

EXPOSITORY PRESENTATION
on the
APPLICATION OF
CAGAYAN ELECTRIC POWER AND LIGHT
CO., INC.
(CEPALCO)

SEARSOLIN, Xavier University
Father Masterson Ave., Cagayan de Oro City
September 25, 2006



Cagayan Electric Power & Light Co., Inc.



FOR THE APPROVAL OF:

- ANNUAL REVENUE REQUIREMENT (ARR),
- PERFORMANCE INCENTIVE SCHEME (PIS)
- PROCEDURE AND DESIGN TO CONVERT MAXIMUM AVERAGE PRICE (MAP) INTO CHARGES

FOR THE
REGULATORY PERIOD 2008 - 2011



PRESENTATION OUTLINE

1. The Applicant
2. The Application
3. The Forecasts

Bases of Forecasts:

- Performance Incentive Scheme (PIS)
- Corporate Objectives
- Basic Determinants: customer and load growth, renewal of assets, refurbishment of assets



PRESENTATION OUTLINE cont...

Assumptions and Forecasts

- kW, kWh, and Number of Customers
- Financial Indices
- Capital Expenditure Forecast
- Operating Expenditure Forecast
- Regulatory Asset Base (RAB)

The Annual Revenue Requirements (ARR)



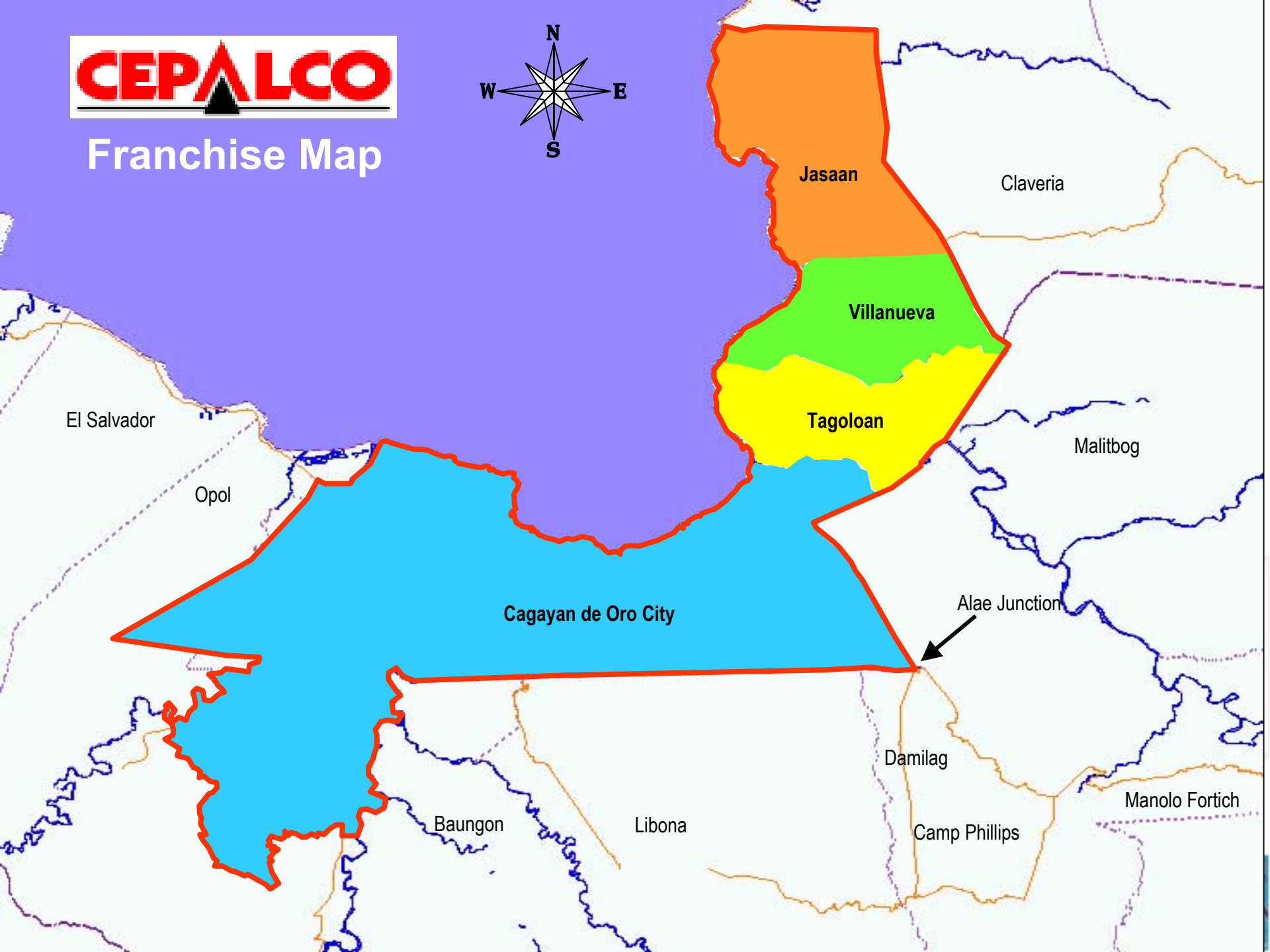
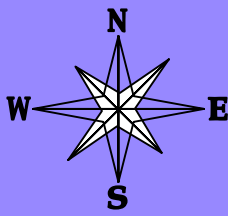
1. THE APPLICANT

- **CEPALCO** is a corporation duly organized and registered with Securities and Exchange Commission (SEC)
- **Exclusive Franchise** was issued by Congress under Republic Act 9284
- **Franchise Area Covers:** Cagayan de Oro City, Tagoloan, Villanueva, and Jasaan
- **Office Address:** 44 Toribio Chaves St.
Cagayan de Oro City, 9000





