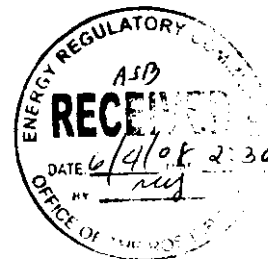


Republic of the Philippines
ENERGY REGULATORY COMMISSION
San Miguel Avenue, Pasig City



**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**

ERC CASE NO. 2008-028 RC

**MACTAN ELECTRIC COMPANY, INC.
(MECO),**

Applicant.

x-----x

D O C K E T E D
Date: JUN 02 2008
By: [signature]

ORDER

On May 27, 2008, Mactan Electric Company, Incorporated (MECO) filed an application for approval of its Annual Revenue Requirement (ARR) and Performance Incentive Scheme (PIS) for the Second Regulatory Period commencing on April 1, 2009 and terminating on March 30, 2013 in accordance with the provisions of the Rules for Setting Distribution Wheeling Rates (RDWR).

MECO has entered the Performance Based Regulation (PBR) at the second entry point pursuant to the Commission's Resolution No. 24, Series of 2007 [Resolution Adopting a New Grouping for Privately Owned Distribution Utilities Entering Performance Based Regulation (PBR)].

MECO seeks the immediate approval of its ARR, following the Building Block calculation under the RDWR, as set out below for each Regulatory Year:

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Building Block	Proposed revenue requirement per Regulatory Year (PhP)			
	2010	2011	2012	2013
Operating and maintenance expenditure	74,820,163.11	77,379,707.79	85,213,224.68	94,901,670.18
Taxes, levies & duties (other than corporate tax)	23,891,166.89	26,290,081.14	29,239,094.14	32,973,532.48
Regulatory depreciation	43,329,124.81	46,331,660.06	49,285,460.93	50,269,353.80
Return on capital	106,896,059.72	115,403,915.95	118,682,647.37	118,130,055.99
Corporate Income Tax		4,620,603.15	33,235,868.93	50,395,976.99
TOTAL REVENUE REQUIREMENT	248,936,515	270,025,968	315,656,296	346,670,589

Note: All values are in nominal terms

tr Among other building block components, MECO's ARR is based on a proposed rolled-forward value of the following Regulatory Asset Base (RAB). The opening value for MECO's RAB for 2009 is based on the value of its RAB as of December 31, 2007 as valued by the Commission and amended to a March 31, 2009 value pursuant to the RDWR.

ITEM	PhP for Regulatory Year			
	2010	2011	2012	2013
Opening value of RAB	793,330,713.13	872,039,636.88	926,081,244.57	922,787,800.09
plus Capital Expenditure	121,372,037.46	99,852,045.34	45,469,339.94	43,316,006.07
Minus Regulatory Depreciation on asset base at start of Second Regulatory Period	25,662,358.25	25,525,139.34	25,273,214.64	25,154,574.98

Minus Regulatory Depreciation on capital expenditure incurred during the Second Regulatory Period	43,329,124.81	46,331,660.06	49,285,460.93	50,269,353.80
Closing value of RAB	872,039,636.88	926,081,244.57	922,787,800.09	916,867,720.67
AVERAGE VALUE OF RAB	832,685,175.01	899,060,440.72	924,434,522.33	919,827,760.38

Note: All values are in nominal terms

This includes assets used beyond its standard lives in the RAB at a value of five percent (5%) of its optimized replacement cost.

For the calculation of the above-mentioned Annual Revenue Requirement and Rolled-forward Regulatory Asset Base, MECO has applied the preliminary values for the parameters as shown below:

Parameter	Date of Instruction from the Commission	Preliminary value adopted
Construction work in progress factor (CWIP factor)	April 30, 2008	For substation projects : 3.6% For other projects : 2.6%
P ₀ -factor		0 PhP/kWh
X-factor		- 0.1582
Valuation of MECO's regulatory asset base as at Dec. 31, 2007		PhP 684,216,982.00
Working-capital proportion		3%

The estimated Philippine Consumer Price Index (CPI), the United States of America CPI and the Philippine Peso/United States Dollar exchange rates that were used in the calculation of the ARR are shown in the following forecasts:

	2008	2009	2010	2011	2012	2013
Calendar Year						
Regulatory Year		3.9%	3.6%	3.5%	3.4%	3.4%
Data source:						

	2008	2009	2010	2011	2012	2013
Calendar Year						
Regulatory Year		2.7%	2.1%	2.4%	2.4%	2.4%
Data source :						

Quarter ending	2008	2009	2010	2011	2012	2013
Calendar Year						
Regulatory Year		41.43	42.08	42.08	42.23	42.00
Data source :						

For purposes of the initial and subsequent annual price resets during the Second Regulatory Period as required in terms of the RDWR, MECO 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.

MECO proposes an annual rate of return of 12.80% that corresponds to the regulatory Weighted Cost of Capital (WACC) under the RDWR.

MECO proposes the following Capital Expenditure (CAPEX) which was included in the calculation of its rolled-forward RAB:

ITEM CAPEX Category	NOMINAL PESO				
	2009	2010	2011	2012	2013
A REGULATED DISTRIBUTION SERVICES ASSETS					
A1 Regulated Distribution Services Assets – Network assets					
Land and Land Rights		21,150,703			
Structures and Improvements			6,404,657		
Station Equipment					
Power transformers		4,247,227	29,569,626		
Switchgear			9,874,666	2,374,183	2,387,412
Protective equipment	606,462		4,275,849		
Metering & control equipment					
Communications equipment			5,586,505		
Other station equipment					
Poles, Towers and Fixtures	3,658,276	22,941,163	3,602,940	2,478,146	5,792,695
Overhead Conductors and Devices	9,188,921	12,726,406	10,117,427	7,271,855	7,779,052
Underground Conduits			23,160,412		
Underground Conductors and Devices			835,566		
Line (distribution) Transformers	10,284,518	13,556,543	14,132,944	16,546,453	11,439,975
Power Conditioning Equipment	209,264			232,350	240,250
Meters, Instruments & Metering Transformers	8,050,571	8,472,622	9,066,044	9,459,972	9,522,851
Information Technology Equipment	1,223,765				
Regulated Entity Property on Consumer's Premises					
Street Lights and Signal Systems					
Submarine Cables					
A2 Regulated Distribution Services Assets – Non-network fixed assets					
Land and Land Rights	15,910,980				
Structures and Improvements					

ITEM CAPEX Category	NOMINAL PESO				
	2009	2010	2011	2012	2013
Office Furniture and Equipment	214,159	217,763	54,741	56,616	58,540
Transportation Equipment	244,753	8,121,870	1,598,427	1,019,079	
Stores Equipment					
Tools, Shop and Garage Equipment	332,303	326,250	83,206	312,518	229,479
Laboratory Equipment	1,427,725	317,261			
Information Systems Equipment	78,525				
Power-operated Equipment					
Communication Plant and Equipment	509,902			45,292	
Miscellaneous Equipment	15,297	10,575	10,948	11,323	11,708
A3 Regulated Distribution Services Assets – Materials and supplies, including spares					
A4 Regulated Distribution Services Assets – Transferred Subtransmission Assets					
Subtotal A					
B DISTRIBUTION CONNECTION SERVICES ASSETS					
B1 Distribution Connection Services Assets – Network assets					
Poles, Towers and Fixtures					
Overhead Conductors and Devices					
Underground Conduits					
Underground Conductors and Devices					
Line (distribution) Transformers					
Information Systems Equipment					
B2 Distribution Connection Services Assets – Non-network fixed					

ITEM CAPEX Category	NOMINAL PESO				
	2009	2010	2011	2012	2013
assets					
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					
B3 Distribution Connection Services Assets – Materials and supplies, including spares					
Subtotal B					
C REGULATED RETAIL SERVICES ASSETS					
C Regulated Retail Services Assets					
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					

ITEM CAPEX Category	NOMINAL PESO				
	2009	2010	2011	2012	2013
Equipment					
Communication Plant and Equipment					
Miscellaneous Equipment					
Subtotal C					
TOTAL	57,054,441	121,372,037	99,852,045	45,469,340	43,316,006

MECO further proposes the following forecast disposal of its assets:

