REPUBLIC OF THE PHILIPPINES)
CITY OF CAGAYAN DE ORO) S.S.

A F F I D A V I T

I, DAVID A. TAULI, of legal age, Filipino, married and a resident of Calaanan, Canitoan, Cagayan de Oro City, a regular employee of Cagayan Electric Power and Light Co., Inc. (CEPALCO), with office address located at CEPALCO Bldg, 44 Toribio Chaves Street, Cagayan de Oro City, after having been duly sworn in accordance with law, do hereby depose and declare as follows:

1. How long have you been employed with CEPALCO?

   I have been an employee of CEPALCO for 28 years.

2. What is your occupation?

   I am an electrical engineer by profession.

3. What is your current position in the company?

   At present, I am Senior Vice President, and Head of the Engineering Services Division.

4. As the Head of Engineering Services Division, what are your main functions?

   As Head of the ESD, I am responsible for providing overall management and general directions for the services and functions of the different units and persons in the ESD, such as Line Construction, Distribution System Operations, System Planning and Design, Line Construction and Maintenance, and Technical Services. As ESD Head, I also provide general directions for Power Supply Development, including the development Small Hydro and Renewable Energy Sources, Distributed Generation, and Demand-Side Management.

5. How long have you been the Head of Engineering Services Division?

   I have been the head of the ESD for the past 10 years.

6. Before you became the Head of the Engineering Services Division, what was your position in the company?

I became an employee of CEPALCO in 1978, and from 1978 to 1981 I held the position of Design Engineer under the System Planning and Design Department. From 1981 to 1986 I was the department head of the System Development and Engineering Department. From 1986 to 1990 I was the department head of the System Operations and Design Department (SODD). In October 1990 I was designated as a Vice President, and I remained as the department head of SODD until 1993, when I became the division head of the Engineering Planning and Services Division. In 1996, all engineering services units of CEPALCO were integrated into a single Engineering Services Division (ESD), and I was designated the division head for the ESD.

7. Aside from your position as the Head of Engineering Services Division, what other important position do you hold?

I am also a member of the CEPALCO Management Committee (ManCom), and have been a member of the ManCom since 1986.

8. Being a member of the Management Committee, what are your responsibilities and involvement in this committee?

As a member of the ManCom, I provide general direction and oversight for corporate functions and services other than those under the ESD which I directly supervise. And as a member of the ManCom, I participate in the formulation of corporate policies and in decision making on major issues affecting the company.

9. What major trainings, seminars and conferences have you attended which are related to your function as Head of Engineering Services Division?

The major trainings, seminars and conferences that I have participated more recently in and that relate to my function as head of the ESD are enumerated below:

REGIONAL DISSEMINATION WORKSHOP ON OPPORTUNITIES FOR RENEWABLE ENERGY DISTRIBUTED GENERATION IN ASEAN
August 24, 2006, Hyatt Regency Hotel, Metro Manila, Philippines

2005/2006 IEEE PES TRANSMISSION AND DISTRIBUTION CONFERENCE AND EXPOSITION
May 21-24, 2006, Dallas Convention Center, Dallas, Texas

WORKSHOP ON THE FEASIBILITY STUDY FOR DISTRIBUTED GENERATION AND RENEWABLE ENERGY PORTFOLIO OF A DISTRIBUTION UTILITY
October 27-28, 2005, Narai Hotel, Bangkok, Thailand [P]
DAT gave one of the Keynote Addresses

FIRST ERC-MINDANAO DU'S CONSULTATIVE CONFERENCE
September 8-9, 2005, Maxandrea Hotel, Cagayan De Oro City

PEPOA SEMINAR ON PERFORMANCE-BASED RATES
March 8-9, 2005, Linden Suites, Ortigas Center, Pasig City, Philippines

DISTRIBUTION DEVELOPMENT PLAN (DDP) WORKSHOP
Conducted by the Department of Energy
March 9-10, 2004, New World Renaissance Hotel, Makati City [P]
DAT presented a paper on the CEPALCO Distribution Development Plan

POWERLINE TECHNOLOGY, METERING & POWER CONTROL CONFERENCE-WORKSHOP
December 8-9, 2003, City Garden Hotel, Makati City