Franchise Map



Jasaan

Claveria

Villanueva

Tagoloan

Malitbog

El Salvador

Opol

Cagayan de Oro City

Alae Junction

Damilag

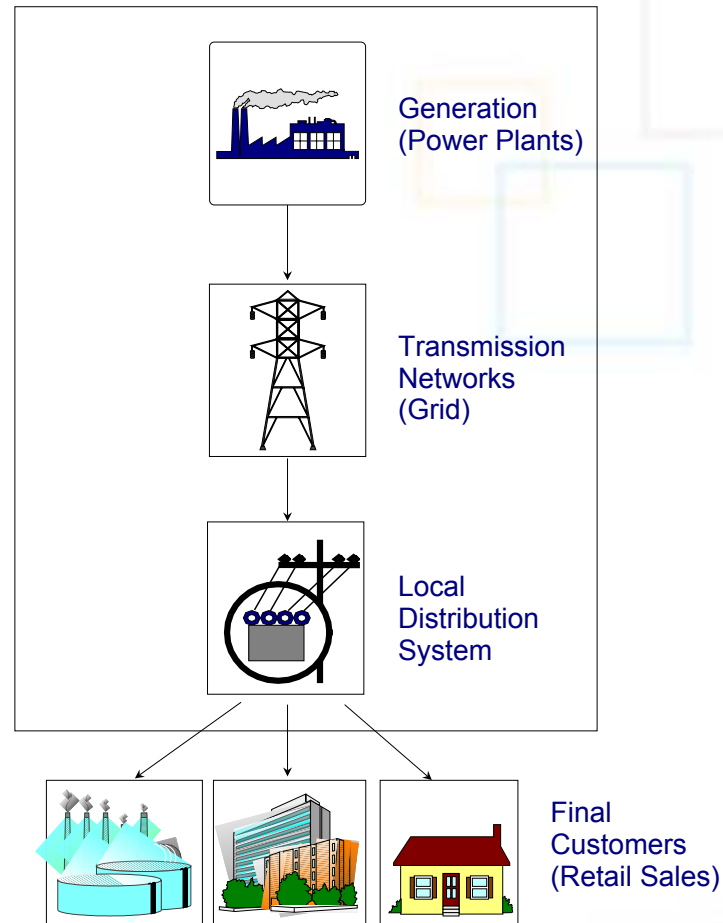
Baungon

Libona

Camp Phillips

Manolo Fortich

COMPONENTS OF THE ELECTRIC POWER INDUSTRY



BUSINESS PROCESSES OF DISTRIBUTION UTILITIES

- Asset Ownership and Management
- Distribution System Operations
- Construction and Maintenance
- Customer Service Processes
- Corporate Processes



2. THE APPLICATION

APPROVAL OF:

1. Annual Revenue Requirement (ARR)
2. Performance Incentive Scheme (PIS)
3. Procedure and Design to Convert the Price Cap into Charges for Each Customer Class.

For the Regulatory Period 2008 - 2011

In accordance with the ERC-approved DWRG as subsequently amended in Rules for Setting Distribution Wheeling Rates (RDWR)



3. THE FORECASTS

1. Number of Customers
2. kW and kWh Requirements
3. Financial Indices
4. Capital Expenditures
5. Operating Expenditures
6. Regulatory Asset Base



BASES OF FORECASTS

1. **Basic Determinants**
 - a. Customer and Load Growth
 - b. Renewal (Replacement) of Assets
 - c. Refurbishment (Reconditioning) of Assets

2. **Performance Targets under the Performance Incentive Scheme (PIS)**

3. **Corporate Objectives**



PERFORMANCE TARGETS

(System and Services)

and the

PERFORMANCE INCENTIVE SCHEME

(PIS)



PERFORMANCE INCENTIVE SCHEME (PIS)

A mechanism that:

- **Rewards** the utility if its targets are exceeded, or
- **Penalizes** the utility if targets are not met.



PERFORMANCE INDICATORS

- **System or Network Performance**
 - SAIFI
 - CAIDI
 - Planned SAIDI
 - Voltage Regulation
 - System Loss



PERFORMANCE INDICATOR cont...

- **Service Performance**
 - Time to Process a Service Application
 - Time to Connect Premises



SYSTEM PERFORMANCE MEASURES AND DEFINITION

Performance Indices	Acronym	MEASURE - DEFINITION
System Average Interruption Frequency Index	SAIFI	The AVERAGE NUMBER of sustained service interruptions (interruptions beyond 5 minutes) experienced per customer in a Year.
Customer Average Interruption Duration Index	CAIDI	The AVERAGE DURATION of sustained service interruptions (interruptions beyond 5 minutes) in a year.
Planned System Average Interruption Duration Index	Planned SAIDI	The AVERAGE DURATION OF PLANNED sustained service interruptions (interruptions beyond 5 minutes) for all customers in a year.
Voltage regulation	Voltage Regulation	The probability of Distribution System voltage levels falling outside the boundaries prescribed in the Distribution Code.
System losses	System Loss	The difference between the energy obtained from suppliers/embedded generators and the energy delivered and sold to all customers.



SERVICE PERFORMANCE MEASURES AND DEFINITION

- **Time to process** an application for distribution service
- **Time to connect** premises to the distribution system (after compliance with government and utility requirements)



PERFORMANCE TARGETS

Performance Indices	Proposed Targets			
	2007-2008	2008-2009	2009-2010	2010-2011
SAIFI (frequency)	27.38	27.21	27.38	27.21
CAIDI (minutes)	84.95	82.38	86.98	84.23
Planned SAIDI (minutes)	1,502.47	1,405.18	1,502.46	1,405.19
System Loss	9.50%			
Voltage Deviation	up to 20% of measured points			
Time to Process Application, working days	5.5	5.5	5.5	5.5
Time to Connect Premises, working days	5	5	5	5



GUARANTEED SERVICE LEVELS

- **GSL1. Duration of Sustained Interruptions**
 - **GSL1-A. Unplanned**
 - **GSL1-B. Planned**
- **GSL2 Number of Sustained Interruptions**
 - **GSL 2-A Unplanned**
 - **GSL 2-B Planned**



GUARANTEED SERVICE LEVEL cont...

- **GSL3** Restoration of service to a customer after a fault in the secondary system of a Regulated distribution system
 - **GSL 3-A** After a fault in the secondary line
 - **GSL 3-B** After a fault in the DT
 - **GSL 3-C** After a fault in the service drop
- **GSL4** Service Connection on Time



GUARANTEED SERVICE LEVELS

Scheme		Short Description	MAXIMUM
GSL 1	A	Duration of Unplanned Interruption	22 Hours/customer/yr
	B	Duration of Planned Interruption	34 Hours/customer/yr
GSL 2	A	Frequency of Unplanned Interruption	46 no. of occurrence/customer/yr
	B	Frequency of Planned Interruption	23 no. of occurrence/customer/yr
GSL 3	A	Restoration Time of Fault in Secondary Line	11 Hours per occurrence
	B	Restoration Time of Fault in DT	12 Hours per occurrence
	C	Restoration Time of Fault in Service Drop	12 Hours per occurrence
GSL 4		Time to Connect Premises	5 days