		2009	2010	2011	2012	2013
Regulated Distribution Services Assets						
Network	Land and Land Rights (Distribution Purposes)					
	Structures and Improvements					
	Station Equipment					
	Power transformers					
	Switchgear	1,447,337.00				
	Protective equipment	384,356.80				
	Metering & control equipment					
	Communications equipment					
	Other station equipment					
	Poles, Towers and Fixtures	761,298.44	1,576,867.31	672,039.45	306,482.50	458,563.58
	Overhead Conductors and Devices	1,167,060.94	1,285,380.32	549,443.29	544,975.52	334,149.66
	Underground Cables & Devices					
	Underground Conduits					
	Line (distribution) Transformers					
	Power Conditioning Equipment					
	Meters, Instruments & Metering Transformers	2,294,400.00	2,294,400.00	2,484,400.00	2,404,400.00	2,534,400.00
	Information Systems Equipment					
	Regulated Entity Property on Consumer's Premises					
	Street Lights and Signal Systems					
	Submarine Cables					
Non-network	Land and Land Rights (non-network)					
	Structures and Improvements (non-network)					
	Office Furniture and Equipment	324.00	1,668.00	1,031.00	3,304.00	9,417.00
	Transportation Equipment	490,160.00	1,103,381.00	103,547.00	1,160,569.00	174,094.00
	Stores Equipment					
	Tools, Shop and Garage Equipment			874.00	49,585.00	6,320.00
	Laboratory Equipment					
	Information Systems Equipment	51,106.00	230,263.00	59,357.00	181,795.00	
	Power-operated Equipment					
	Communication Plant and Equipment	3,200.00	3,373.00			4,146.00
	Miscellaneous Equipment	5,200.00			15,583.00	
Materials	Materials and supplies, including spares					
Subtrans	Transferred subtransmission assets					
	Sub-total Regulated Distribution Services	6,604,443.18	6,495,332.63	3,870,691.74	4,666,694.02	3,521,090.24

Distribution Connection Services Assets						
Network	Poles, Towers and Fixtures					
	Overhead Conductors and Devices					
	Underground Circuits					
	Underground Cables & Devices					
	Line (distribution) Transformers					
	Information Systems Equipment					
Non-network	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 Equipment					
	Communication Plant and Equipment					
	Miscellaneous Equipment					
Materials	Materials and supplies, including spares					
	Sub-total Distribution Connection Assets	-	-	-	-	-
Regulated Retail Services Assets						
	Meters, Instruments & Metering Transformers					
	Land and land rights					
	Structures & 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					
	Sub-total Regulated Retail Services Assets	-	-	-	-	-
	TOTAL	6,604,443.18	6,495,332.63	3,870,691.74	4,666,694.02	3,521,090.24

MECO also proposes the following Operating and Maintenance Expenditures (OPEX):

OPEX Category and Sub-category	Nominal PhP				
	2009	2010	2011	2012	2013
A REGULATED DISTRIBUTION SERVICES					
A1. Distribution : Operation					
Operation supervision & engineering	962,562	1,142,863	1,365,228	1,618,306	1,924,328
Load dispatching	638,155	761,030	906,035	1,077,627	1,281,406
Structures					
Substations	285,545	340,526	405,409	482,188	573,370
Overhead conductors & devices	765,545	912,949	1,086,900	1,292,745	1,537,203
Underground cables & devices					

OPEX Category and Sub-category	Nominal PhP				
	2009	2010	2011	2012	2013
Line (distribution) transformers					
Streetlighting					
Metering (network related only)	1,207,549	1,440,060	1,714,446	2,039,140	2,424,742
Line (distribution) transformers	318,929	370,418	429,492	497,506	576,152
Rents	407,922	465,315	529,890	602,842	685,673
Information technology	3,841,581	2,666,234	3,036,043	3,454,255	3,928,869
Miscellaneous	1,207,549	1,440,060	1,714,446	2,039,140	2,424,742
A2. Distribution : Maintenance					
Maintenance supervision & engineering	359,878	429,172	510,945	607,712	722,630
Structures	1,113,369	1,326,842	1,578,651	1,876,509	2,231,106
Substations	438,323	517,986	613,024	723,536	792,750
Overhead conductors & devices	1,489,995	1,730,232	2,034,471	2,390,838	2,810,033
Underground cables & devices	94,230	107,488	122,404	139,256	158,389
Streetlighting	1,027,962	1,172,595	1,335,322	1,519,162	1,727,894
Line (distribution) transformers	737,318	841,058	957,775	1,089,637	1,239,352
Information technology	815,843	264,384	301,074	342,524	389,587
Metering	359,878	429,172	510,945	607,712	722,630
Miscellaneous	1,113,369	1,326,842	1,578,651	1,876,509	2,231,106
A3. Administrative & General					
Admin & general salaries	2,514,680	2,998,878	3,570,276	4,061,814	4,829,902
Office supplies & expenses	1,031,520	1,191,176	1,339,943	1,536,400	1,754,754
Information technology	-	-	-	-	-
Outside services employed	3,859,958	8,125,043	5,563,841	5,745,343	5,474,352
Property insurance	1,376,408	1,570,066	1,787,953	2,034,109	2,313,595
Injuries & damages	616,981	703,790	801,458	911,799	1,037,080
Employee pension & benefits	4,641,771	5,376,905	6,237,185	7,248,583	8,443,668
Regulatory liaison and compliance	761,039	868,116	988,588	1,124,692	1,279,225
Rents	-	-	-	-	-
Maintenance of office & general plant	2,587,544	2,845,855	3,131,306	3,449,177	3,806,013
Officers allowance & benefits	11,593,243	12,382,841	13,203,916	14,065,833	14,980,393
Travel	3,216,054	3,601,846	4,027,116	4,498,248	5,023,283
Training	2,006,798	2,111,752	2,222,217	2,329,809	2,446,169
Miscellaneous	3,426,541	3,739,709	4,085,912	4,448,583	4,859,682

OPEX Category and Sub-category	Nominal PhP				
	2009	2010	2011	2012	2013
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					
Subtotal A	53,091,037	61,142,576	65,240,991	72,818,809	81,166,805
B DISTRIBUTION CONNECTION SERVICES					
B1. Connection Services: Operation Operation supervision & engineering Load dispatching Structures Overhead conductor & devices Underground cables & devices Consumer installations Line (distribution) transformers Information technology					
B2. Connection Services: Maintenance Supervision & engineering Structures Overhead conductors & devices Underground cables & devices Consumer installations Line (distribution) transformers Information technology Miscellaneous					
B3. Administrative & General 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 &					

OPEX Category and Sub-category	Nominal PhP				
	2009	2010	2011	2012	2013
general plant					
Officers allowance & benefits					
Travel					
Training					
Miscellaneous					
Subtotal B					
C REGULATED RETAIL SERVICES					
Administration & management	242,283	288,934	343,986	409,133	486,500
Planning, installation and maintenance of consumer metering installations	-	-	-	-	-
Meter reading expenses	1,437,586	1,714,391	2,041,047	2,427,595	2,886,654
Information technology					
Consumer records, billing & collection	2,836,938	3,383,186	4,027,810	4,790,627	5,696,534
Bad debts	11,013,882	8,291,076	5,725,873	4,767,061	4,665,177
Informational & instructional advertising					
Energy trading expenses (excluding energy purchases)					
Consumer prompt payment discounts					
Miscellaneous					
Subtotal C	15,530,690	13,677,587	12,138,716	12,394,416	13,734,865
TOTAL	68,621,727	74,820,163	77,379,708	85,213,225	94,901,670

The following proposed Taxes, Levies and Duties (other than corporate income tax) are included in MECO's calculation of its ARR:

	Nominal PhP				
	2009	2010	2011	2012	2013
Levies	-	1,285,572.44	708,238.08	233,895.37	-
Duties	5,868,852.61	6,363,594.67	6,875,299.27	7,408,009.13	7,967,218.81
Other taxes	55,710,642.65	16,241,999.79	18,706,543.80	21,597,189.64	25,006,313.68
TOTAL	61,579,495.26	23,891,166.89	26,290,081.14	29,239,094.14	32,973,532.48

The following Summary of Proposed Depreciation is also included in the ARR calculation. This includes an allowance for assets intended to be disposed

of during the Secondary Regulatory Period after allowing for any potential income from the same of such assets. These values include depreciation on MECO's RAB at the start of the Second Regulatory Period as well as depreciation on those assets proposed to be acquired during the Second Regulatory Period. Depreciation is calculated on a straight-line basis, based on the standard asset lives approved by the Commission.

