	-	-	-	-
	Administration & management	1,508,794	1,486,489	1,712,878	1,971,178	2,270,528
	Plan, install & maintain consumer meter installations	11,693,780	12,070,905	12,105,253	12,705,765	13,367,677
	Consumer meter reading expenses	3,452,446	3,379,610	3,579,550	3,789,039	4,012,324
	Information	475,325	542,507	619,388	708,000	809,925
	Consumer records, billing & collection	8,098,287	6,615,609	7,146,605	7,595,732	8,080,299
	Bad debts	2,039,608	2,115,070	2,189,626	2,264,621	2,341,618
	Informational & instructional	25,495	26,438	27,370	28,308	29,270
	Energy trading expenses (excluding energy purchases)	-	-	-	-	-
	Consumer prompt payment discounts	-	-	-	-	-
	Miscellaneous	-	-	-	-	-
<b>Sub-total Regulated Retail</b>		<b>27,293,736</b>	<b>26,236,628</b>	<b>27,380,671</b>	<b>29,062,643</b>	<b>30,911,640</b>
<b>Total Operating &amp; Maintenance Expenditure</b>		<b>124,455,917</b>	<b>133,837,596</b>	<b>145,404,271</b>	<b>156,272,669</b>	<b>170,448,894</b>

11a. The above-mentioned proposed Operating and Maintenance expenditure are increased from current levels for the following reasons:

11b. That the proposed increase in operating and maintenance expenditure is a result of increased inputs required to service the growing asset base, compliance to the Grid and Distribution Codes, the Distribution Service and

Open Access Rules (DSOAR) and other ERC Technical Compliances, and inflationary pressures.

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)**

ITEM	Nominal PhP				
	2009	2010	2011	2012	2013
Levies	0	1,553,749	591,235	195,263	0
Duties	0	0	0	0	0
Other Taxes	1,093,591	1,134,053	1,174,028	1,214,238	1,255,522
<b>TOTAL</b>	<b>1,093,591</b>	<b>2,687,801</b>	<b>1,765,263</b>	<b>1,409,502</b>	<b>1,255,522</b>

12a. The above-mentioned proposed taxes, levies & duties (other than corporate income taxes) expenditure are increased from current levels for the following reasons:

12b. That the taxes, levies and duties (other than corporate income tax) figure includes provision for regulatory compliances associated with Regulatory Reset for the Second Regulatory Period and for increase in Real Property Taxes.

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		NOMINAL PESO				
Depreciation Category		2009	2010	2011	2012	2013
<b>Regulated Distribution Services Assets</b>						
<b>Network</b>	Land and Land Rights (Distribution Purposes)	-	-	-	-	-
	Structures and Improvements	32,779	128,560	147,402	147,402	250,977
	Station Equipment	-	-	-	-	-
	Power transformers	1,589,190	2,276,623	2,330,246	2,330,246	2,330,246
	Switchgear	516,295	635,806	646,503	646,503	724,097
	Protective equipment	520,498	985,834	1,195,136	1,255,124	1,799,819
	Metering & control equipment	421,589	550,678	692,803	692,803	987,150
	Communications equipment	-	-	-	-	-
	Other station equipment	228,762	316,510	374,496	516,327	630,477
	Poles, Towers and Fixtures	4,737,391	4,752,720	5,093,204	5,528,377	6,114,200
	Overhead Conductors and Devices	3,625,404	3,687,965	3,752,815	3,836,236	3,924,299
	Underground Cables & Devices	-	-	-	-	-
	Underground Conduits	-	-	-	-	-
	Line (distribution) Transformers	3,799,455	3,832,714	3,938,407	4,125,141	4,328,030
	Power Conditioning Equipment	44,325	44,325	67,575	81,860	89,245
	Meters, Instruments & Metering Transformers	490,665	607,296	781,070	915,804	1,137,245
	Information Systems Equipment	-	-	-	-	-
	Regulated Entity Property on Consumer's Premises	-	-	-	-	-
	Street Lights and Signal Systems	-	-	-	-	-
	Submarine Cables	-	-	-	-	-
<b>Non-network</b>	Land and Land Rights (non-network)	-	-	-	-	-
	Structures and Improvements (non-network)	519,536	534,342	573,208	643,977	687,882
	Office Furniture and Equipment	309,751	322,144	327,369	334,889	343,657
	Transportation Equipment	2,231,760	2,141,854	2,126,985	2,631,532	2,585,146
	Stores Equipment	13,257	21,057	26,531	27,946	33,800
	Tools, Shop and Garage Equipment	359,504	416,077	463,616	510,859	590,904
	Laboratory Equipment	76,794	76,794	76,794	76,794	76,794
	Information Systems Equipment	1,946,074	2,058,619	2,131,640	2,129,843	2,193,442
	Power-operated Equipment	-	-	-	-	-
	Communication Plant and Equipment	185,076	179,194	179,194	86,539	86,539
	Miscellaneous Equipment	628,748	1,675,555	2,191,958	2,565,817	3,679,701
<b>Materials</b>	Materials and supplies, including spares	-	-	-	-	-
<b>Subtrans</b>	Transferred subtransmission assets	-	-	-	-	-
<b>Sub-total Regulated Distribution Services</b>		<b>22,276,853</b>	<b>25,244,667</b>	<b>27,116,953</b>	<b>29,084,018</b>	<b>32,593,651</b>