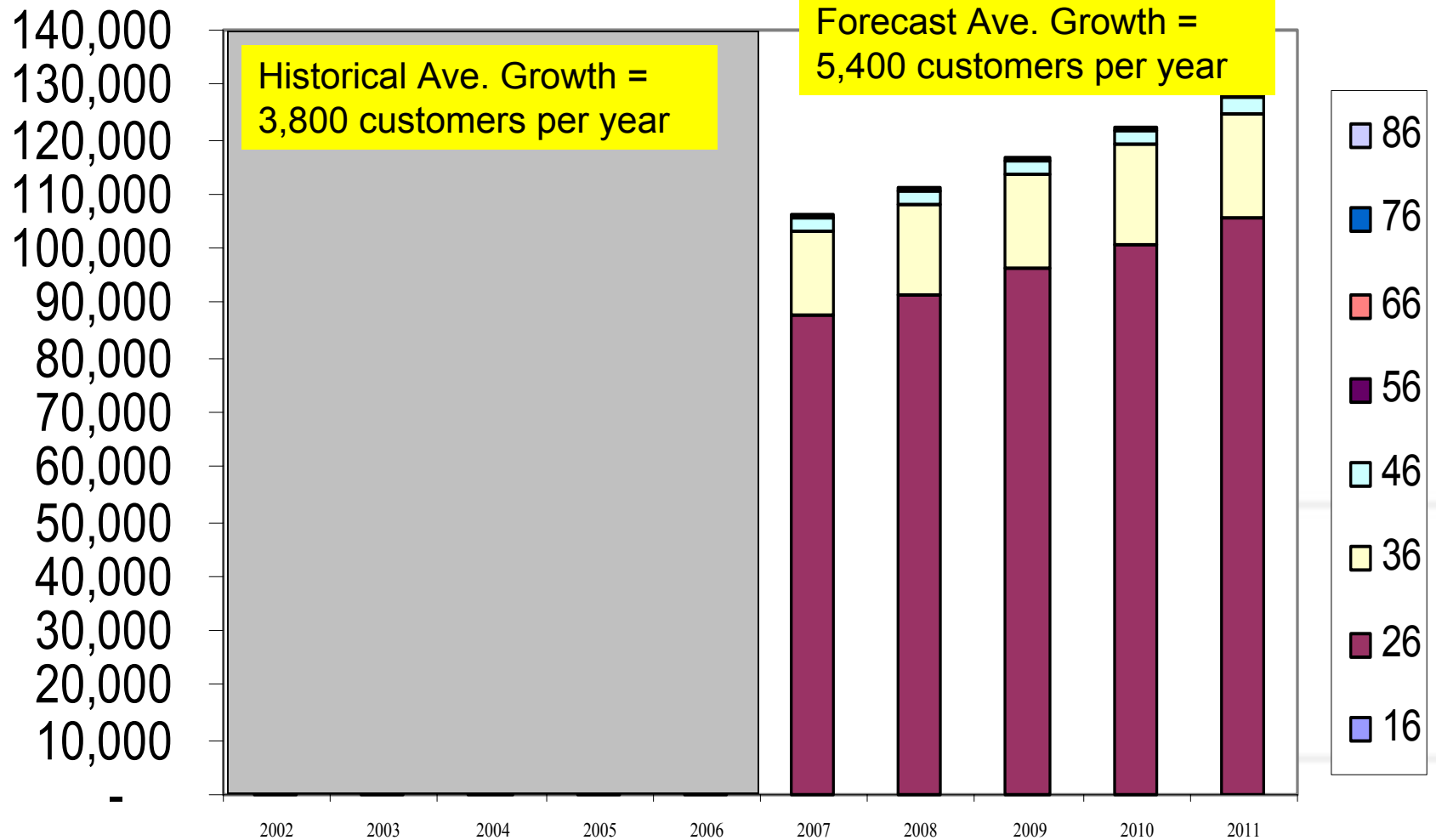
CORPORATE OBJECTIVE

Key Result Areas (KRAs)

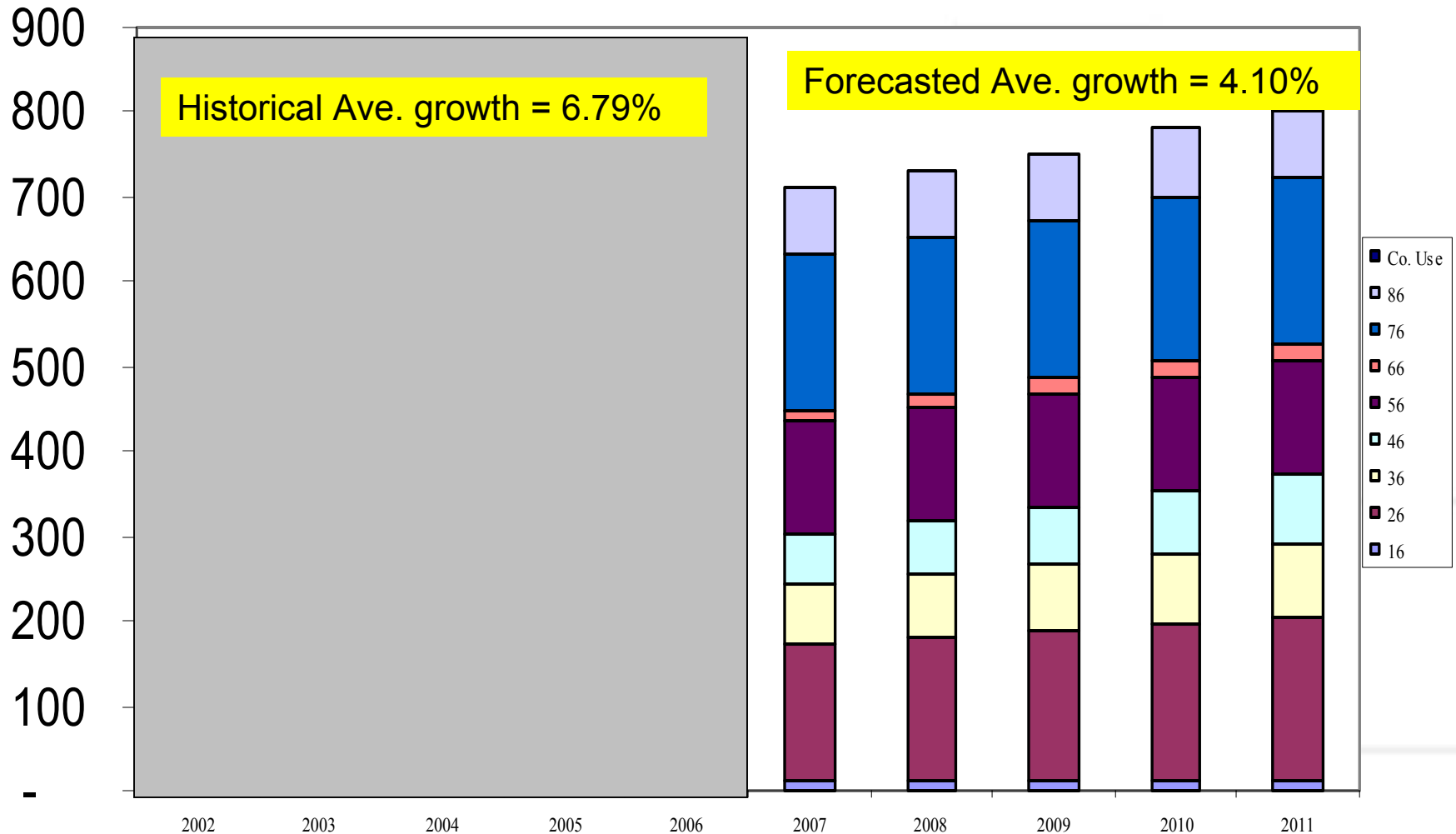
1. System Reliability
2. Customer Service
3. Information and Communication Technology
4. System and Service Incentive Scheme Performance
5. Human Resource Development
6. Corporate and Financial Integrity



