

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


IN THE MATTER OF THE
APPLICATION FOR APPROVAL OF
THE MAXIMUM ALLOWABLE
REVENUE FOR THE THIRD
REGULATORY PERIOD (2011-2015)
OF THE NATIONAL GRID
CORPORATION OF THE
PHILIPPINES DURING THE
REGULATORY RESET PROCESS
FOR THE THIRD REGULATORY
PERIOD IN ACCORDANCE WITH
THE ALTERNATIVE FORM OF RATE
SETTING METHODOLOGY UNDER
THE RULES IN SETTING
TRANSMISSION WHEELING RATES
(RTWR)

ERC CASE NO. 2009-180 RC

NATIONAL GRID CORPORATION OF
THE PHILIPPINES (NGCP),

Applicant.

x-----x

D O C K E T E D
Date: NOV 26 2010
By: 

DECISION

1. Recital of Facts

1.1 Filing of the Application

On December 18, 2009, the National Grid Corporation of the Philippines (NGCP) filed an application for approval of its maximum annual revenue for the third regulatory period (2011-2015) during the regulatory reset process for the third regulatory period in accordance with the alternative form of rate setting methodology under the Rules in Setting the Transmission Wheeling Rates (RTWR).

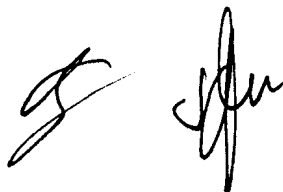


In the said application, NGCP alleged, among others, the following:

1. It is a corporation created and existing under the laws of the Philippines, with principal office address at NGCP Building, Quezon Avenue corner BIR Road, Diliman, Quezon City. It is the corporate vehicle of the consortium which was awarded the concession to assume the power transmission functions of the National Transmission Corporation (TRANSCO) through the public bidding conducted pursuant to Republic Act No. 9136, otherwise known as the Electric Power Industry Reform Act of 2001 or the EPIRA.
2. Under Republic Act No. 9511, entitled: "An Act Granting the National Grid Corporation of the Philippines A Franchise to Engage in the Business of Conveying or Transmitting Electricity Through High Voltage Back-bone System or Interconnected Transmission Lines, Substations and Related Facilities, and For Other Purposes," it holds a franchise to construct, install, finance, manage, improve, expand, operate, maintain, rehabilitate, repair and refurbish the present nationwide transmission system of the Republic of the Philippines.
3. Under the Concession Agreement among NGCP, Power Sector Assets and Liabilities Management Corporation (PSALM) and TRANSCO, which took effect on January 15, 2009 (Concession Agreement), PSALM granted NGCP, on exclusive basis, the rights and responsibilities: a) to construct, install, finance, manage, improve, expand, operate, maintain, rehabilitate, repair, refurbish and replace TRANSCO's transmission assets; b) for its own account, to bill and collect from transmission customers such charges as it, as a regulated entity, may lawfully demand; c) to take over and operate the whole of TRANSCO's regulated transmission business as a going concern; and d) as between TRANSCO and itself, to be the sole representative of the regulated entity before the Commission.
4. Under the Concession Agreement, it is mandated to provide open and non-discriminatory access to its transmission system to all electricity users and accordingly, assess and collect transmission charges subject to approval of the Commission.

Nature of the Application

5. Pursuant to Section 43(f) of the EPIRA and Rule 15, Section 5(a) of the Implementing Rules and Regulations (IRR) thereof, the Commission promulgated the *Rules for the Setting of Transmission Wheeling Rates for 2003 to around*



2027 (RTWR). The RTWR is an amendment to the *Guidelines on the Methodology for Setting of Transmission Wheeling Rates*.