ITEM		NOMINAL PESO				
Depreciation Category		2009	2010	2011	2012	2013
<b>Distribution Connection Services Assets</b>						
<b>Network</b>	Poles, Towers and	-	-	-	-	-
	Overhead Conductors and Devices	1,308,760	1,387,698	1,447,174	1,536,299	1,638,987
	Underground Circuits	-	-	-	-	-
	Underground Cables & Devices	-	-	-	-	-
	Line (distribution) Transformers	-	-	-	-	-
	Information Systems Equipment	-	-	-	-	-
<b>Non-network</b>	Land and Land Rights (non-network)	-	-	-	-	-
	Structures and Improvements (non-network)	-	-	-	-	-
	Office Furniture and Equipment	-	-	-	-	-
	Transportation Equipment	-	-	-	-	-
	Stores Equipment	-	-	-	-	-
	Tools, Shop and Garage Equipment	-	-	-	-	-
	Laboratory Equipment	-	-	-	-	-
	Information Systems Equipment	-	-	-	-	-
	Power-operated	-	-	-	-	-
	Communication Plant and Equipment	-	-	-	-	-
	Miscellaneous Equipment	-	-	-	-	-
<b>Materials</b>	Materials and supplies, including spares	-	-	-	-	-
<b>Sub-total Distribution Connection Assets</b>		<b>1,308,760</b>	<b>1,387,698</b>	<b>1,447,174</b>	<b>1,536,299</b>	<b>1,638,987</b>
<b>Regulated Retail Services Assets</b>						
	Meters, Instruments & Metering Transformers	4,329,714	4,605,771	4,894,167	5,209,738	5,415,072
	Land and land rights	-	-	-	-	-
	Structures &	-	-	-	-	-
	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>Sub-total Regulated Retail Services Assets</b>		<b>4,329,714</b>	<b>4,605,771</b>	<b>4,894,167</b>	<b>5,209,738</b>	<b>5,415,072</b>
<b>Forecast disposal of assets</b>		-	-	-	-	-
<b>TOTAL DEPRECIATION</b>		<b>27,915,327</b>	<b>31,238,136</b>	<b>33,458,295</b>	<b>35,830,055</b>	<b>39,647,709</b>

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 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>	0	18,859,773	20,804,345	33,659,099

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>	187,901	366,002	371,567	462,120	467,870

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>	38.530	75.051	76.192	94.761	95.940

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<sub>0</sub>-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>	0.7510	0.7348	0.7182	0.7020

17a. 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 aforementioned estimated Maximum Annual Prices. This is presented below:

(This space is intentionally left blank.)