INTERNATIONAL CONFERENCE ON CHALLENGES TO DEVELOPMENT: INNOVATION AND CHANGE IN REGULATION AND COMPETITION
October 13-15, 2003, EDSA Shangri-La Hotel, Mandaluyong City, Metro Manila

WORKSHOP ON DISTRIBUTION DEVELOPMENT PLANNING
Conducted by Department of Energy
July 7, 2003, DOE Complex, Fort Bonifacio, Makati City, Metro Manila

PRICE CONTROL FOR ELECTRICITY DISTRIBUTION NETWORKS
March 4, 2003, JMT Building, Ortigas Center, Metro Manila

DISTRIBUTECH 2002 CONFERENCE AND EXHIBITION
February 27 – March 1, 2002, Miami Beach Convention Center, Miami Beach, Florida

STUDY VISIT ON DISTRIBUTION SYSTEM RELIABILITY TO U.S. UTILITIES IN FLORIDA
Conducted by the EPRI-PEAC Corporation of Knoxville, Tennessee
February 24 – 26, 2002, Florida, U.S.A.

CONSULTATIVE WORKSHOP ON "PERFORMANCE BASED RATEMAKING AND TECHNICAL PERFORMANCE & CUSTOMER SERVICE STANDARDS" June 8-9, 2000, NEA Training Room, NEA Building, Diliman, Quezon City [P]

Presented a paper titled: "A Proposal for the Use of SAIDI, SAIFI, and MAIFI as Reliability Indices for Philippine Distribution Utilities, and Historical Data from the CEPALCO Distribution System"

CONSULTATIVE CONFERENCE/WORKSHOP ON THE PHILIPPINE GRID AND DISTRIBUTION CODES
November 15-18, 1999, Manila Midtown Hotel, Manila

12TH MEETING, APEC INTER-UTILITY DSM PROGRAM
November 8-10, 1999, East-West Center, Honolulu, Hawaii

POWERING THE NEW MILLENNIUM: AN INTERNATIONAL SYMPOSIUM ON DISTRIBUTED ENERGY RESOURCES
September 13-14, 1999, Wyndham Emerald Plaza Hotel, San Diego, California

ELENEX & POWERGEN PHILIPPINES '99 CONFERENCE
June 24-25, 1999, Century Park Hotel, Manila [P]

HAWAII-PHILIPPINES WORKSHOP ON ENERGY EFFICIENCY POLICY AND TECHNOLOGY TRANSFER FOR IMPROVING ENVIRONMENTAL PROTECTION AND ECONOMIC EFFICIENCY

Sponsored by the Philippines Department of Energy and the State of Hawaii Government Department of Business, Economic Development, and Tourism
May 31 – June 1, 1999, Manila, Philippines [P]

17TH CONGRESS OF THE WORLD ENERGY COUNCIL
September 13-18, 1998, George R. Brown Convention Center, Houston, Texas

SEMINAR-WORKSHOP ON DISTRIBUTED BIO-ENERGY IN THE AGRICULTURAL SECTOR August 24, 1998, Manila, and August 26, 1998, Gen. Santos City [P]

WORKSHOP ON ENERGY EFFICIENCY POLICIES AND TECHNOLOGIES OF THE PHILIPPINES: U.S. AND HAWAII TRANSFER OPPORTUNITIES June 17-18, 1998, Shangri-la EDSA Plaza Hotel, Manila [P]

NINTH APEC INTER-UTILITY DSM LIAISON GROUP CONFERENCE
April 22-24, 1998, Tokyo, Japan

SUMMIT AND SEMINAR ON U.S. – PHILIPPINES UTILITY PARTNERSHIP ISSUES: RESTRUCTURING, GLOBAL CLIMATE CHANGE, AND ENERGY EFFICIENCY
February 23-24, 1998, New World Hotel, Makati City, Philippines [P]

ENVIRONMENTAL CONSIDERATIONS IN ELECTRIC UTILITY INTEGRATED RESOURCE PLANNING: A Workshop for Utility Resource Planners and Regulators
August 5-7, 1997, MERALCO, Ortigas Center, Pasig City, Philippines