ITEM Depreciation Category	NOMINAL PESO				
	2009	2010	2011	2012	2013
A REGULATED DISTRIBUTION SERVICES ASSETS					
A1 Regulated Distribution Services Assets – Network assets					
Land and Land Rights					
Structures and Improvements	639,540.26	70,180.59	362,687.08	362,653.61	362,596.43
Station Equipment					
Power transformers	8,280,471.87	783,159.20	1,983,624.11	1,985,395.51	1,982,612.54
Switchgear	3,329,884.50	582,922.69	1,184,251.74	1,324,748.63	1,459,569.50
Protective equipment	1,984,914.92	223,768.48	484,155.56	484,572.02	483,917.73
Metering & control equipment	1,671,149.09	185,400.06	185,417.19	185,836.54	185,177.71
Communications equipment Other station equipment	2,185,566.00	231,277.10	1,251,838.87	1,252,361.98	1,251,540.14
Poles, Towers and Fixtures	26,103,965.61	4,394,827.99	4,510,611.63	4,569,603.97	4,537,797.10
Overhead Conductors and Devices	16,018,572.68	3,829,780.20	4,451,639.08	4,885,283.37	5,319,584.47
Underground Conduits		52,673.83	52,673.83	52,673.83	52,673.83
Underground Conductors and Devices		1,251,449.71	1,251,449.71	1,251,449.71	1,251,449.71

ITEM Depreciation Category	NOMINAL PESO				
	2009	2010	2011	2012	2013
Line (distribution) Transformers	25,775,681.05	5,491,669.82	6,502,520.22	7,486,026.92	8,122,805.54
Power Conditioning Equipment	157,550.79	63,317.52	63,322.29	75,164.70	86,707.08
Services					
Meters, Instruments & Metering Transformers	17,193,871.06	3,459,501.68	4,151,522.20	4,818,831.37	5,446,051.75
Information Technology Equipment	240,000.00	240,000.00	240,000.00	240,000.00	240,000.00
Regulated Entity Property on Consumer's Premises					
Street Lights and Signal Systems					
Submarine Cables					
A2 Regulated Distribution Services Assets – Non- Network fixed assets					
Land and Land Rights	1,117,172.46	1,108,782.75	1,108,813.12	1,108,656.40	1,108,388.57
Structures and Improvements	412,967.38	98,153.43	102,095.46	106,350.71	110,256.83
Office Furniture and Equipment	7,113,319.52	2,342,740.28	2,304,439.70	2,283,363.55	2,348,646.09
Transportation Equipment					
Stores Equipment	1,023,126.70	214,054.45	221,421.37	240,759.87	259,796.83
Tools, Shop and Garage Equipment					
Laboratory Equipment	1,245,835.06	302,130.32	302,142.53	302,441.39	301,971.86
Information Systems Equipment	502,281.76	122,444.94	122,456.26	122,397.87	307,645.97
Power-operated Equipment					
Communication Plant and Equipment	515,063.64	138,688.45	132,719.88	140,803.23	140,686.94

ITEM Depreciation Category	NOMINAL PESO				
	2009	2010	2011	2012	2013
Miscellaneous Equipment	33,233.76	5,465.36	6,465.63	6,603.72	6,368.10
A3 Regulated Distribution Services Assets – Materials and supplies, including spares					
A4 Regulated Distribution Services Assets – Transferred Subtransmissi on Assets					
Subtotal A					
B DISTRIBUTION CONNECTION SERVICES ASSETS					
B1 Distribution Connection Services Assets – Network assets					
Poles, Towers and Fixtures					
Overhead Conductors and Devices					
Underground Conduits					
Underground Conductors and Devices					
Line (distribution) Transformers					
Information Systems Equipment					
B2 Distribution Connection Services Assets – Non- network fixed assets					
Land and Land Rights					
Structures and Improvements					
Office Furniture and Equipment					

ITEM Depreciation Category	NOMINAL PESO				
	2009	2010	2011	2012	2013
Transportation Equipment					
Stores Equipment					
Tools, Shop and Garage Equipment					
Laboratory Equipment					
Information Systems Equipment					
Power-operated Equipment					
Communication Plant and Equipment					
Miscellaneous Equipment					
B3 Distribution Connection Services Assets – Materials and supplies, including spares					
Subtotal B					
C DISTRIBUTION CONNECTION SERVICES ASSETS					
C Distribution Connection Services Assets					
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					

ITEM Depreciation Category	NOMINAL PESO				
	2009	2010	2011	2012	2013
Information Systems Equipment					
Communication Plant and Equipment					
Miscellaneous Equipment					
Subtotal C					
Forecast disposal of assets					
TOTAL	115,544,168.11	25,192,388.85	30,976,267.46	33,285,978.90	35,366,244.72

Calculation of MECO's proposed Corporate Income Tax included in the ARR is based on the forecast sales of energy and will be calculated based on a Philippine corporate tax rate of 30% as shown below:

Summary of Proposed Corporate Income Tax

	2010	2011	2012	2013
Corporate Tax (nominal PhP)	-	4,620,603.15	33,235,868.93	50,395,976.99

Summary of Forecast Energy Consumption

	2009	2010	2011	2012	2013
Energy Consumption (MWh)	245,584,471	257,372,525	271,013,269	287,247,065	303,074,139

Summary of Forecast Peak Demand

	2009	2010	2011	2012	2013
Demand (MW)	47,903.05	51,688.20	55,499.84	59,872.82	62,742.55

MECO's estimated Maximum Annual Prices (MAP) for the Second Regulatory Period, using the aforementioned proposed Allowed Annual Revenues and an assumed Zero X-factor and P₀ factor, are as follows:

	2010 Regulatory Year	2011 Regulatory Year	2012 Regulatory Year	2013 Regulatory Year
Maximum Annual Price (PhP/kWh)	0.8034	0.9586	1.1429	1.3626

The MAP calculated under PBR are not directly comparable with unbundled rates; nevertheless, MECO made a comparison of its current rates for providing distribution wheeling services with those that would result from the implementation of the estimated MAP:

	Current Rates	Illustrative Rates (2010)	Illustrative Rates (2011)	Illustrative Rates (2012)	Illustrative Rates (2013)
Customer Class					
Residential					
Distribution (PhP/kWh)	0.7169	1.0673	1.3587	1.7045	2.1169
Supply (PhP/kWh)	0.1046	.1046	.1046	.1046	.1046
Metering (PhP/kWh)	0.3383	.3383	.3383	.3383	.3383
Metering (PhP/customer/month)	5.00	5.00	5.00	5.00	5.00
Inter-class cross-subsidy (PhP/kWh)	-0.1843	-0.1843	-0.1843	-0.1843	-0.1843
Total PhP/kWh	1.1598	1.5102	1.8016	2.1474	2.5598
Total PhP/customer/month	5.00	5.00	5.00	5.00	5.00
Average PhP/kWh distribution wheeling rate	1.1601	1.5156	1.8084	2.1560	2.5704
Commercial					
Distribution (PhP/kWh)	0.5316	.6943	0.8285	0.9877	1.1776
Supply (PhP/customer/month)	150.03	150.03	150.03	150.03	150.03
Metering (PhP/customer/month)	40.90	40.90	40.90	40.90	40.90
Inter-class cross-subsidy (PhP/kWh)	-0.0349	-0.0349	-0.0349	-0.0349	-0.0349
Total PhP/kWh	0.5316	0.6943	0.8285	.9877	1.1776
Total PhP/customer/month	190.93	190.93	190.93	190.93	190.93
Average PhP/kWh distribution wheeling rate	0.5321	0.6947	0.8289	0.9882	1.1782
Industrial					
Distribution (PhP/kWh)	0.1828	0.2389	0.2850	0.3398	0.4051
Distribution demand charge (PhP/kW)	71.14	71.14	71.14	71.14	71.14
Supply (PhP/customer/month)	150.03	150.03	150.03	150.03	150.03
Metering (PhP/customer/month)	42.47	42.47	42.47	42.47	42.47
Inter-class cross-subsidy (PhP/kWh)	0.0933	0.0933	0.0933	0.0933	0.0933
Total PhP/kWh	0.18	0.2388	0.2849	0.3396	0.4049
Total PhP/kW	113.61	113.61	113.61	113.61	113.61
Total PhP/customer/month	0.18	0.2389	0.2850	0.3398	0.4051
Average PhP/kWh distribution wheeling rate	0.1846	0.2389	0.2850	0.3398	0.4051
Public buildings/Government Hospitals					
Distribution (PhP/kWh)	0.5216	0.6815	0.8131	0.9694	1.1558
Supply (PhP/customer/month)					
Metering (PhP/customer/month)	41.10	41.10	41.10	41.10	41.10
Inter-class cross-subsidy (PhP/kWh)	0.0464	0.0464	0.0464	0.0464	0.0464
Total PhP/kWh	0.52	0.68	0.81	0.97	1.16
Total PhP/customer/month	41.10	41.10	41.10	41.10	41.10
Average PhP/kWh distribution wheeling rate	0.5268	0.6816	0.8133	0.9696	1.1560
Streetlights					
Distribution (PhP/kWh)	0.6127	0.0800	0.0955	0.1139	0.1358
Supply (PhP/customer/month)	150.03	150.03	150.03	150.03	150.03