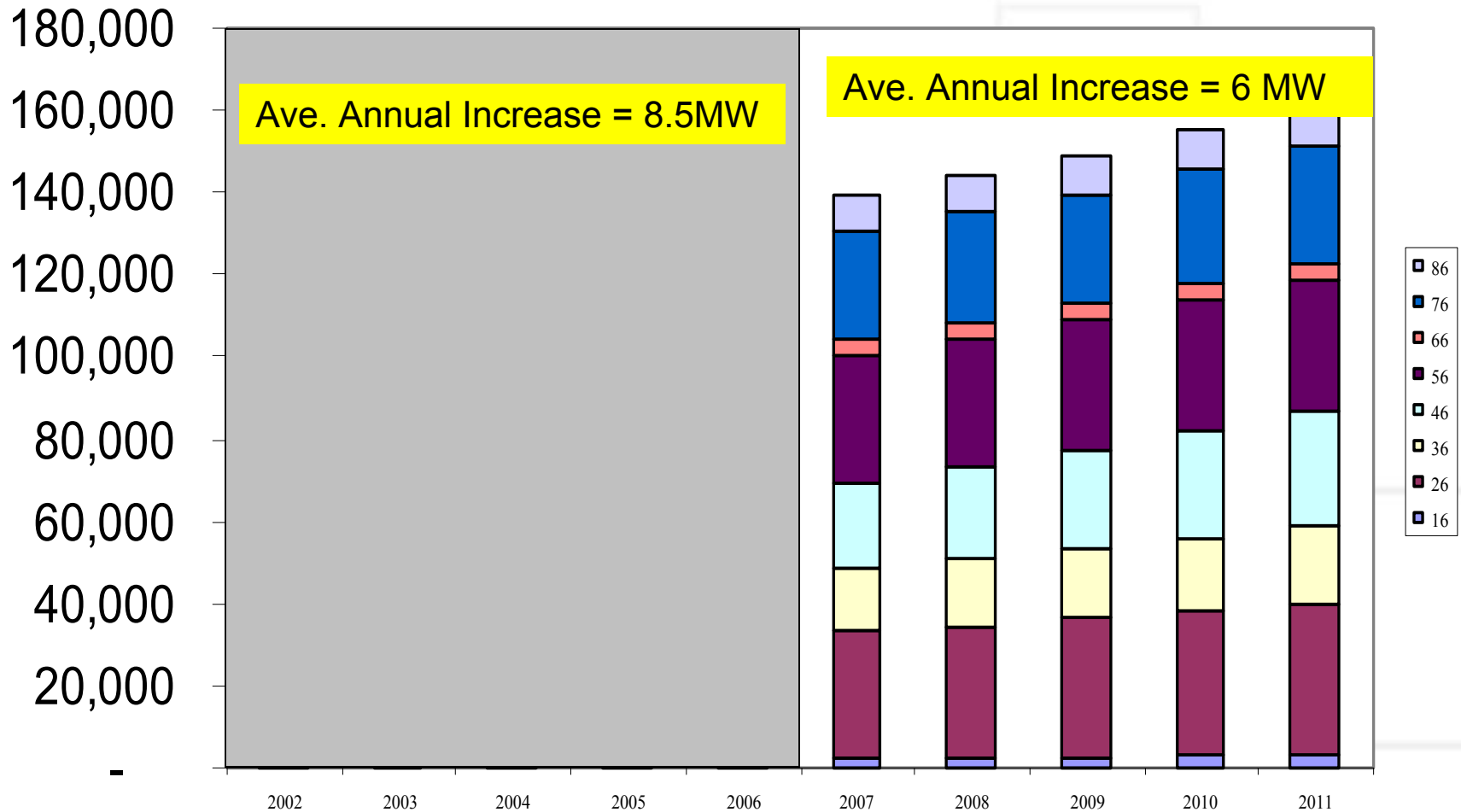
NUMBER OF CUSTOMERS



ENERGY CONSUMPTION, GWh



DEMAND, kW



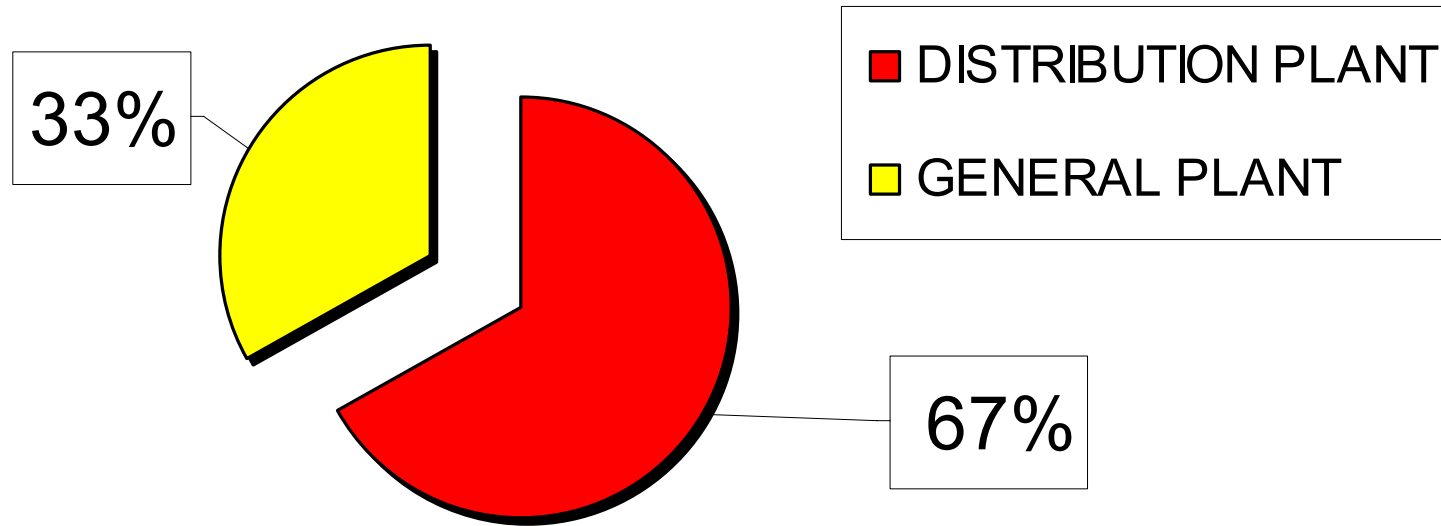
FINANCIAL INDICES USED IN FORECASTING

Year	Phil CPI		US CPI		PhP/US\$ Rate
	Ave.	Inflation	Ave	Inflation	
2004	120.6		188.9		56.1
2005	129.8	7.64%	195.3	3.39%	55.0
2006	139.3	7.31%	202.5	3.70%	52.0
2007	147.1	5.60%	208.2	2.80%	52.8
2008	153.9	4.60%	213.8	2.70%	52.5
2009	159.9	3.90%	219.6	2.70%	52.5
2010	166.7	4.30%	225.5	2.70%	53.0
2011	173.9	4.30%	231.6	2.70%	53.0