SEMINAR-WORKSHOP ON THE MECHANISMS FOR TECHNOLOGY TRANSFER AND DEVELOPMENT IN THE BIMP-EAGA
July 8-9, 1997, Davao City, Mindanao, Philippines [P]

WORKSHOP ON THE CONSOLIDATION OF THE PHILIPPINE DISTRIBUTION CODE
April 15-17, 1997, Puerto Princesa, Palawan, Philippines [P]

CONFERENCE-WORKSHOP ON NEW AND RENEWABLE ENERGY POLICIES April 10-11, 1997, White Rock Hotel, Subic, Zambales, Philippines

WORKSHOP ON THE USE OF ELFIN IN INTEGRATED RESOURCE PLANNING February 26-28, 1997, Dusit Nikko Hotel, Makati City, Philippines

FIRST SEMINAR/WORKSHOP ON MINI-HYDROPOWER DEVELOPMENT
December 11-12, 1996, Davao City, Philippines

CONVENTION ON ENERGY EFFICIENCY AND PRICING STRATEGY TOWARDS GLOBAL COMPETITIVENESS
December 4-5, 1996, Dusit Nikko Hotel, Makati City, Philippines [P]

1996 WORKSHOP ON NEW AND RENEWABLE ENERGY SYSTEMS
October 15-17, 1996, INNOTECH, Diliman, Quezon City, Philippines [P]

CONSULTATION-WORKSHOP ON THE TRANSMISSION GRID CODE
October 1-2, 1996, National Engineering Center, Diliman, Quezon City, Philippines

FIFTH APEC INTER-UTILITY DSM LIAISON GROUP CONFERENCE
March 26-29, 1996, Chiang Mai, Thailand

LOOKING AHEAD AT THE ELECTRIC POWER INDUSTRY IN THE PHILIPPINES CONFERENCE
Nov 20-21, 1995, EDSA Plaza Hotel, Mandaluyong City, Philippines

EVALUATION, DEVELOPMENT, FINANCING OF RENEWABLE ENERGY PROJECTS
October 18-20, 1995, Manila, Philippines

STUDY TOUR OF RENEWABLE ELECTRIC PLANTS
Sponsored by the U.S. Energy Association
March 12-18, 1995, Los Angeles and Southern California, U.S.A.

Those marked with [P] above indicate that I presented a paper during the seminar or conference.

I also attended various meetings, conferences and public consultations conducted by the ERC on topics related to the PBR.

10. What is your involvement in the preparation of the Application and its supporting documents?

In the preparation of the Application for the Approval of the Annual Revenue Requirement, I was the chairman of the committee assigned to do the development of the capital expenditures included in the Application. I was also involved in the preparation of the operating and maintenance expenses and in the formulation of the Performance Incentive Scheme (PIS) for CEPALCO and in coming-up with the energy and demand forecasts. In the preparation of the Application, the functional units under my direct supervision provided the data on capital expenditures and operating expenditures for the distribution system, and I reviewed and approved the documents they submitted for inclusion in the Application.

Capital Expenditures

11. You stated that you initially prepared the tables on capital expenditures. In Schedule C of the supporting documents, there are tables, marked as Schedule C.1.1, C.1.2 and C.1.3, all captioned "Capital Expenditure Forecasts", but each captioned also as "Total Dollar Real ", Total Peso Real, Total Dollar Nominal, Total Peso Nominal, and Total Nominal – In Peso ", respectively. What does these terms mean?

The following are the description of the Tables in Schedule C:

"Total Dollar Real" contains the projected amount of CAPEX, categorized according to the Asset Category prescribed in the RDWR, that will be imported

"Total Peso Real" contains the projected amount of CAPEX, categorized according to the Asset Category prescribed in the RDWR, that will be procured locally.

"Total Dollar Nominal" contains the same projected CAPEX under "Total Dollar Real" but the amount is adjusted by the projected US inflation for the Regulatory Year.

"Total Peso Nominal" contains the same projected CAPEX under "Total Peso Real" but the amount is adjusted by the projected Philippine inflation for the Regulatory Year.

