

1 **REPUBLIC OF THE PHILIPPINES)**
2 **CITY OF CAGAYAN DE ORO) S.S.**

3
4
5 **A F F I D A V I T**

6
7 I, PACITA CHAVENIA D. GABRIEL, of legal age, Filipino, married and a
8 resident of Cagayan de Oro City, a regular employee of Cagayan Electric Power and
9 Light Co., Inc. (CEPALCO for brevity), with office address located at CEPALCO Bldg,
10 44 Toribio Chaves Street, Cagayan de Oro City, after having been duly sworn in
11 accordance with law, do hereby depose and declare as follows:

- 12
13 1. How long have you been employed with CEPALCO?

14
15 *I've been employed with CEPALCO for 24 and a half years already.*

- 16
17 2. What is your current position in the company ?

18
19 *Presently, I am the head of the Accounting Department.*

- 20
21
22 3. As Head of CEPALCO's Accounting Department, what are your functions?

23
24 *As head of the Accounting department my main functions and*
25 *responsibilities include the management and direction of the department*
26 *activities, to be able to produce financial statements and other financial*
27 *reports, comply with the requirements of regulatory bodies including BIR,*
28 *SEC, ERC, SSS, etc., provide management's reportorial requirements*
29 *specially of financial significance and process employees compensation and*
30 *benefits. Specific functions include the maintenance of the company's books*
31 *of accounts, review of the computation of corporate income tax and other*
32 *taxes and the filing thereof.*

- 33
34 4. Before you became the Head of the Accounting Department, what was your
35 position and your functions?

36
37 *Immediately before I became the Accounting Department Head, I was a*
38 *Senior Staff Supervisor in the Controller's Office. I supervised the staff*
39 *analysts handling internal auditing and budgeting tasks. I prepared audit*
40 *programs, gave directions to the staffs and reviewed their works/reports.*

- 41
42 5. How long have you been with Accounting Department ?

43
44 *I've been in Accounting for 10 and a half years.*

- 45
46 6. By the way, what is your profession ?

47
48 *I am a Certified Public Accountant.*

- 49
50 7. What is your involvement in the preparation of the Application and its
51 supporting documents?

52
53 *The Accounting department provided the historical data needed by COO, the*
54 *group that is mainly tasked to collate, consolidate data, make computations*
55 *for preparing the application. As the head of the department, I see to it that*
56 *correct data are provided.*

1 8. What are these data in particular ?

2
3 *These include the historical data on operation and maintenance expenses,*
4 *taxes, levies, duties, corporate income tax, depreciation and regulatory asset*
5 *base, etc.*

6
7 **Taxes, Levies and Duties**

8
9 9. You mentioned on Other Taxes, levies and duties. How are these data relate to
10 your company's preparation of the Application ?

11
12 *Other Taxes, Levies and Duties constitute one of the five building blocks of*
13 *the Annual Revenue Requirement as provided in the RDWR.*

14
15 10. What are the components of these Other Taxes, Duties and Levies ?

16
17 *The levies mainly include fees for the supervisory and regulatory services of*
18 *the ERC, and fees for the consultants or regulatory reset experts who are*
19 *hired in accordance with the ERC-approved guidelines.*

20
21 *Duties represent payments made for Real Property Taxes.*

22
23 *Other Taxes represents payment for Business Permit and Corporate*
24 *Community Tax. It does not include the Corporate Income Tax since this is*
25 *included as a separate building block as per RDWR.*

26
27 11. What data on taxes, levies and duties have you provided ?

28
29 *The data provided are Projected Annual Expenditure on Taxes other than*
30 *Corporate Income Tax as shown in Schedule G.3.1 which is expressed in Real*
31 *peso value and converted to Nominal as per Schedule G.3.2, together with its*
32 *justifications as contained in Schedule G.3.3 I also provided the historical*
33 *data as shown in Schedule G.3.4*

34
35
36 12. How are the forecasted figures derived ?

37
38 *The forecasted figures were derived based on historical trend plus forecasted*
39 *increase in the tax base for the next four (4) years.*

40
41 *The increase in the forecasted figures for Real Property Taxes was mainly*
42 *due to projected increase in assessment value of real properties*

43
44 **Corporate Income Tax**

45
46 13. You mentioned that your function also involves the preparation of income
47 statement which necessarily includes the computation of the corporate income
48 tax. What data have you provided in so far as corporate income tax as a
49 building block to the ARR ?

50
51 *For this application, the Corporate Income Tax is one of the outputs of the*
52 *Price-Cap Model which was developed by the ERC through its consultants.*
53 *Hence, the data used in the computation were already inputted in the model.*

54
55 14. In Paragraph 14 of the Application, the proposed corporate income tax are as
56 shown in Table 8. Could you explain in more detail how are these figures
57 derived?

1
2 *The forecasted income tax resulted from the computed taxable income*
3 *multiplied by the income tax rate. Yearly taxable income is based on revenue*
4 *computed using the forecasted sales of energy net of all the forecasted*
5 *expenses.*

6
7 **Regulatory Asset Base**

8
9 15. What is this Regulatory Asset Base ?

10
11 *Regulatory Asset Base pertains to the assets of the company that are*
12 *necessary to meet customers' requirement within the electricity distribution*
13 *network.*

14
15 16. In Schedule A of the supporting documents, there are tables showing values
16 pertaining to Regulatory Asset Base, what are these for?