Based on Econ. Intelligence Unit (EIU) Forecasts as approved by ERC for Transco

CAPEX FORECAST, 2007 - 2011

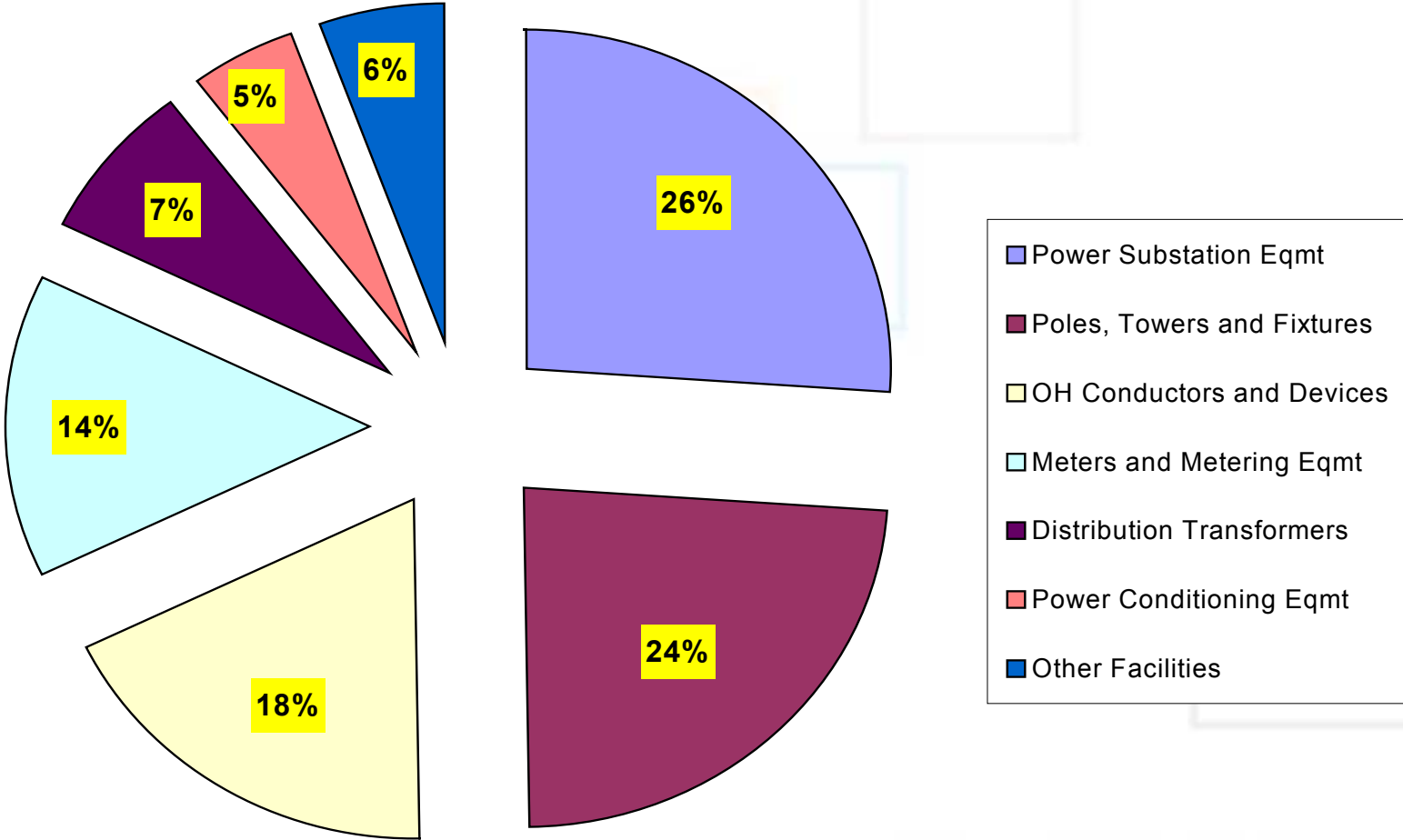
(Amount in million Pesos)



	2007	2008	2009	2010	2011	TOTAL
DISTRIBUTION PLANT	383	332	281	173	164	1,333
GENERAL PLANT	70	81	143	212	151	657
TOTAL	453	413	424	386	316	1,991