"Total Nominal – in Peso" contains the total Peso amount of the projected CAPEX. This Table is actually the sum of the CAPEX under "Total Dollar Nominal", as converted to Peso using the projected Peso-US$ exchange rate, and the CAPEX under "Total Peso Nominal" PLUS freight and handling costs estimated at 6.815% of the total Distribution Plant CAPEX (excluding Land and Land Rights and Structures and Improvement).

12. What are these tables for ?

These Tables were provided to isolate the impact of the Inflation and foreign exchange rates on the projected CAPEX. These segregations were provided in Clause 4.2.7 of the Position Paper and Clause 4.12.6 of the RDWR.

13. How did you derived at the figures contained in the tables?

The amount of CAPEX in Tables "Total Dollar Real" and "Total Peso Real" were the results of the projection made by each operating unit of the company. Each operating unit was asked to project their unit's CAPEX for the next 4 years taking into consideration the following:

(a) Basic Determinants:
    i. Customer and Load Growth
    ii. Renewal of assets
    iii. Refurbishment of assets
(b) Proposed Performance Targets
(c) Corporate Objectives

The resulting real values contained in Tables "Total Dollar Real" and "Total Peso Real" are converted into nominal values and presented in Tables "Total Dollar Nominal" and "Total Peso Nominal", respectively, using the forecasted inflation as contained in Schedule B2.

Dollar values were converted to Peso using the forecasted Peso-US$ exchange rate as contained in Schedule B3

14. In Paragraph 10, Table 4 of the Application, a summary of your proposed capital expenditures from regulatory years 2007 to 2011 is listed, is shown, what are these capital expenditures for?

These capital expenditures are necessary for the regular repair and maintenance of distribution facilities, repair or acquisition of support or non-network facilities and for new projects or investments needed to upgrade system capacity to serve load growth, renew/refurbish the existing system and facilities, to meet performance targets, and to comply with the Philippine Grid and Distribution Codes and other regulatory requirements.

15. You mentioned of projects, what are these ?

These projects or investments are needed to upgrade system capacity to serve load growth, renew/refurbish the existing system and facilities, to meet performance targets, and to comply with the Philippine Grid and Distribution Codes and other regulatory requirements. These projects are classified as Major, Minor or Residual Projects, as follows:

Major Projects:

a. Development of 20MVA 69/34.5kv Substation at Kauswagan in 2009 projected to cost P 77,433,285 in nominal amount.

   The addition of this substation in the western part will provide adequate capacity to this high-growth area and prevent overloading of existing substations. Annex A contains the details of this proposed project.

b. Development of 20MVA 69/34.5kV Substation at Baloy in 2007 projected to cost P 89,262,962 in nominal amount.

   The addition of this substation in the eastern part will relieve the existing substation supplying this area of excess load thereby prevents overloading. This will also avoid a worse-case scenario from happening when the existing transformer would be out of service for whatever reason, since this would disrupt service to a large number of customers. Annex Q contains the details of this proposed project.

c. Construction of a Corporate/Administrative Building in 2009 – 2011 projected to cost P 345,998,199 in nominal amount.

The purpose of the project is to provide adequate working spaces for the staff members and provide sufficient spaces to service customers. More details are presented in Annex B.

Minor Projects:

a. Upgrading of Carmen 10 MVA, 69-13.8kV Power Transformer at Carmen
b. Installation of 10 MVA Power Transformer from Carmen to Macasandig Substation
c. Upgrading of Pueblo Substation from 10 MVA to 20 MVA
d. Installation of the old 10 MVA, 69-34.5kV Power Transformer from Carmen to Tagoloan Substation
e. New line constructions, re-conductoring and conversions
f. Installation of Circuit Breaker at Transco-Natumulan and Installation of SCADA-ready Disconnect Switches in the T&D System (Annex C)
g. Asset Register Database Build-Up (Annex D)
h. Work Management System (Annex E)
i. Installation of Phase Markers (Annex F)
j. Compliance with the Philippine Grid and Distribution Code and other regulatory requirements (Annexes G, H, I, J, K, L, M, N, O,& P)
k. Residual and other capital expenditures

16. Why do you need to implement these minor, residual projects and other capital expenditures ?

The minor, residual and other capital expenditures/projects are necessary to renew or refurbish the existing Distribution System that shall become non-functional due to its deteriorating and ageing condition or obsolescence. These capital expenditures include normal T&D system renewal or refurbishment, line revision, minor and major line extensions.