Metering (PhP/customer/month)	55.35	55.35	55.35	55.35	55.35
Inter-class cross-subsidy (PhP/kWh)	-0.2917	-0.2917	-0.2917	-0.2917	-0.2917
Total PhP/kWh	0.321	0.0800	0.0955	0.1139	0.1358
Total PhP/customer/month	205.38	205.38	205.38	205.38	205.38
Average PhP/kWh distribution wheeling rate		0.8006	0.9553	1.1390	1.3579
Bulk					
Distribution (PhP/kWh)	0.2009	0.0262	0.0313	0.0373	0.0445
Distribution demand charge (PhP/kWh)	70.74	71.14	71.14	71.14	71.14
Supply (PhP/customer/month)	150.03	150.03	150.03	150.03	150.03
Metering (PhP/customer/month)	118.43	42.47	42.47	42.47	42.47
Inter-class cross-subsidy (PhP/kWh)	0.1859	0.1859	0.1859	0.1859	0.1859
	0.3868	0.0262	0.0313	0.0373	
Total PhP/kWh	118.43	263.64	263.64	263.64	0.0445
Total PhP/customer/month		0.2625	0.3132	0.3735	263.64
Average PhP/kWh distribution wheeling rate					0.4452

MECO also proposes to adopt a Price-linked Performance Incentive Scheme (PIS) as required under the RDWR based on the following performance measures and performance targets:

Proposed PIS for Mainland:

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	29.5	32	37	47	
Customer average interruption duration index (CAIDI)	Minutes	0.20	816	873	987	1215	
Planned system average interruption duration index (SAIDI)	Minutes	0.15	3641	3694	3800	4012	
Probability of voltage levels falling within prescribed limits	%	0.10	4%	8%	16%	24%	
System losses	%	0.05	7%	8.5%	9.5%		
Average time to process applications for Regulated Distribution Services	Days	0.15	1	3	5	7	
Average time to connect premises to the Regulated Distribution System	Days	0.15	2	4	6	9	
Average time to answer calls at call centre	Seconds	0					

Proposed PIS for Olango:

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	14.75	16	18.5	23.5	
Customer average interruption duration index (CAIDI)	Minutes	0.20	467	546	706	866	
Planned system average interruption duration index (SAIDI)	Minutes	0.15	1720	1847	1900	1953	
Probability of voltage levels falling within prescribed limits	%	0.10	6%	11%	22%	33%	
System losses	%	0.05	7%	8.5%	9.5%		

Average time to process applications for Regulated Distribution Services	Days	0.15	22	24	26	28	
Average time to connect premises to the Regulated Distribution System	Days	0.15	14	16	19	22	
Average time to answer calls at call centre	Seconds	0					

In this Price-linked PIS, MECO proposes to adopt a Guaranteed Service Level Performance Incentive Scheme where customers will be directly compensated, in the form of reductions in their monthly electricity bills, if service performance falls below certain minimum thresholds. The following table will apply in such case:

Performance Measure	Threshold	Penalty level (PhP)
Customer experiencing a total duration of sustained service interruptions in a Regulatory Year that exceeds the threshold	Maximum duration of 90 hrs per regulatory year	PhP1.98 per breach of the proposed threshold
Customer experiencing a number of sustained service interruptions in a Regulatory Year that exceeds the threshold	Maximum duration of 80 hrs per regulatory year	PhP2.90 per breach of the proposed threshold
Restoration of supply to a customer after a fault on the secondary distribution network taking longer than the threshold time	Within 12 hours	PhP2.90 per breach of the proposed threshold
Customer connection not provided on the day agreed with the customer (for Mainland)	15 days	PhP156.68 per breach of the proposed threshold
Customer connection not provided on the day agreed with the customer (for Olango)	30 days	PhP156.68 per breach of the proposed threshold

MECO will be entitled to an additional revenue amount equal to 0.5% of its ARR which is intended to be applied to the Guaranteed Service Level Scheme and to be used either in the provision for penalties thereunder or for network operational improvements to avoid such penalties.

Finding the said application to be sufficient in form and substance with the required fees having been paid, the same is hereby set for initial hearing, expository presentation, pre-trial conference and evidentiary hearings on the following dates and venue:

DATE	TIME	VENUE	PARTICULARS
July 4, 2008 (Friday)	Nine o'clock in the morning (9:00 A.M.)	Villa Besta Hotel M. L. Quezon Avenue, Pusok, Lapu-Lapu City, Cebu	Jurisdictional Hearing, Expository Presentation and Pre-Trial Conference
July 24, 2008 (Thursday)	Nine o'clock in the morning until Five o'clock in the afternoon (9:00 A.M. – 5:00 P.M.)		Evidentiary Hearing (Reception of evidence and presentation of witnesses)
July 25, 2008 (Friday)	Nine o'clock in the morning until Five o'clock in the afternoon (9:00 A.M. – 5:00 P.M.)		Evidentiary Hearing (Continuation of presentation of witnesses if necessary)

MECO is hereby 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 is 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.

Let copies of the application, this Order and the attached Notice of Public Hearing be furnished the Office of the Solicitor General (OSG), the Commission on Audit (COA), and the Committees on Energy of both Houses of Congress. They are hereby requested, if they so desire, to send their duly authorized representatives at the scheduled hearing.

Likewise, let copies of this Order and the attached Notice of Public Hearing be furnished the Offices of the City Mayor of Lapu-Lapu City, the Municipal Mayor of Cordova and the Provincial Governor of Cebu, for appropriate posting thereof on their respective bulletin boards.

MECO is hereby directed to furnish all those making requests therefor with copies of the application and its attachments, subject to reimbursement of reasonable photocopying costs.

On the date of the initial hearing, MECO must submit to the Commission its written Compliance with the jurisdictional requirements attaching therewith, methodically arranged and duly marked, the evidences on the actual posting and publication of the Notice of Public Hearing consisting of certifications issued to that effect, signed by the aforementioned Mayors or their duly authorized representatives, bearing the seals of their offices, and the affidavits of the Editors or Business Managers of the newspapers where the said Notice of Public Hearing was published together with the complete issues of the said newspapers, and such other proofs of compliance with the requirements of the Commission.

MECO and all other interested parties are directed to submit, at least five (5) days before the date of the initial hearing and pre-trial conference, their respective Pre-trial Briefs containing, among others:

- (a) a summary of admitted facts and proposed stipulation of facts;
- (b) the issues to be tried or resolved;

- (c) the documents or exhibits to be presented, stating the purposes thereof and proposed markings therefore; and
- (d) the number and names of the witnesses, with their written testimonies in an individual affidavit form, to be attached to the Pre-trial Brief.

Failure of MECO to submit the required Pre-Trial Brief and Judicial Affidavits of its witnesses within the prescribed period shall be a ground for cancellation of the scheduled hearing, and the resetting of which shall be six (6) months from said date of cancellation.

As part of the pre-trial conference, MECO must also be prepared to make an expository presentation on its application, aided by whatever communication medium that it may deem appropriate for the purpose, in order to put in plain words and explain, for the benefit of the consumers and other concerned parties, what the application is all about and the reasons and justifications being cited in support of the rate adjustments prayed for.