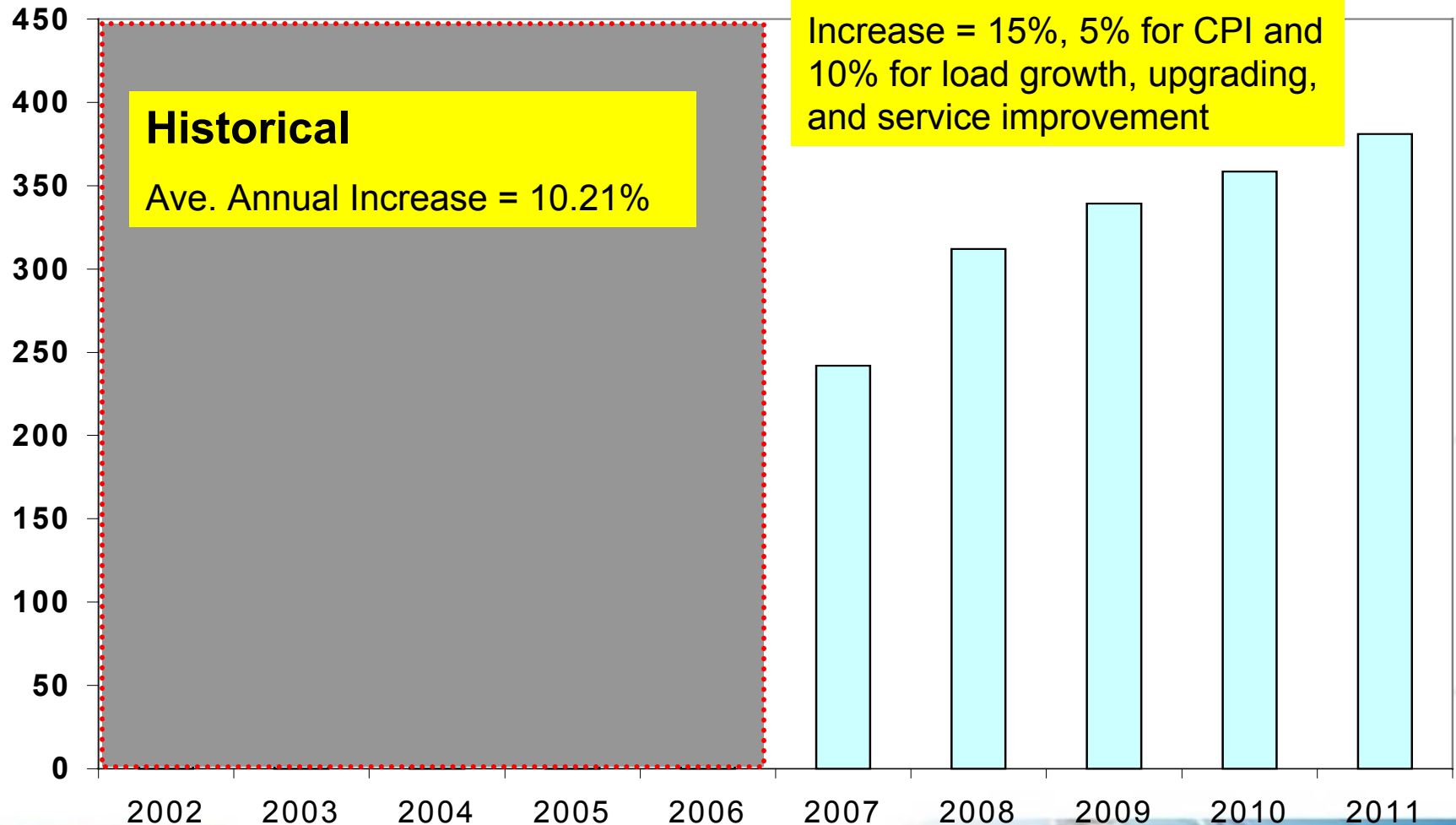


BREAKDOWN OF DISTRIBUTION PLANT EXPENDITURE FORECAST



OPERATING EXPENDITURES

2002 – 2011 in million Pesos



REGULATORY ASSET BASE (RAB) 2008 – 2011 in million Pesos

	REGULATORY YEAR			
	2008	2009	2010	2011
OPENING RAB	2,475	2,760	3,009	3,228
ADD: CAPEX FORECAST	413	400	386	316
LESS: DEPRECIATION				
a) on existing assets	117	117	115	113
b) on CAPEX forecast	12	34	51	64
CLOSING RAB	2,760	3,009	3,228	3,366
AVERAGE RAB for the year	2,618	2,884	3,119	3,297

PROPOSED ANNUAL REVENUE REQUIREMENT, in million Pesos

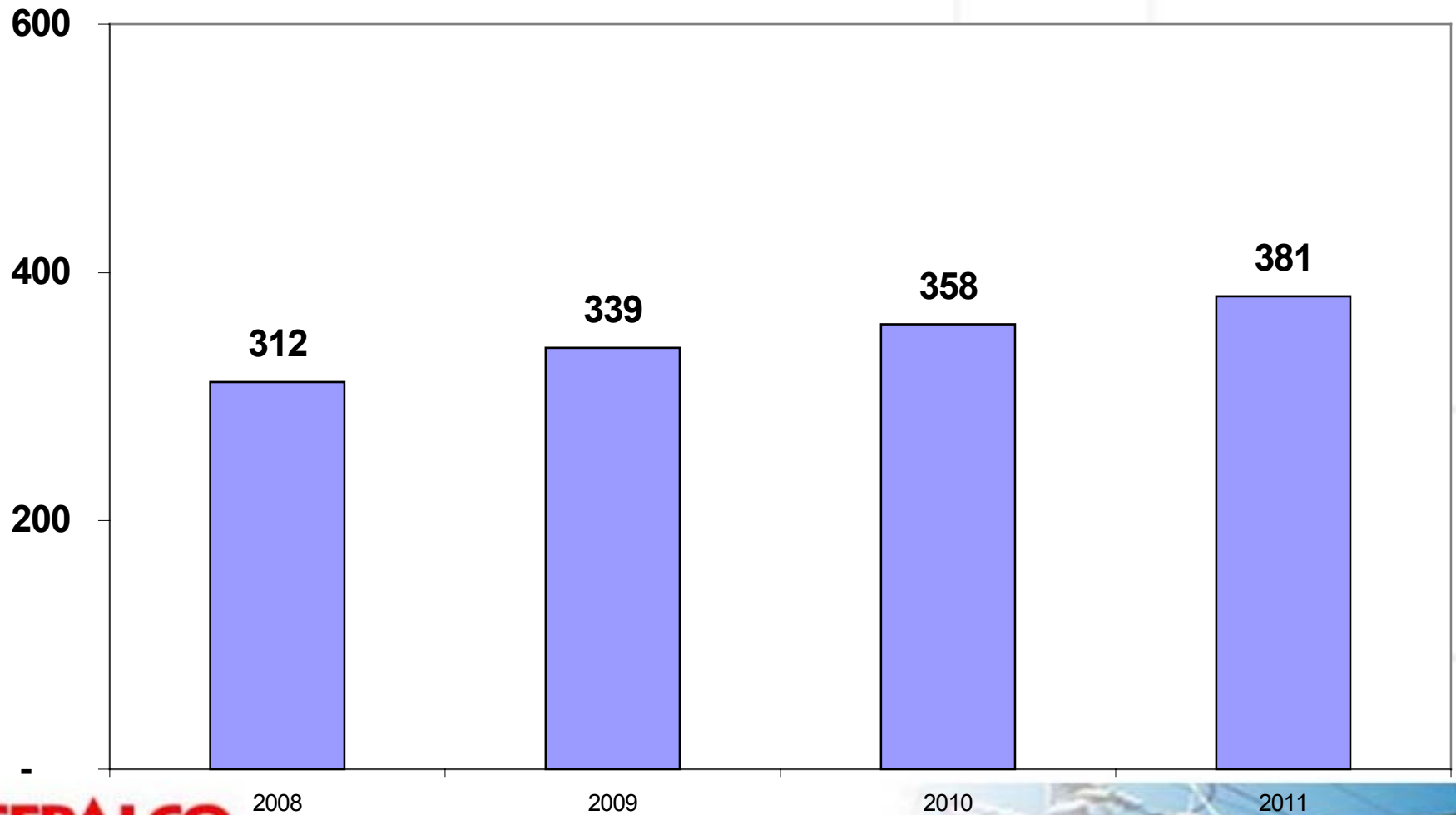
	2008	2009	2010	2011
O&M	312	339	358	381
Depreciation	129	151	166	178
Other Taxes, Levies, Duties	38	37	45	47
Cost of Capital	461	507	546	578
Income Tax	93	83	78	85
TOTAL REVENUE REQUIREMENT	1,032	1,117	1,193	1,268

Components of the Annual Revenue Requirement (ARR):