17
18 *The Tables under Schedule A are actually the computations to arrive at the*
19 *Rolled-forward Regulatory Asset Base.*

20
21 *Schedule A1 contains the summary of the optimized depreciated replacement*
22 *cost (ODRC) and the depreciated historical cost of the Regulatory Asset Base*
23 *as at the initial valuation date (the Regulatory Asset Base).*

24
25 *Schedule A2 contains the summary of the optimized depreciated replacement*
26 *cost (Schedule A2.1) and the depreciated historical cost (Schedule A2.2) of*
27 *the Original Regulatory Asset Base as at the start of the Second Regulatory*
28 *Period, with supporting calculations for indexing applied.*

29
30 *Schedule A3 contains the assets forecast to be acquired during the period*
31 *between the initial valuation date and the start of the Second Regulatory*
32 *Period.*

33
34 *Schedule A6 contains the ODRC depreciation schedules for the Regulatory*
35 *Asset Base for the period between the initial valuation date and the start of the*
36 *Second Regulatory Period.*

37
38 *Schedule A7 contains the Historical cost depreciation schedules for the*
39 *Regulatory Asset Base for the period between the initial valuation date and*
40 *the start of the Second Regulatory Period.*

41
42 *Schedule A8 is the application of the construction work in progress (CWIP)*
43 *factor to the Regulatory Asset Base as at the start of the Second Regulatory*
44 *Period.*

45
46 *Schedule A9 is the summary of the optimized depreciated replacement cost*
47 *(ODRC) (Sch. A9.1) and the depreciated historical cost (Sch. A9.2) of the full*
48 *Regulatory Asset Base as at the start of the Second Regulatory Period (the*
49 *opening value of the rolled-forward Regulatory Asset Base).*

50
51 17. What does these terms mean : depreciated historic cost, historic cost,
52 replacement cost, optimized replaced cost, optimized depreciated replacement
53 cost ?

54
55 *Depreciated historic cost is the acquisition cost of assets minus the*
56 *corresponding accumulated depreciation (the Book Value of an Asset).*
57

1 *Historic cost pertains to the acquisition costs of assets.*

2
3 *Replacement cost is the current cost of replacing an old asset.*

4
5 *Optimized replaced cost is the replacement cost of an efficient modern*
6 *equivalent asset able to achieve the required level of service. The assets are*
7 *tested systematically to identify and avoid stranded assets, excess capacity and*
8 *over-engineering.*

9
10 *Optimized depreciated replacement cost is the optimized replacement cost*
11 *deducted with corresponding regulatory depreciation.*

- 12
13
14 18. In Paragraph 5, Table 2 of the Application, there is shown a summary of your
15 proposed Rolled-Forward Regulatory Asset Base. How were these figures
16 derived ?

17
18 *The Rolled-Forward Regulatory Asset Base is actually the average of the*
19 *Opening Value and the Closing Value of the RAB.*

20
21 *The Opening Value of the RAB is equivalent to the value of the existing assets*
22 *as per asset valuation conducted by the Asset Valuation Expert as of April*
23 *2006 valued as at June 2006. The value at the Initial Valuation date is*
24 *applied with corresponding regulatory depreciation and indexed as at June*
25 *2007. The Indexed value is then added with Assets acquired in May to June*
26 *2006 plus the forecasted Assets from July 2006 to June 2007, inclusive of the*
27 *CWIP Factor, LESS Depreciation. Details of the computation are shown in*
28 *Schedule A9.1.*

29
30 *The Closing Value of the RAB is the difference between (a) the Opening*
31 *Value of the RAB PLUS Capital Expenditure Forecasts, and (b) Depreciation*
32 *on existing assets and forecasted capital expenditures.*

33
34 **Regulatory Depreciation**

- 35
36 19. What is this regulatory depreciation all about ?

37
38 *Regulatory depreciation is the computed depreciation of the regulatory assets.*
39 *This is one of the building block in the Annual Revenue Requirement.*

- 40
41 20. How did you arrived at the regulatory depreciation figures for regulatory years
42 2008 to 2011 as shown in Paragraph 4, Table 1?

43
44 *The Regulatory Depreciation figures for regulatory years 2008 to 2011 were*
45 *computed as the sum of the depreciation of the Opening Asset Base plus the*
46 *Depreciation for the forecasted capital expenditures.*

47
48 *Computation of the depreciation on the Opening Asset base is provided in*
49 *Schedule E1.1 while the computation on the depreciation of the forecasted*
50 *capital expenditures is provided in Schedule E2.1*

51
52 **Regulatory Financial Statements**

- 53
54 21. In the supporting documents of your application, you included Regulatory
55 Financial Statements, which are in Schedule I. These contained projected
56 Balance Sheet, Income Statement and Cash-Flow Statement for regulatory years
57 2007 to 2011. How were these financial statements arrive at?

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26
27
28
29
30
31
32

These financial statements are one of the outputs of the Price-cap Model provided by the ERC.

22. What is the purpose why these projected financial statements are included in the application ?

These financial statements are for ERC's evaluation purposes only.

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

PACITA CHAVENIA. D. GABRIEL
Affiant

SUBSCRIBED AND SWORN TO before me this 23rd day of September 2006, in Cagayan de Oro City, affiant exhibited to me her Community Tax Certificate No. 14445702 issued on January 10, 2006 at Cagayan de Oro City.

Doc. No. 185;
Page No. 37;
Book No. XXI;
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
Roll No. 38265