- 5.1 For purposes of the RTWR, it is deemed as the Regulated Entity that provides the Regulated Transmission Services, as defined under the RTWR.
6. The RTWR sets out the pricing principles that the Commission shall comply with for purposes of regulating the maximum transmission wheeling rates that may be charged for the provision of its Regulated Transmission Services during a Regulatory Period. It also sets the annual rate verification and adjustment process which the Commission shall undertake in relation to the maximum transmission wheeling rates that may be charged for the provision of its Regulated Transmission Services during a Regulatory Period.
 - 6.1 The RTWR provides that there shall be regulatory periods designated as First Regulatory Period (which ended on December 31, 2005), Second Regulatory Period (to end on the fifth anniversary of the First Regulatory Period End Date) and Subsequent Regulatory Periods (each of which must be five (5) calendar years in duration). This application pertains to the Third Regulatory Period covering the regulatory years 2011 to 2015, inclusive, and will commence on January 1, 2010.
7. Under Section 7.1.1 of the RTWR, the Commission shall, prior to the commencement of the Third Regulatory Period, undertake a Regulatory Reset Process pursuant to Article VII (Regulatory Reset Process) of the RTWR. The purpose of the Regulatory Reset Process is to establish, after public consultations, the price control arrangements that are to be applied during the Third Regulatory Period.
 - 7.1 Such price control arrangements include the cap on its revenue for the Third Regulatory Period, which revenue cap must be determined during the Regulatory Reset Process for said regulatory period.
8. Under Section 7.1.2 of the RTWR, the Commission shall publish a Regulatory Reset Issues Paper which must: a) provide its initial views on the issues raised by the pending Regulatory Reset Process; and b) specify the information to be provided by NGCP for the purposes of the Regulatory Reset Process and the time by which that information must be provided.
 - 8.1 In accordance with the foregoing, the Commission published its Regulatory Reset Issues Paper on



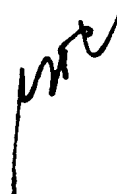
February 16, 2009 (Commission Position Paper). In addition to the purposes above-stated, the Commission Position Paper is intended to guide it in preparing its application for a new revenue cap for the Third Regulatory Period under Article IV of the RTWR.

9. In its Position Paper, the Commission required it to submit its application for a regulatory reset review, including all the data, reports, forecasts and information required therefor under the RTWR.
10. In compliance with the RTWR and the Commission's directive, it submits the instant application which contains the data, reports, forecasts, and information required under the RTWR for its proposed revenue cap for the Third Regulatory Review during the Regulatory Reset Process for the Third Regulatory Period.
11. It manifests that, as discussed hereunder, the present application includes TRANSCO's proposed capital and operating expenditures for the Third Regulatory Period. Such inclusion was made pursuant to TRANSCO's request, and in accordance with Section 5.08¹ of the Concession Agreement.

**Application for the Regulatory Reset Process for the
Third Regulatory Period**

12. In compliance with Section 7.1.5 of the RTWR, it retained independent experts who undertook and prepared written reports (copies of which are attached to the application) with respect to each of the following:
 - a. Asset re-valuation referred to in Section 5.6 of the RTWR. For this purpose, the Commission engaged the services of Sinclair Knight Merz (SKM) in association with Cuervo Appraisers, Incorporated. It examined the report of SKM and put forward its comments and findings resulting in a proposed re-computation of the assets cost and list as of December 2008 in order to consider vital information;
 - b. Report on the condition and lives of assets used in providing regulated transmission services referred to in Section 4.8.3 of the RTWR;

¹ "x x x. Upon request from TRANSCO, the Concessionaire shall include such expenses incurred by TRANSCO for all the above Subsections (a) to (f) in the appropriate regulatory filing. In the event that the Commission allows the recovery of such TRANSCO-incurred expenses, the Concessionaire shall give the same to TRANSCO within fifteen (15) days from the Concessionaire's receipt of the same. The Concessionaire shall not be liable in the event that the Commission does not approve such TRANSCO-incurred expenses."