These also include, among others, transportation equipment requirements, corporate ICT infrastructure and projects, capital requirements incidental to the hiring of additional personnel, and other capital items necessary to provide the

basic support facilities, systems, and personnel in order to carry the company's obligations to provide better service and satisfy the requirements of existing and future customers.

17. You mentioned that you have projects that are needed to enable CEPALCO to comply with the Philippine Grid Code and the Philippine Distribution Code. What are these projects ?

The following are the proposed projects to enable CEPALCO to comply with the Philippine Grid and Distribution Codes:

a. [ERC-DCP-PGC-016-6-2] Distribution System Reliability Improvement Projects: Installation of Automatic Circuit Reclosers in the Primary Distribution System
b. Compliance to the Requirements of Article 3.2.3.4 in DSC-PDC-001 of the Philippine Distribution Code
    i. Formulation of Documents That Shall Contain the Operating and Control Policy and Procedures For Regulating the Voltage Within the Specified Limits of the PDC.
    ii. Creation and Keeping of Records That Will Demonstrate the Instructions, Responses, and Events Relative to Voltage Control of the Distribution System.
c. Compliance to the Requirements of Article 3.2.3.4 and Article 3.2.5.2 in DSC-PDC-001 of the Philippine Distribution Code: Install Automatic Voltage Regulators at Every Medium Voltage (34.5- and 13.8-kV) Distribution Bus or Feeder
d. Compliance to the Requirements of ERC-DCP-PDC-042- 1 of the Philippine Distribution Code and ERC-DSCPGC-024-1 of the Philippine Grid Code: Development of Safety Coordination that specifies the standard procedures to be used by CEPALCO and Users for the coordination, establishment, maintenance and cancellation of necessary Safety Precautions on 13.8kV up to 34.5kV and 69 kV up to 138kV Equipment when work or testing is to be carried out on the Distribution System of CEPALCO or the User System.
e. Project Number: ERC-DCP-PDC-027-1: Preparation to Complete the Fixed Asset Boundary Document for all Connection Points
f. Project Number: ERC-DCP-PDC-028-1 Title: Preparation to Complete Electrical Diagrams for All Connection Points

g. Project Number: ERC-DCP-PDC-029-1 Title: Preparation to Complete Connection Point Drawings for All Connection Points

h. Project Number: ERC-DCP-PDC-030-1 Title: Preparation to Complete Distribution System Data for all Connection Points

18. Aside from complying with these codes, what are your justifications for these projects?

Aside from complying with the codes, these projects will also prepare the company for the full implementation of the PIS Scheme in the Third Regulatory Period.

Operating and Maintenance Expenditures

19. What are these operating and maintenance expenditures for ?

These Operating and Maintenance expenditures are the expenses to be incurred by CEPALCO to effectively operate its Distribution System and maintain its asset base to allow it to remain serviceable at rated capacity for its normal expected life.

20. In Paragraph 11, Table 5 of the Application, there is shown a summary of proposed Operating and Maintenance Expenditure for regulatory years 2007 – 2011, and three categories such as: Distribution, Consumer Accounts, Administration and General Expenses. What are these for ?

Distribution Expense are those incurred in the operation and maintenance of the Distribution System

Consumer Accounts are those incurred in the general direction and supervision of consumer accounting and collection activities

Administration and General Expenses are those incurred in the general management of the utility

21. How are these figures derived ?

The figures were derived based on the forecasts made by each operating unit of the company.

22. How were the forecast made ?

Each operating unit of the company were asked to come-up with forecasts Operating and Maintenance Expenditures of their respective units for the next four (4) years taking into consideration the historical trend and the following forecasting bases:

a. Basic Determinants:
    i. Customer and Load Growth
    ii. Renewal of assets
    iii. Refurbishment of assets
b. Proposed Performance Targets
c. Corporate Objectives

23. Why do you need to spend for these Operating and Maintenance Expenditures ?

The proposed Operating and Maintenance expenditures are necessary to enable the company to operate and fulfill its obligation to serve load growth, to maintain the existing facilities/system and personnel resources in order to maintain or improve service reliability, meet system and service performance targets, and ensure compliance with the regulatory requirements.