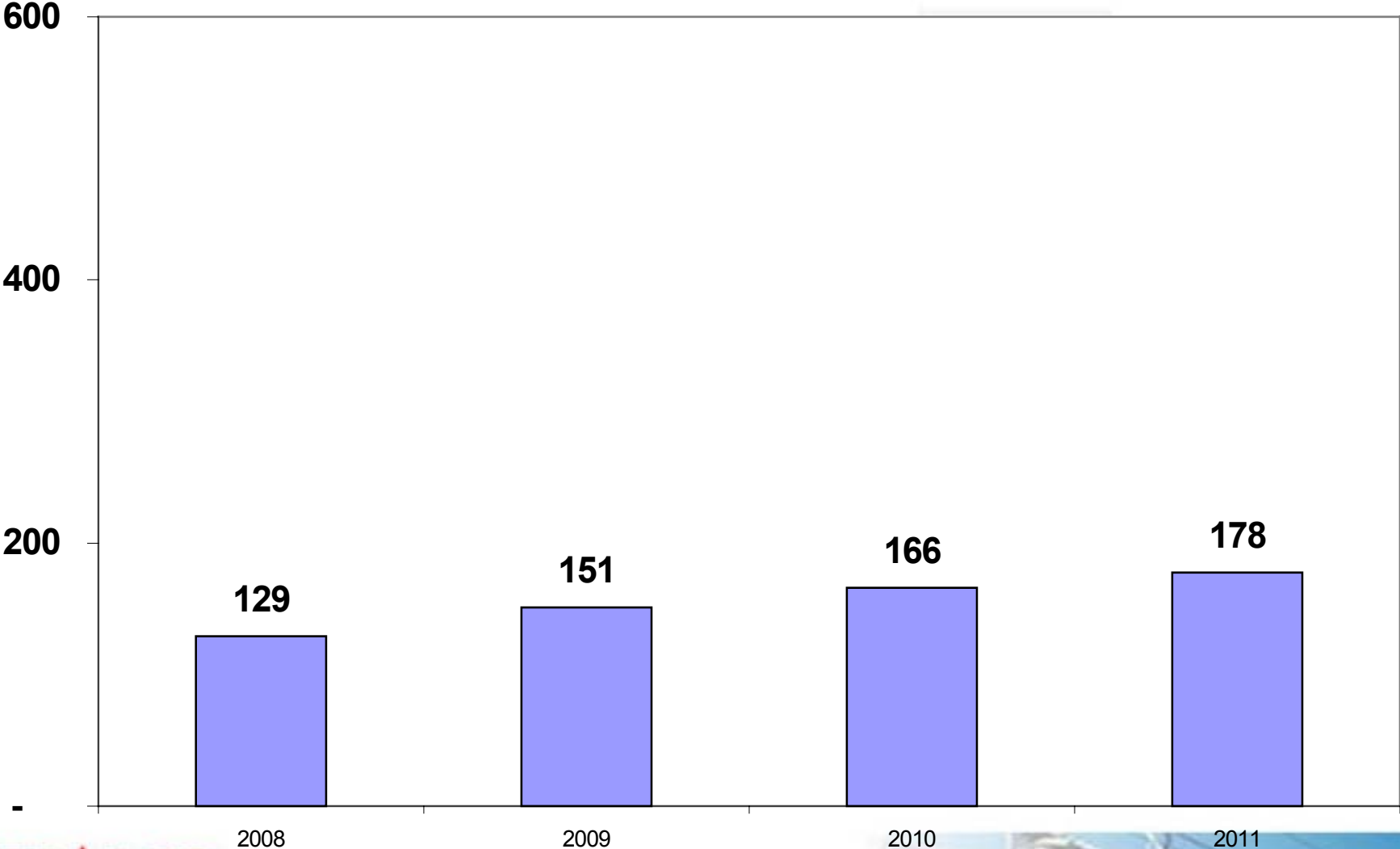
“The ARR Building Blocks”



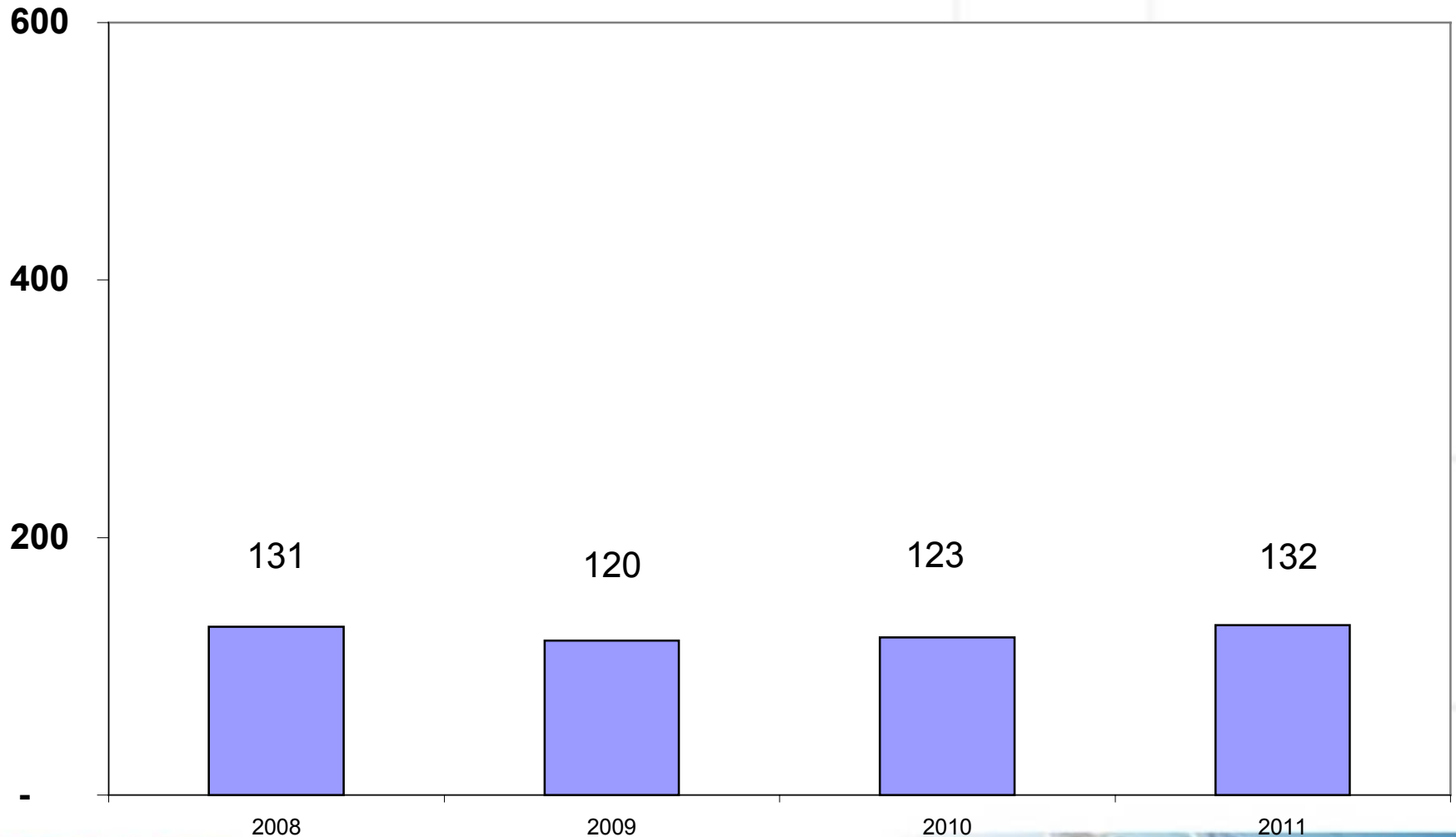
Building Block: O&M Expenditure in Million Peso