MECO is further directed to include in its expository presentation for CAPEX projects the following matters: objectives of the projects, project descriptions, project details, location of the projects, rationale of the projects, project costs, cost analyses and consequences of non-implementation.

Finally, MECO is hereby required, at its expense, to prepare the transcripts of the proceedings from the official recordings of the Commission and submit such within five (5) days from each scheduled hearing. The submitted transcripts shall be subjected to verification and certification by the Commission that the contents thereof are true and correct and faithfully reflects the official

recordings. The certified transcripts shall then be deemed as official part of the records of the case.

SO ORDERED.

Pasig City, May 28, 2008.


RODOLFO B. ALBANO, JR.
Chairman *ky*


Mn/MECO/PBR/ARR/initial order

Copy Furnished:

1. Mactan Electric Company, Incorporated (MECO)
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5. Senate Committee on Energy
House of Senate
GSIS Building, Roxas Boulevard, Pasay City
6. House of Representatives Committee on Energy
House of Representatives
Batasan Hills, Quezon City
7. Office of the City Mayor
Lapu-Lapu City, Cebu
8. Office of the Municipal Mayor
Cordova, Cebu
9. Office of the Governor
Province of Cebu

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

ERC CASE NO. 2008-028 RC

MACTAN ELECTRIC COMPANY, INC.
(MECO),

Applicant.

x-----x

NOTICE OF PUBLIC HEARING

D O C K E T E D
Date: JUN 02 2008
By: *M*

TO ALL INTERESTED PARTIES:

Notice is hereby given that on May 27, 2008, Mactan Electric Company, Incorporated (MECO) filed an application for approval of its Annual Revenue Requirement (ARR) and Performance Incentive Scheme (PIS) for the Second Regulatory Period commencing on April 1, 2009 and terminating on March 30, 2013 in accordance with the provisions of the Rules for Setting Distribution Wheeling Rates (RDWR).

MECO has entered the Performance Based Regulation (PBR) at the second entry point pursuant to the Commission's Resolution No. 24, Series of 2007 [Resolution Adopting a New Grouping for Privately Owned Distribution Utilities Entering Performance Based Regulation (PBR)].

MECO seeks the immediate approval of its ARR, following the Building Block calculation under the RDWR, as set out below for each Regulatory Year:

Building Block	Proposed revenue requirement per Regulatory Year (PhP)			
	2010	2011	2012	2013
Operating and maintenance expenditure	74,820,163.11	77,379,707.79	85,213,224.68	94,901,670.18
Taxes, levies & duties (other than corporate tax)	23,891,166.89	26,290,081.14	29,239,094.14	32,973,532.48
Regulatory depreciation	43,329,124.81	46,331,660.06	49,285,460.93	50,269,353.80
Return on capital	106,896,059.72	115,403,915.95	118,682,647.37	118,130,055.99
Corporate Income Tax		4,620,603.15	33,235,868.93	50,395,976.99
TOTAL REVENUE REQUIREMENT	248,936,515	270,025,968	315,656,296	346,670,589

Note: All values are in nominal terms

Among other building block components, MECO's ARR is based on a proposed rolled-forward value of the following Regulatory Asset Base (RAB). The opening value for MECO's RAB for 2009 is based on the value of its RAB as of December 31, 2007 as valued by the Commission and amended to a March 31, 2009 value pursuant to the RDWR.

ITEM	PhP for Regulatory Year			
	2010	2011	2012	2013
Opening value of RAB	793,330,713.13	872,039,636.88	926,081,244.57	922,787,800.09
plus Capital Expenditure	121,372,037.46	99,852,045.34	45,469,339.94	43,316,006.07
Minus Regulatory Depreciation on asset base at start of Second Regulatory Period	25,662,358.25	25,525,139.34	25,273,214.64	25,154,574.98

Minus Regulatory Depreciation on capital expenditure incurred during the Second Regulatory Period	43,329,124.81	46,331,660.06	49,285,460.93	50,269,353.80
Closing value of RAB	872,039,636.88	926,081,244.57	922,787,800.09	916,867,720.67
AVERAGE VALUE OF RAB	832,685,175.01	899,060,440.72	924,434,522.33	919,827,760.38

Note: All values are in nominal terms

This includes assets used beyond its standard lives in the RAB at a value of five percent (5%) of its optimized replacement cost.

For the calculation of the above-mentioned Annual Revenue Requirement and Rolled-forward Regulatory Asset Base, MECO has applied the preliminary values for the parameters as shown below:

Parameter	Date of Instruction from the Commission	Preliminary value adopted
Construction work in progress factor (CWIP factor)	April 30, 2008	For substation projects : 3.6% For other projects : 2.6%
P ₀ -factor		0 PhP/kWh
X-factor		- 0.1582
Valuation of MECO's regulatory asset base as at Dec. 31, 2007		PhP 684,216,982.00
Working-capital proportion		3%

The estimated Philippine Consumer Price Index (CPI), the United States of America CPI and the Philippine Peso/United States Dollar exchange rates that were used in the calculation of the ARR are shown in the following forecasts:

	2008	2009	2010	2011	2012	2013
Calendar Year						
Regulatory Year		3.9%	3.6%	3.5%	3.4%	3.4%
Data source:						

	2008	2009	2010	2011	2012	2013
Calendar Year						
Regulatory Year		2.7%	2.1%	2.4%	2.4%	2.4%
Data source :						

Quarter ending	2008	2009	2010	2011	2012	2013
Calendar Year						
Regulatory Year		41.43	42.08	42.08	42.23	42.00
Data source :						

For purposes of the initial and subsequent annual price resets during the Second Regulatory Period as required in terms of the RDWR, MECO 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.

MECO proposes an annual rate of return of 12.80% that corresponds to the regulatory Weighted Cost of Capital (WACC) under the RDWR.

MECO proposes the following Capital Expenditure (CAPEX) which was included in the calculation of its rolled-forward RAB:

ITEM CAPEX Category	NOMINAL PESO				
	2009	2010	2011	2012	2013
A REGULATED DISTRIBUTION SERVICES ASSETS					
A1 Regulated Distribution Services Assets – Network assets					
Land and Land Rights		21,150,703			
Structures and Improvements			6,404,657		
Station Equipment					
Power transformers		4,247,227	29,569,626		
Switchgear			9,874,666	2,374,183	2,387,412
Protective equipment	606,462		4,275,849		
Metering & control equipment					
Communications equipment			5,586,505		
Other station equipment					
Poles, Towers and Fixtures	3,658,276	22,941,163	3,602,940	2,478,146	5,792,695
Overhead Conductors and Devices	9,188,921	12,726,406	10,117,427	7,271,855	7,779,052
Underground Conduits			23,160,412		
Underground Conductors and Devices			835,566		
Line (distribution) Transformers	10,284,518	13,556,543	14,132,944	16,546,453	11,439,975
Power Conditioning Equipment	209,264			232,350	240,250
Meters, Instruments & Metering Transformers	8,050,571	8,472,622	9,066,044	9,459,972	9,522,851
Information Technology Equipment	1,223,765				
Regulated Entity Property on Consumer's Premises					
Street Lights and Signal Systems					
Submarine Cables					
A2 Regulated Distribution Services Assets – Non-network fixed assets					
Land and Land Rights	15,910,980				
Structures and Improvements					

ITEM CAPEX Category	NOMINAL PESO				
	2009	2010	2011	2012	2013
Office Furniture and Equipment	214,159	217,763	54,741	56,616	58,540
Transportation Equipment	244,753	8,121,870	1,598,427	1,019,079	
Stores Equipment					
Tools, Shop and Garage Equipment	332,303	326,250	83,206	312,518	229,479
Laboratory Equipment	1,427,725	317,261			
Information Systems Equipment	78,525				
Power-operated Equipment					
Communication Plant and Equipment	509,902			45,292	
Miscellaneous Equipment	15,297	10,575	10,948	11,323	11,708
A3 Regulated Distribution Services Assets – Materials and supplies, including spares					
A4 Regulated Distribution Services Assets – Transferred Subtransmission Assets					
Subtotal A					
B DISTRIBUTION CONNECTION SERVICES ASSETS					
B1 Distribution Connection Services Assets – Network assets					
Poles, Towers and Fixtures					
Overhead Conductors and Devices					
Underground Conduits					
Underground Conductors and Devices					
Line (distribution) Transformers					
Information Systems Equipment					
B2 Distribution Connection Services Assets – Non-network fixed					