In our application we stated that there is a 9% average annual increase aside from inflation, in the Operating and Maintenance expenditure. Such increase is needed to attain the objective as earlier stated. In our supporting document in Schedule G.2, a Historical Operating and Maintenance Expenditures for the years 2002 to 2006 is presented as to show that that the proposed Operating and Maintenance Expenditure is within reasonable magnitude taking into account activities aimed for improving efficiency.

24. Do you have other documents in support of these Operating and Maintenance Expenditures ?

The following are the supporting documents for the Operating and maintenance Expenditure forecasts:

a. Schedule G.1.4 Justification for the operating and maintenance expenditure forecasts
b. Schedule G2 Historical operating and maintenance expenditure

Performance Incentive Scheme

25. What is this Performance Incentive Scheme ?

In general, Performance Incentive Scheme (PIS) is a mechanism that provides reward to the Regulated Entity for achieving specified performance target levels and penalizes it for failing to achieve specified target levels.

As provided in the RDWR and in the Framework for the Performance Incentive Scheme that will apply for the 3rd Regulatory Period (the PIS Framework), the PIS applicable for the 2nd Regulatory Period shall be composed of two components:: (1) The Price-linked Incentive Scheme, and (2) the Guaranteed Service Level (GSL) Scheme

26. Your application mention of a Price-Link Incentive Scheme, what is this ?

Under the Price-linked Incentive Scheme, the performance of CEPALCO will be assessed against the network performance and service performance measures prescribed in the RDWR and the PIS Framework. If performance levels exceed predetermined targets, CEPALCO will be rewarded or, if performance levels fail to meet predetermined performance targets, CEPALCO will be penalized.

The reward or penalty will be directly incorporated into the maximum average price-cap for each Regulatory Year.

27. What are these performance indeces: 1) SAIFI, 2) CAIDI, 3) Planned SAIDI, 4) Voltage Variation, and 5) System Loss

The following are the definitions of the Network Performance Indices as defined in the RDWR and the PIS Framework:

a) System Average Interruption Frequency Index (SAIFI). A measure of the average number of sustained service interruptions experienced per customer over the measurement period.

b) Customer Average Interruption Duration Index (CAIDI). A measure of the average duration of sustained service interruptions over the measurement period.

c) Planned System Average Interruption Duration Index (SAIDI). A measure of the average duration of planned sustained service interruptions for all customers over the measurement period.

d) Voltage regulation. A measure of the probability of Distribution System voltage levels falling outside the boundaries prescribed in the Distribution Code.

e) System losses. An indication of total losses on a Regulated Distribution System, including technical and non-technical losses, or the difference between the energy obtained from Grid Connection Points and connection points to embedded generators, and that delivered and invoiced to End Users.

28. In Paragraph 18, Table 12 of the Application, there is a table showing figures of the Target Level, (the column under "Target") for each of these performance indeces, how are these derived ?

The Performance Targets for each of the Performance Indices under the Price-linked Scheme are derived as follows:

For SAIFI, CAIDI and Planned SAIDI:

As prescribed in the PIS Framework, the target performance values for these indices will be set at the average value based on historical data. In addition to the average value, CEPALCO proposed to include a factor to consider maintenance and upgrading works that will be conducted during the 2nd Regulatory Period.

It is projected that numerous extensive system maintenance and upgrading works will be carried-out on CEPALCO's lines and substations during the Second Regulatory Period to further improve its network performance to attain the reliability levels prescribed in the RDWR. Hence, in order not to be

constrained to perform these additional system maintenance and upgrading works during the second regulatory period, the target performance value should not be based on historical data alone. CEPALCO proposed that a factor should be added to the average historical value to consider these projected planned interruptions resulting from the system upgrading works that are beyond the normal maintenance works in the past. This factor will be called the upgrading factor and will be set based on the estimated duration and frequency of projected maintenance and upgrading works.