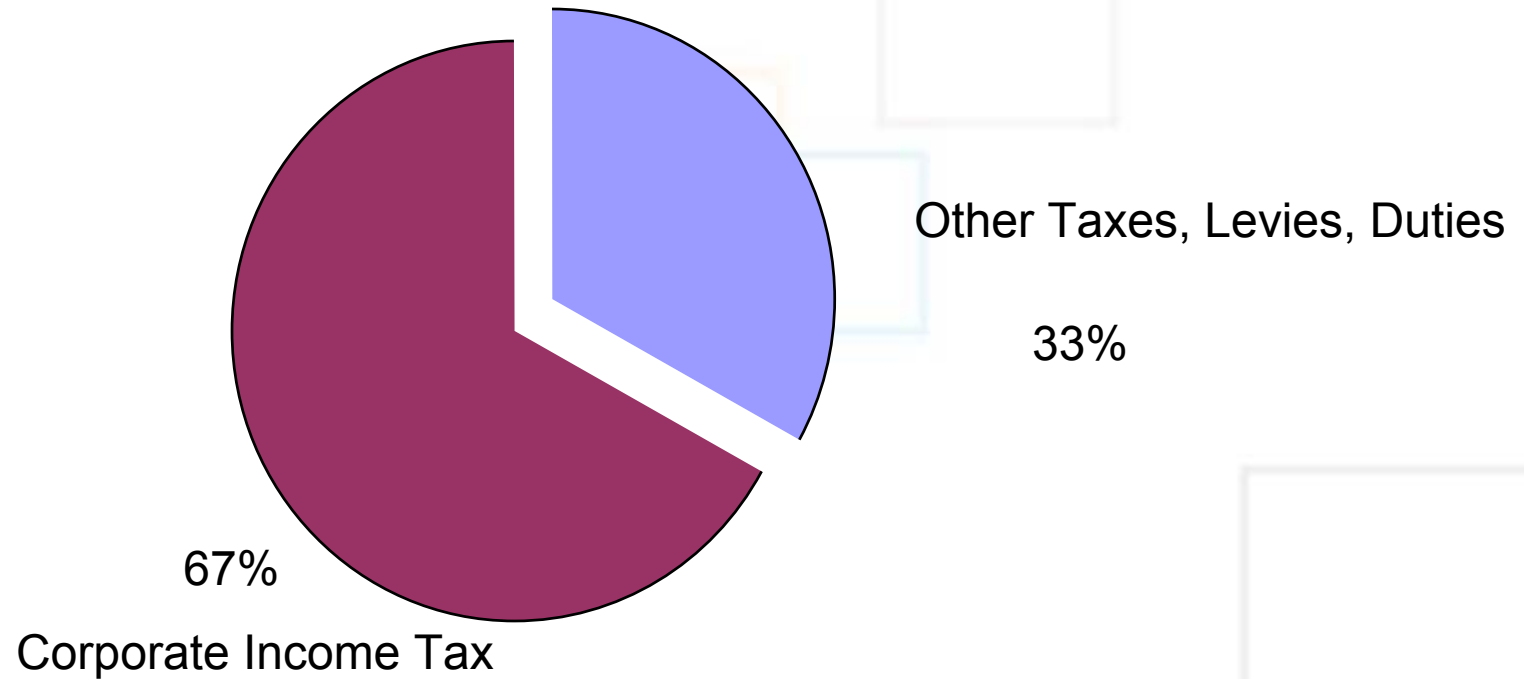
Building Block: Depreciation, in million Peso



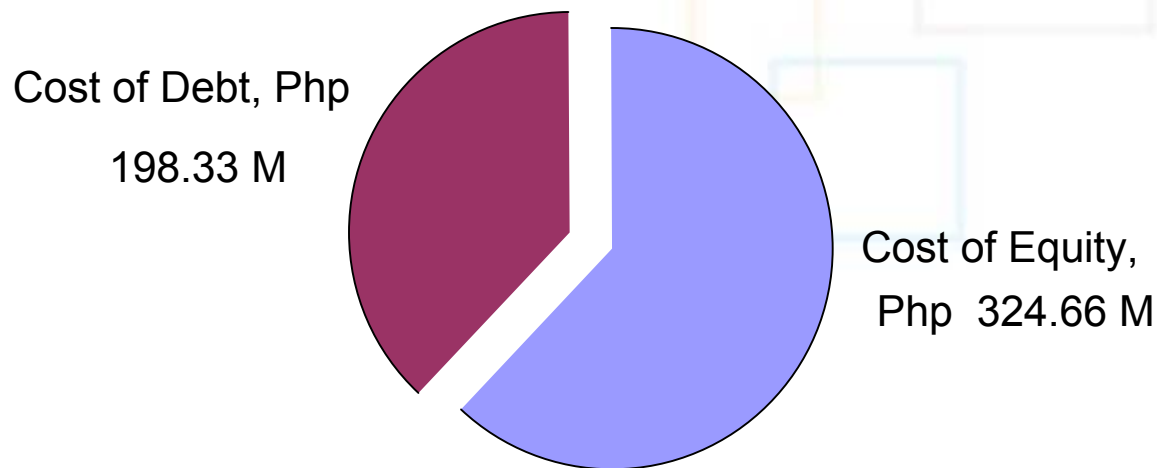
ARR Building Blocks: Taxes, in million Peso



Breakdown of Taxes



ARR Building Block: Cost of Capital, average



	2008	2009	2010	2011
Cost of Equity	286	315	339	359
Cost of Debt	175	192	207	219
TOTAL	461	507	546	578



▪

- The proposed Annual Revenue Requirement (ARR) will be one of ERC's basis in determining the rate limit that CEPALCO can charge its customers.



Summary

- CEPALCO petitions for the approval of its requirements in order that it may be able to provide and satisfy its customers service needs.
- The Performance Based Rate Making method (PBR) equitably counter balances the distribution utility's requirements by requiring it to set performance target levels and Guaranteed Service Levels (GSL).



Summary... cont.

- Customers are assured that any rate adjustment carries with it a corresponding service guarantee which the distribution utility has to meet.
- Customers will benefit from the improved service because the distribution utility will strive hard to meet its customer commitments.



THANK YOU VERY MUCH