ITEM CAPEX Category	NOMINAL PESO				
	2009	2010	2011	2012	2013
assets					
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					
B3 Distribution Connection Services Assets – Materials and supplies, including spares					
Subtotal B					
C REGULATED RETAIL SERVICES ASSETS					
C Regulated Retail Services Assets					
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					

ITEM CAPEX Category	NOMINAL PESO				
	2009	2010	2011	2012	2013
Equipment					
Communication Plant and Equipment					
Miscellaneous Equipment					
Subtotal C					
TOTAL	57,054,441	121,372,037	99,852,045	45,469,340	43,316,006

MECO further proposes the following forecast disposal of its assets:

		2009	2010	2011	2012	2013
Regulated Distribution Services Assets						
Network	Land and Land Rights (Distribution Purposes)					
	Structures and Improvements					
	Station Equipment					
	Power transformers					
	Switchgear	1,447,337.00				
	Protective equipment	384,356.80				
	Metering & control equipment					
	Communications equipment					
	Other station equipment					
	Poles, Towers and Fixtures	761,298.44	1,576,867.31	672,039.45	306,482.50	458,563.58
	Overhead Conductors and Devices	1,167,060.94	1,285,380.32	549,443.29	544,975.52	334,149.66
	Underground Cables & Devices					
	Underground Conduits					
	Line (distribution) Transformers					
	Power Conditioning Equipment					
	Meters, Instruments & Metering Transformers	2,294,400.00	2,294,400.00	2,484,400.00	2,404,400.00	2,534,400.00
	Information Systems Equipment					
	Regulated Entity Property on Consumer's Premises					
	Street Lights and Signal Systems					
	Submarine Cables					
Non-network	Land and Land Rights (non-network)					
	Structures and Improvements (non-network)					
	Office Furniture and Equipment	324.00	1,668.00	1,031.00	3,304.00	9,417.00
	Transportation Equipment	490,160.00	1,103,381.00	103,547.00	1,160,569.00	174,094.00
	Stores Equipment					
	Tools, Shop and Garage Equipment			874.00	49,585.00	6,320.00
	Laboratory Equipment					
	Information Systems Equipment	51,106.00	230,263.00	59,357.00	181,795.00	
	Power-operated Equipment					
	Communication Plant and Equipment	3,200.00	3,373.00			4,146.00
	Miscellaneous Equipment	5,200.00			15,583.00	
Materials	Materials and supplies, including spares					
Subtrans	Transferred subtransmission assets					
	Sub-total Regulated Distribution Services	6,604,443.18	6,495,332.63	3,870,691.74	4,666,694.02	3,521,090.24

Distribution Connection Services Assets						
Network	Poles, Towers and Fixtures					
	Overhead Conductors and Devices					
	Underground Circuits					
	Underground Cables & Devices					
	Line (distribution) Transformers					
	Information Systems Equipment					
Non-network	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 Equipment					
	Communication Plant and Equipment					
	Miscellaneous Equipment					
Materials	Materials and supplies, including spares					
	Sub-total Distribution Connection Assets	-	-	-	-	-
Regulated Retail Services Assets						
	Meters, Instruments & Metering Transformers					
	Land and land rights					
	Structures & 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					
	Sub-total Regulated Retail Services Assets	-	-	-	-	-
	TOTAL	6,604,443.18	6,495,332.63	3,870,691.74	4,666,694.02	3,521,090.24

MECO also proposes the following Operating and Maintenance Expenditures (OPEX):

OPEX Category and Sub-category	Nominal PhP				
	2009	2010	2011	2012	2013
A REGULATED DISTRIBUTION SERVICES					
A1. Distribution :					
Operation					
Operation supervision & engineering	962,562	1,142,863	1,365,228	1,618,306	1,924,328
Load dispatching	638,155	761,030	906,035	1,077,627	1,281,406
Structures					
Substations	285,545	340,526	405,409	482,188	573,370
Overhead conductors & devices	765,545	912,949	1,086,900	1,292,745	1,537,203
Underground cables & devices					

OPEX Category and Sub-category	Nominal PhP				
	2009	2010	2011	2012	2013
Line (distribution) transformers					
Streetlighting					
Metering (network related only)	1,207,549	1,440,060	1,714,446	2,039,140	2,424,742
Line (distribution) transformers	318,929	370,418	429,492	497,506	576,152
Rents	407,922	465,315	529,890	602,842	685,673
Information technology	3,841,581	2,666,234	3,036,043	3,454,255	3,928,869
Miscellaneous	1,207,549	1,440,060	1,714,446	2,039,140	2,424,742
A2. Distribution : Maintenance					
Maintenance supervision & engineering	359,878	429,172	510,945	607,712	722,630
Structures	1,113,369	1,326,842	1,578,651	1,876,509	2,231,106
Substations	438,323	517,986	613,024	723,536	792,750
Overhead conductors & devices	1,489,995	1,730,232	2,034,471	2,390,838	2,810,033
Underground cables & devices	94,230	107,488	122,404	139,256	158,389
Streetlighting	1,027,962	1,172,595	1,335,322	1,519,162	1,727,894
Line (distribution) transformers	737,318	841,058	957,775	1,089,637	1,239,352
Information technology	815,843	264,384	301,074	342,524	389,587
Metering	359,878	429,172	510,945	607,712	722,630
Miscellaneous	1,113,369	1,326,842	1,578,651	1,876,509	2,231,106
A3. Administrative & General					
Admin & general salaries	2,514,680	2,998,878	3,570,276	4,061,814	4,829,902
Office supplies & expenses	1,031,520	1,191,176	1,339,943	1,536,400	1,754,754
Information technology	-	-	-	-	-
Outside services employed	3,859,958	8,125,043	5,563,841	5,745,343	5,474,352
Property insurance	1,376,408	1,570,066	1,787,953	2,034,109	2,313,595
Injuries & damages	616,981	703,790	801,458	911,799	1,037,080
Employee pension & benefits	4,641,771	5,376,905	6,237,185	7,248,583	8,443,668
Regulatory liaison and compliance	761,039	868,116	988,588	1,124,692	1,279,225
Rents	-	-	-	-	-
Maintenance of office & general plant	2,587,544	2,845,855	3,131,306	3,449,177	3,806,013
Officers allowance & benefits	11,593,243	12,382,841	13,203,916	14,065,833	14,980,393
Travel	3,216,054	3,601,846	4,027,116	4,498,248	5,023,283
Training	2,006,798	2,111,752	2,222,217	2,329,809	2,446,169
Miscellaneous	3,426,541	3,739,709	4,085,912	4,448,583	4,859,682

OPEX Category and Sub-category	Nominal PhP				
	2009	2010	2011	2012	2013
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					
Subtotal A	53,091,037	61,142,576	65,240,991	72,818,809	81,166,805
B DISTRIBUTION CONNECTION SERVICES					
B1. Connection Services: Operation Operation supervision & engineering Load dispatching Structures Overhead conductor & devices Underground cables & devices Consumer installations Line (distribution) transformers Information technology					
B2. Connection Services: Maintenance Supervision & engineering Structures Overhead conductors & devices Underground cables & devices Consumer installations Line (distribution) transformers Information technology Miscellaneous					
B3. Administrative & General 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 &					

OPEX Category and Sub-category	Nominal PhP				
	2009	2010	2011	2012	2013
general plant					
Officers allowance & benefits					
Travel					
Training					
Miscellaneous					
Subtotal B					
C REGULATED RETAIL SERVICES					
Administration & management	242,283	288,934	343,986	409,133	486,500
Planning, installation and maintenance of consumer metering installations	-	-	-	-	-
Meter reading expenses	1,437,586	1,714,391	2,041,047	2,427,595	2,886,654
Information technology					
Consumer records, billing & collection	2,836,938	3,383,186	4,027,810	4,790,627	5,696,534
Bad debts	11,013,882	8,291,076	5,725,873	4,767,061	4,665,177
Informational & instructional advertising					
Energy trading expenses (excluding energy purchases)					
Consumer prompt payment discounts					
Miscellaneous					
Subtotal C	15,530,690	13,677,587	12,138,716	12,394,416	13,734,865
TOTAL	68,621,727	74,820,163	77,379,708	85,213,225	94,901,670

The following proposed Taxes, Levies and Duties (other than corporate income tax) are included in MECO's calculation of its ARR:

	Nominal PhP				
	2009	2010	2011	2012	2013
Levies	-	1,285,572.44	708,238.08	233,895.37	-
Duties	5,868,852.61	6,363,594.67	6,875,299.27	7,408,009.13	7,967,218.81
Other taxes	55,710,642.65	16,241,999.79	18,706,543.80	21,597,189.64	25,006,313.68
TOTAL	61,579,495.26	23,891,166.89	26,290,081.14	29,239,094.14	32,973,532.48

The following Summary of Proposed Depreciation is also included in the ARR calculation. This includes an allowance for assets intended to be disposed

of during the Secondary Regulatory Period after allowing for any potential income from the same of such assets. These values include depreciation on MECO's RAB at the start of the Second Regulatory Period as well as depreciation on those assets proposed to be acquired during the Second Regulatory Period. Depreciation is calculated on a straight-line basis, based on the standard asset lives approved by the Commission.