For Voltage Violation

The PIS Framework set the target probability of voltage violation at 4%. Considering that CEPALCO has not yet installed voltage regulators in its distribution system, we find this target too tight. Based on the measured voltage at various points of the distribution system, CEPALCO proposed a target probability of voltage violation of 20%.

For System Loss

CEPALCO will adopt the measurement scheme and the target levels prescribed in the PIS Framework. Hence, for the Second Regulatory Period, System Loss target would be 9.5%.

29. How are the figures for Reward column, under Level 5 and Level 4, as well as the Penalty column, under Level 2 and 1 obtained ?

The values under the reward and penalty columns were obtained based on the performance assessment bands and performance value prescribed in the PIS Framework which CEPALCO adopted, as follows:

Performance Level		Description	Performance Value
1	Penalty	Performance greatly below target	-1.0
2		Target not achieved	-0.5
3	Target	Performance as per expectation	0
4	Reward	Target exceeded	+0.5
5		Target greatly exceeded	+1.0

However, on the performance bands of more than 2 standard deviations from the average value as prescribed in the PIS Framework, CEPALCO proposed to lower this to more than 1.5 standard deviations. Hence the performance bandwidth becomes:

	Performance Bands
Performance greatly below target	Actual value more than **1.5** standard deviations above the target value
Target not achieved	Actual value more than 1 standard deviation, but less than **1.5** standard deviation, above the target value
Performance as per expectation	Actual value between 1 standard deviation above and 1 standard deviation below the target value
Target exceeded	Actual value more than 1 standard deviation, but less than **1.5** standard deviation below the target value
Target greatly exceeded	Actual value less than **1.5** standard deviations below the target value

30. What is the purpose of the figures under the Weight column ?

The figures in the Weight column represent the weight of each performance indices. These weights will be applied on the performance assessment values for a year. The weighted performance values will then be the basis in setting the S-factor.

31. In the first table found on Schedule J, Page 8, per PIS Framework, the weight for "Call Center" is 0.10, while in your proposal it is zero, why is this so?

CEPALCO proposed a zero weight for Call Center because it proposed to exclude this performance measure for the 2nd Regulatory Period since the company is not offering such service yet.

32. Do you have documents to support the calculations?

Yes. We have submitted supporting documents as follows:

a) Schedule J.1.3.1. Calculation of the proposed targets for network Performance
b) Schedule J.1.3.2. Calculation of the proposed targets for service performance.
c) Schedules J.1.3.3 Calculation of monthly SAIFI, CAIDI and Planned AIDI for the years 2002 – 2005

33. How will the this performance indices affect the Maximum Average Price ?

As mentioned earlier, under the Price-linked Incentive Scheme, any reward or penalty will be directly added to or subtracted from the Maximum Average Price. This is represented by the S-factor in the MAP formula provided in Clause 4.2.1(b) of the RDWR, as follows:

$$MAP_t = [MAP_{t-1} \times \{1 + CWI_t - X\}] + S_t - K_t + ITA_t$$

34. What is this Guaranteed Service Level Scheme ?

As provided in the PIS framework, Guaranteed Service Levels (GSLs) Scheme is an incentive mechanism in which customers will receive certain guarantees with regard to the responsiveness and effectiveness of Regulated Entities. If these GSLs are not met, predetermined penalties will be paid by the Regulated Entities directly to customers.

35. In Paragraph 19, Table 13 of your Application, there are shown four performance measures, what is your basis in coming up with these measures?

CEPALCO adopted the four performance measures under the GSL Scheme as prescribed in the PIS Framework. However, CEPALCO proposed to further classify the performance measure under GSLs 1 & 2 to consider the different situations during planned and unplanned interruptions.

Also under GSL 3, CEPALCO proposed to further classify the performance measure to consider the different response time if interruptions occur at the Distribution Line, Distribution Transformer or Service Drop.

36. How did you arrive at the threshold level figures ?

For GSL 1-A, the proposed threshold level is equivalent to the longest duration of sustained unplanned interruption over the 6-year period from Year 2000 to 2005.

For GSL 1-B, the proposed threshold level is equivalent to the longest duration of sustained planned interruption over the 6-year period from Year 2000 to 2005.

For GSL 2-A, the proposed threshold level is equivalent to the most number of sustained unplanned interruptions the 6-year period from Year 2000 to 2005.