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

Customer Class	Current Rates	Illustrative Rates (2010)	Illustrative Rates (2011)	Illustrative Rates (2012)	Illustrative Rates (2013)
<b>Residential</b>					
Distribution (PhP/kWh)	0.6738	1.1691	1.1198	1.3154	1.2604
Supply (PhP/kWh)	0.2079	0.3638	0.3485	0.4094	0.3923
Metering (PhP/kWh )	0.1950	0.3383	0.3241	0.3807	0.3648
Metering (PhP/customer/month)	5.00	8.68	8.34	9.83	9.45
Total PhP/kWh	1.0767	1.8712	1.7924	2.1054	2.0175
Total PhP/customer/month	5.00	8.68	8.34	9.83	9.45
<b>Average Peso/kWh Distribution Wheeling Rate</b>	<b>1.1091</b>	<b>1.9278</b>	<b>1.8466</b>	<b>2.1691</b>	<b>2.0784</b>
<b>Commercial</b>					
Distribution (PhP/kWh)	0.6738	1.1691	1.1353	1.3494	1.3052
Supply (PhP/customer/month)	31.94	55.42	57.77	73.07	74.24
Metering (PhP/customer/month)	92.57	160.61	167.42	211.76	215.17
Total PhP/kWh	0.6738	1.1691	1.1353	1.3494	1.3052
Total PhP/customer/month	124.51	216.03	225.19	284.83	289.41
<b>Average Peso/kWh Distribution Wheeling Rate</b>	<b>0.8350</b>	<b>1.3969</b>	<b>1.3567</b>	<b>1.6125</b>	<b>1.5596</b>
<b>Industrial</b>					
Distribution (PhP/kWh)	0.3069	0.5325	0.5539	0.6976	0.7052
Distribution demand charge (Php/kW)	108.94	189.01	196.63	247.64	250.33
Supply (PhP/customer/month)	31.94	55.42	55.05	66.92	66.23
Metering (PhP/customer/month)	2,673.34	4,638.30	4,607.43	5,601.17	5,543.08
Total PhP/kWh	0.3069	0.5325	0.5539	0.6976	0.7052
Total PhP/kW	108.94	189.01	196.63	247.64	250.33
Total PhP/customer/month	2,705.28	4,693.72	4,662.47	5,668.09	5,609.31
<b>Average Peso/kWh Distribution Wheeling Rate</b>	<b>0.8620</b>	<b>1.1243</b>	<b>1.1697</b>	<b>1.4731</b>	<b>1.4891</b>
<b>Flat Rate</b>					
Distribution (PhP/kWh)	0.6738	1.1691	1.0803	1.2363	1.1647
Supply (PhP/customer/month)	31.94	55.42	55.05	66.92	66.23
Metering (PhP/customer/month)	-	-	-	-	-
Total PhP/kWh	0.67	1.17	1.08	1.24	1.16
Total PhP/customer/month	31.94	55.42	55.05	66.92	66.23
<b>Average Peso/kWh Distribution Wheeling Rate</b>	<b>0.6751</b>	<b>1.1705</b>	<b>1.0817</b>	<b>1.2378</b>	<b>1.1661</b>
<b>Bulk Power</b>					
Distribution (PhP/kWh)	0.0281	0.0488	0.0481	0.0418	0.0412
Distribution demand charge (Php/kW)	13.24	22.97	22.69	19.69	19.40
Supply (PhP/customer/month)	31.94	55.42	55.05	50.19	49.67
Metering (PhP/customer/month)	3,460.72	6,004.42	5,964.45	5,438.16	5,381.77
Total PhP/kWh	0.0281	0.0488	0.0481	0.0418	0.0412
Total PhP/kW	13.2400	22.9717	22.6856	19.6883	19.3951
Total PhP/customer/month	3,492.66	6,059.84	6,019.50	5,488.35	5,431.44
<b>Average Peso/kWh Distribution Wheeling Rate</b>	<b>0.0611</b>	<b>0.1073</b>	<b>0.1060</b>	<b>0.0920</b>	<b>0.0906</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	<b>0.20</b>	5.66	11.94	18.23	24.51	30.80
Customer average interruption duration index (CAIDI)	Minutes	<b>0.20</b>	101.50	155.10	208.70	262.30	315.91
Planned system average interruption duration index (SAIDI)	Minutes	<b>0.15</b>	433.97	1,200.61	1,967.26	2,733.91	3,500.56
Probability of voltage levels falling within prescribed limits	%	<b>0.10</b>		1.83%	14.68%	27.53%	40.38%
System losses	%	<b>0.05</b>	10.60%	10.73%	10.86%		
Average time to process applications for Regulated Distribution Services	Days	<b>0.15</b>	1.64	3.32	5.00	6.68	8.36
Average time to connect premises to the Regulated Distribution System	Days	<b>0.15</b>	1.68	3.59	5.50	7.41	9.32

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**

<b>Performance Measure</b>	<b>Threshold</b>	<b>Penalty level (PhP)</b>
Customer experiencing a total duration of sustained service interruptions in a Regulatory Year that exceeds the threshold	67 hours	41.01
Customer experiencing a number of sustained service interruptions in a Regulatory Year that exceeds the threshold	18 times	41.01
Restoration of supply to a customer after a fault on the secondary distribution network taking longer than the threshold time	4 hours	41.01
Customer connection not provided on the day agreed with the customer	5.5 days	41.01

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**

Schedule	Information provided
<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	- Justification for assets to be acquired
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

<b>Schedule</b>	<b>Information provided</b>
	Base as at the start of the Second Regulatory Period (the opening value of the rolled-forward Regulatory Asset Base).
<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>

<b>Schedule</b>	<b>Information provided</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
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

Schedule	Information provided
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>	<p><b>Detailed calculations for Second Regulatory Period</b></p> <p>Rolled forward regulatory asset base</p> <p>Annual revenue requirement</p> <p>Corporate income tax forecasts</p> <p>Forecast price-caps for the opening and subsequent years of the Second Regulatory Period</p>
<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, ILIGAN LIGHT & POWER, INC. 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 and equitable under the premises are likewise prayed for.

Pasig City, Philippines, May 22, 2008.

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By:

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PTR NO. 4309955; 1/4/08  
PASIG CITY  
IBP NO. 729302; 12/18/07  
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