ITEM Depreciation Category	NOMINAL PESO				
	2009	2010	2011	2012	2013
A REGULATED DISTRIBUTION SERVICES ASSETS					
A1 Regulated Distribution Services Assets – Network assets					
Land and Land Rights					
Structures and Improvements	639,540.26	70,180.59	362,687.08	362,653.61	362,596.43
Station Equipment					
Power transformers	8,280,471.87	783,159.20	1,983,624.11	1,985,395.51	1,982,612.54
Switchgear	3,329,884.50	582,922.69	1,184,251.74	1,324,748.63	1,459,569.50
Protective equipment	1,984,914.92	223,768.48	484,155.56	484,572.02	483,917.73
Metering & control equipment	1,671,149.09	185,400.06	185,417.19	185,836.54	185,177.71
Communications equipment Other station equipment	2,185,566.00	231,277.10	1,251,838.87	1,252,361.98	1,251,540.14
Poles, Towers and Fixtures	26,103,965.61	4,394,827.99	4,510,611.63	4,569,603.97	4,537,797.10
Overhead Conductors and Devices	16,018,572.68	3,829,780.20	4,451,639.08	4,885,283.37	5,319,584.47
Underground Conduits		52,673.83	52,673.83	52,673.83	52,673.83
Underground Conductors and Devices		1,251,449.71	1,251,449.71	1,251,449.71	1,251,449.71

ITEM Depreciation Category	NOMINAL PESO				
	2009	2010	2011	2012	2013
Line (distribution) Transformers	25,775,681.05	5,491,669.82	6,502,520.22	7,486,026.92	8,122,805.54
Power Conditioning Equipment	157,550.79	63,317.52	63,322.29	75,164.70	86,707.08
Services					
Meters, Instruments & Metering Transformers	17,193,871.06	3,459,501.68	4,151,522.20	4,818,831.37	5,446,051.75
Information Technology Equipment	240,000.00	240,000.00	240,000.00	240,000.00	240,000.00
Regulated Entity Property on Consumer's Premises					
Street Lights and Signal Systems					
Submarine Cables					
A2 Regulated Distribution Services Assets – Non- Network fixed assets					
Land and Land Rights	1,117,172.46	1,108,782.75	1,108,813.12	1,108,656.40	1,108,388.57
Structures and Improvements	412,967.38	98,153.43	102,095.46	106,350.71	110,256.83
Office Furniture and Equipment	7,113,319.52	2,342,740.28	2,304,439.70	2,283,363.55	2,348,646.09
Transportation Equipment					
Stores Equipment	1,023,126.70	214,054.45	221,421.37	240,759.87	259,796.83
Tools, Shop and Garage Equipment					
Laboratory Equipment	1,245,835.06	302,130.32	302,142.53	302,441.39	301,971.86
Information Systems Equipment	502,281.76	122,444.94	122,456.26	122,397.87	307,645.97
Power-operated Equipment					
Communication Plant and Equipment	515,063.64	138,688.45	132,719.88	140,803.23	140,686.94

ITEM Depreciation Category	NOMINAL PESO				
	2009	2010	2011	2012	2013
Miscellaneous Equipment	33,233.76	5,465.36	6,465.63	6,603.72	6,368.10
A3 Regulated Distribution Services Assets – Materials and supplies, including spares					
A4 Regulated Distribution Services Assets – Transferred Subtransmissi on Assets					
Subtotal A					
B DISTRIBUTION CONNECTION SERVICES ASSETS					
B1 Distribution Connection Services Assets – Network assets					
Poles, Towers and Fixtures					
Overhead Conductors and Devices					
Underground Conduits					
Underground Conductors and Devices					
Line (distribution) Transformers					
Information Systems Equipment					
B2 Distribution Connection Services Assets – Non- network fixed assets					
Land and Land Rights					
Structures and Improvements					
Office Furniture and Equipment					

ITEM Depreciation Category	NOMINAL PESO				
	2009	2010	2011	2012	2013
Transportation Equipment					
Stores Equipment					
Tools, Shop and Garage Equipment					
Laboratory Equipment					
Information Systems Equipment					
Power-operated Equipment					
Communication Plant and Equipment					
Miscellaneous Equipment					
B3 Distribution Connection Services Assets – Materials and supplies, including spares					
Subtotal B					
C DISTRIBUTION CONNECTION SERVICES ASSETS					
C Distribution Connection Services Assets					
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					

ITEM Depreciation Category	NOMINAL PESO				
	2009	2010	2011	2012	2013
Information Systems Equipment					
Communication Plant and Equipment					
Miscellaneous Equipment					
Subtotal C					
Forecast disposal of assets					
TOTAL	115,544,168.11	25,192,388.85	30,976,267.46	33,285,978.90	35,366,244.72

Calculation of MECO's proposed Corporate Income Tax included in the ARR is based on the forecast sales of energy and will be calculated based on a Philippine corporate tax rate of 30% as shown below:

Summary of Proposed Corporate Income Tax

	2010	2011	2012	2013
Corporate Tax (nominal PhP)	-	4,620,603.15	33,235,868.93	50,395,976.99

Summary of Forecast Energy Consumption

	2009	2010	2011	2012	2013
Energy Consumption (MWh)	245,584,471	257,372,525	271,013,269	287,247,065	303,074,139

Summary of Forecast Peak Demand

	2009	2010	2011	2012	2013
Demand (MW)	47,903.05	51,688.20	55,499.84	59,872.82	62,742.55

MECO's estimated Maximum Annual Prices (MAP) for the Second Regulatory Period, using the aforementioned proposed Allowed Annual Revenues and an assumed Zero X-factor and P₀ factor, are as follows:

	2010 Regulatory Year	2011 Regulatory Year	2012 Regulatory Year	2013 Regulatory Year
Maximum Annual Price (PhP/kWh)	0.8034	0.9586	1.1429	1.3626

The MAP calculated under PBR are not directly comparable with unbundled rates; nevertheless, MECO made a comparison of its current rates for providing distribution wheeling services with those that would result from the implementation of the estimated MAP:

	Current Rates	Illustrative Rates (2010)	Illustrative Rates (20011)	Illustrative Rates (2012)	Illustrative Rates (2013)
Customer Class					
Residential					
Distribution (PhP/kWh)	0.7169	1.0673	1.3587	1.7045	2.1169
Supply (PhP/kWh)	0.1046	.1046	.1046	.1046	.1046
Metering (PhP/kWh)	0.3383	.3383	.3383	.3383	.3383
Metering (PhP/customer/month)	5.00	5.00	5.00	5.00	5.00
Inter-class cross-subsidy (PhP/kWh)	-0.1843	-0.1843	-0.1843	-0.1843	-0.1843
Total PhP/kWh	1.1598	1.5102	1.8016	2.1474	2.5598
Total PhP/customer/month	5.00	5.00	5.00	5.00	5.00
Average PhP/kWh distribution wheeling rate	1.1601	1.5156	1.8084	2.1560	2.5704
Commercial					
Distribution (PhP/kWh)	0.5316	.6943	0.8285	0.9877	1.1776
Supply (PhP/customer/month)	150.03	150.03	150.03	150.03	150.03
Metering (PhP/customer/month)	40.90	40.90	40.90	40.90	40.90
Inter-class cross-subsidy (PhP/kWh)	-0.0349	-0.0349	-0.0349	-0.0349	-0.0349
Total PhP/kWh	0.5316	0.6943	0.8285	.9877	1.1776
Total PhP/customer/month	190.93	190.93	190.93	190.93	190.93
Average PhP/kWh distribution wheeling rate	0.5321	0.6947	0.8289	0.9882	1.1782
Industrial					
Distribution (PhP/kWh)	0.1828	0.2389	0.2850	0.3398	0.4051
Distribution demand charge (PhP/kW)	71.14	71.14	71.14	71.14	71.14
Supply (PhP/customer/month)	150.03	150.03	150.03	150.03	150.03
Metering (PhP/customer/month)	42.47	42.47	42.47	42.47	42.47
Inter-class cross-subsidy (PhP/kWh)	0.0933	0.0933	0.0933	0.0933	0.0933
Total PhP/kWh	0.18	0.2388	0.2849	0.3396	0.4049
Total PhP/kW	113.61	113.61	113.61	113.61	113.61
Total PhP/customer/month	0.18	0.2389	0.2850	0.3398	0.4051
Average PhP/kWh distribution wheeling rate	0.1846	0.2389	0.2850	0.3398	0.4051
Public buildings/Government Hospitals					
Distribution (PhP/kWh)	0.5216	0.6815	0.8131	0.9694	1.1558
Supply (PhP/customer/month)					
Metering (PhP/customer/month)	41.10	41.10	41.10	41.10	41.10
Inter-class cross-subsidy (PhP/kWh)	0.0464	0.0464	0.0464	0.0464	0.0464
Total PhP/kWh	0.52	0.68	0.81	0.97	1.16
Total PhP/customer/month	41.10	41.10	41.10	41.10	41.10
Average PhP/kWh distribution wheeling rate	0.5268	0.6816	0.8133	0.9696	1.1560
Streetlights					
Distribution (PhP/kWh)	0.6127	0.0800	0.0955	0.1139	0.1358
Supply (PhP/customer/month)	150.03	150.03	150.03	150.03	150.03

Metering (PhP/customer/month)	55.35	55.35	55.35	55.35	55.35
Inter-class cross-subsidy (PhP/kWh)	-0.2917	-0.2917	-0.2917	-0.2917	-0.2917
Total PhP/kWh	0.321	0.0800	0.0955	0.1139	0.1358
Total PhP/customer/month	205.38	205.38	205.38	205.38	205.38
Average PhP/kWh distribution wheeling rate		0.8006	0.9553	1.1390	1.3579
Bulk					
Distribution (PhP/kWh)	0.2009	0.0262	0.0313	0.0373	0.0445
Distribution demand charge (PhP/kWh)	70.74	71.14	71.14	71.14	71.14
Supply (PhP/customer/month)	150.03	150.03	150.03	150.03	150.03
Metering (PhP/customer/month)	118.43	42.47	42.47	42.47	42.47
Inter-class cross-subsidy (PhP/kWh)	0.1859	0.1859	0.1859	0.1859	0.1859
	0.3868	0.0262	0.0313	0.0373	
Total PhP/kWh	118.43	263.64	263.64	263.64	0.0445
Total PhP/customer/month		0.2625	0.3132	0.3735	263.64
Average PhP/kWh distribution wheeling rate					0.4452

MECO also proposes to adopt a Price-linked Performance Incentive Scheme (PIS) as required under the RDWR based on the following performance measures and performance targets:

Proposed PIS for Mainland:

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	29.5	32	37	47	
Customer average interruption duration index (CAIDI)	Minutes	0.20	816	873	987	1215	
Planned system average interruption duration index (SAIDI)	Minutes	0.15	3641	3694	3800	4012	
Probability of voltage levels falling within prescribed limits	%	0.10	4%	8%	16%	24%	
System losses	%	0.05	7%	8.5%	9.5%		
Average time to process applications for Regulated Distribution Services	Days	0.15	1	3	5	7	
Average time to connect premises to the Regulated Distribution System	Days	0.15	2	4	6	9	
Average time to answer calls at call centre	Seconds	0					

Proposed PIS for Olango:

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	14.75	16	18.5	23.5	
Customer average interruption duration index (CAIDI)	Minutes	0.20	467	546	706	866	
Planned system average interruption duration index (SAIDI)	Minutes	0.15	1720	1847	1900	1953	
Probability of voltage levels falling within prescribed limits	%	0.10	6%	11%	22%	33%	
System losses	%	0.05	7%	8.5%	9.5%		

Average time to process applications for Regulated Distribution Services	Days	0.15	22	24	26	28	
Average time to connect premises to the Regulated Distribution System	Days	0.15	14	16	19	22	
Average time to answer calls at call centre	Seconds	0					

In this Price-linked PIS, MECO proposes to adopt a Guaranteed Service Level Performance Incentive Scheme where customers will be directly compensated, in the form of reductions in their monthly electricity bills, if service performance falls below certain minimum thresholds. The following table will apply in such case:

Performance Measure	Threshold	Penalty level (PhP)
Customer experiencing a total duration of sustained service interruptions in a Regulatory Year that exceeds the threshold	Maximum duration of 90 hrs per regulatory year	PhP1.98 per breach of the proposed threshold
Customer experiencing a number of sustained service interruptions in a Regulatory Year that exceeds the threshold	Maximum duration of 80 hrs per regulatory year	PhP2.90 per breach of the proposed threshold
Restoration of supply to a customer after a fault on the secondary distribution network taking longer than the threshold time	Within 12 hours	PhP2.90 per breach of the proposed threshold
Customer connection not provided on the day agreed with the customer (for Mainland)	15 days	PhP156.68 per breach of the proposed threshold
Customer connection not provided on the day agreed with the customer (for Olango)	30 days	PhP156.68 per breach of the proposed threshold

MECO will be entitled to an additional revenue amount equal to 0.5% of its ARR which is intended to be applied to the Guaranteed Service Level Scheme and to be used either in the provision for penalties thereunder or for network operational improvements to avoid such penalties.

The Commission has set the application for initial hearing, expository presentation, pre-trial conference and evidentiary hearings on the following dates and venue:

DATE	TIME	VENUE	PARTICULARS
July 4, 2008 (Friday)	Nine o'clock in the morning (9:00 A.M.)	Villa Besta Hotel M. L. Quezon Avenue, Pusok, Lapu- Lapu City, Cebu	Jurisdictional Hearing, Expository Presentation and Pre- Trial Conference
July 24, 2008 (Thursday)	Nine o'clock in the morning until Five o'clock in the afternoon (9:00 A.M. – 5:00 P.M.)		Evidentiary Hearing (Reception of evidence and presentation of witnesses)
July 25, 2008 (Friday)	Nine o'clock in the morning until Five o'clock in the afternoon (9:00 A.M. – 5:00 P.M.)		Evidentiary Hearing (Continuation of presentation of witnesses if necessary)

All persons who have an interest in the subject matter of the proceeding may become a party by filing, at least five (5) days prior to the initial hearing and subject to the requirements in the ERC's Rules of Practice and Procedure, a verified petition with the Commission giving the docket number and the title of the proceeding and stating: (1) the petitioner's name and address; (2) the nature of petitioner's interest in the subject matter of the proceeding, and the way and manner in which such interest is affected by the issues involved in the proceeding; and (3) a statement of the relief desired.

All other persons who may want their views known to the Commission with respect to the subject matter of the proceeding may file their opposition to the application or comment thereon at any stage of the proceeding before the applicant concludes the presentation of its evidence. No particular form of opposition or comment is required, but the document, letter or writing should

contain the name and address of such person and a concise statement of the opposition or comment and the grounds relied upon.

All such persons who may wish to have a copy of the application may request the applicant, prior to the date of the initial hearing, that they be furnished with a copy of the application. The applicant is hereby directed to furnish all those making such request with copies of the application and its attachments, subject to reimbursement of reasonable photocopying costs. Likewise, any such person may examine the application and other pertinent records filed with the Commission during the usual office hours.

WITNESS, the Honorable, **RODOLFO B. ALBANO, JR.**, Chairman, and the Honorable Commissioners, **RAUF A. TAN, MARIA TERESA A.R. CASTAÑEDA** and **JOSE C. REYES**, Energy Regulatory Commission, this 28th day of May, 2008 at Pasig City.


ATTY. FRANCIS SATURNINO C. JUAN
Executive Director III


Tn/MECO/PER/ARR/NPH