For GSL 2-A, the proposed threshold level is equivalent to the most number of sustained planned interruptions the 6-year period from Year 2000 to 2005.

For GSL3-A&B, the proposed threshold levels were equivalent to the average value of the maximum restoration time over the 3-year historical period and the median value over the same period.

For GSL3-C, the proposed threshold level is based on the frequency distribution of the duration of restoration times for the Years 2003 – 2005

For GSL4, the proposed threshold level is based on the average time to connect customer premises for a sample period covering the years 2003 to 2006.

37. Why do you segregate the planned and unplanned interruptions ?

The segregation of planned and unplanned interruptions was intended to consider the differences in the company's performance under these types of interruption.

38. What supporting information and calculations do you have for deriving these figures?

The following are the supporting documents that we submitted:

(a) Historical data on the duration of sustained planned and unplanned interruptions as contained in Schedule J.2.4.
(b) Historical data on the frequency of planned and unplanned interruptions as contained in Schedule J.2.4
(c) Historical values of restoration time for faults on the secondary distribution lines and distribution transformers are shown in Annex B of Schedule J
(d) Data on the frequency distribution of restoration time for faults at service drop levels as contained in Annex C of Schedule J.

39. Are all kinds of interruptions taken into account in determining whether CEPALCO meets the Guaranteed Service Levels ?

As provided in the PIS Framework, there are service interruptions which will not form part in the accounting of the performance of the utility. These are called Excluded Events because these external events happen outside the control of the utility. Aside from the Excluded Events prescribed in the PIS Framework, CEPALCO proposed to have the following events also classified as Excluded Events:

a) Planned interruptions are excluded in GSL3.
b) Faults at customer side
c) Faults due to fire incidents not caused by CEPALCO facilities
d) Failure of the applicant to appear on the pre-agreed schedule
e) The applicant prefers a particular date which is beyond the standard accomplishment period

40. How will the Guaranteed Service Level affect the rates ?

Under the GSL Scheme, if the company is unable to meet the guaranteed performance levels, the customer is directly compensated in a form of a reduction in their electric bills by an absolute amount.

41. It is stated in the application, that the Performance Incentive Scheme is in accordance with the RDWR. Why is this so?

The Performance Incentive Scheme is provided under Clause 4.18 of the RDWR. CEPALCO's PIS Application substantially adopted the scheme provided in the said Rules and the PIS Framework

Forecast Energy Consumption and Demand

42. What is your method in the forecasting of the demand and energy requirement?

CEPALCO used the Energy Utilization Index (EUI) Method in forecasting the Demand & Energy requirement for each Regulatory Year during the Second Regulatory Period. This method used the average percent (%) growth in number of customers as the driver in projecting for the energy (kWh) consumption.

The EUI was derived as the average energy consumption per customer class for the five-year period starting year 2001 to 2005. This Utilization Index is applied to the incoming customers within the Regulatory Year.

Forecasted energy is therefore computed as the Base Energy Consumption (Year 2005) plus the average consumption of the forecasted incoming customers after applying the EUI

43. How are the figures derived in your forecast as shown in the tables in Schedule H?

The forecast energy consumption figures under Schedule H.1 were derived by adding the average consumption of the forecasted incoming customers, computed based on the historical Energy Utilization Index, to the Base Year data. The base Year used is 2005 operations.

The maximum demand forecast under Schedule H.2 were derived by applying the average Load Factors to the forecasted energy consumption in Schedule H.1

IN WITNESS WHEREOF, I have hereunto affixed my signature this 23rd day of September 2006, in Cagayan de Oro City.

DAVID A. TAULI
Affiant

SUBSCRIBED AND SWORN TO before me this 23rd day of September 2006, in Cagayan de Oro City, affiant exhibited to me his Community Tax Certificate No. 14486981 issued on January 27, 2006 at Cagayan de Oro City.

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Series of 2006.

Isidro O. Baculio Jr.
Notary Public
PTR No. 8691822 12/16/05
At Cagayan de Oro City
IBP No. 828925 12/13/05
Misamis Oriental Chapter
TIN: 136-332-993
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