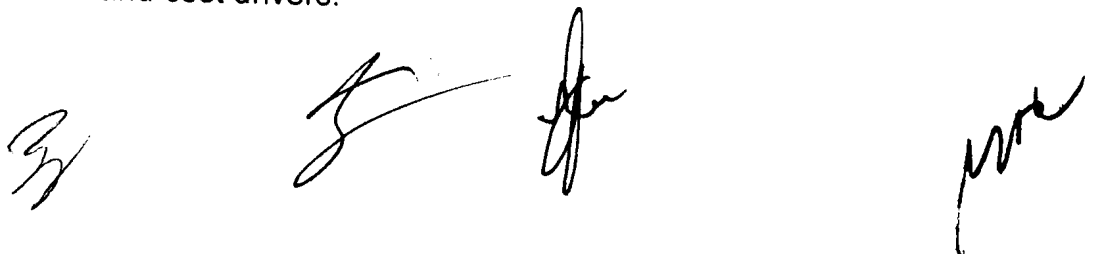


- c. Determination of the Weighted Average Cost of Capital (WACC) referred to in Section 5.9 of the RTWR. The report on this matter was prepared by Professor Tony Van Zijl, Ph.D., a professor of Accounting and Finance at Victoria University with a Doctorate in Finance, and a Director of LECG;
 - d. Review of its proposed capital expenditure (CAPEX) referred to in Section 5.10 of the RTWR. The report on this matter was prepared by the Parsons Brinckerhoff's World (PB World); and
 - e. Review of its proposed operating and maintenance expenditure (OPEX) referred to in Section 5.11 of the RTWR. The report on this matter was prepared by the PB World.
13. It likewise engaged the services of PricewaterhouseCoopers Financial Advisors (PwCFA) to conduct an independent determination of its compliance with the RTWR and the Commission Position Paper as regards the following matters:
- a. Verification of the taxes paid by TRANSCO;
 - b. Review of the actual capital and operating expenditures and compilation of an ex-post or reforecast of capital and operating expenditures for the period 2006 – 2010;
 - c. Review and determination of the construction works in progress (CWIP) factor; and
 - d. Review and determination of its working capital.
14. PWC's reports on the foregoing are attached to the application.
15. Article IV of the RTWR requires it to submit to the Commission the following information and forecasts (copies of which are attached to the application):
- 15.1 Its forward forecasts of its proposed annual capital expenditure for each Regulatory Year in the Third Regulatory Period. It submits a summary of these forecasts and the detailed forecasts presented in the format specified by the Commission in its Position Paper.
 - 15.2 Its historical operating and maintenance expenditure for each year of the Second Regulatory Period. In compliance with this requirement, it submits a summary of actual data covering the regulatory years 2006, 2007 and 2008, and estimated data covering



the regulatory years 2009 and 2010. It further submits the detailed information presented in the format specified by the Commission in its Position Paper.

- 15.3 Its forward forecasts of its proposed annual operating and maintenance expenditure for each Regulatory Year of the Third Regulatory Period. It submits the relevant forecasts and the detailed forecasts presented in the format requested by the Commission in its Position Paper.
 - 15.4 Summary of its historical payments of taxes, levies and duties (other than corporate income tax) for each of the calendar years of the Second Regulatory Period. In compliance with this requirement, it submits a summary of actual data covering calendar years 2006, 2007 and 2008, and as estimated data covering calendar years 2009 and 2010.
 - 15.5 Its forward forecasts of its expected payments of taxes, levies and duties (other than corporate income tax) for each Regulatory Year of the Third Regulatory Period. It submits a summary of these forecasts presented in the format specified by the Commission in its Position Paper.
16. In further compliance with the Commission Position Paper, it obtained independent expert advice, and pursuant to such advice, prepared supporting information and analyses (copies of which are attached to the application) on the following matters:
- a. The roll forward of the Regulated Asset Base (RAB) as of December 31, 2008 up to December 31, 2010;
 - b. The roll forward of RAB as of December 31, 2010 to the end of the Third Regulatory Period pursuant to Sections 4.7 and 4.8 of the RTWR;
 - c. The computation of the Net Efficiency Adjustment that considers the ex-post or reforecast capital and operating expenditures for the Second Regulatory Period;
 - d. Service quality measures and targets, including a performance incentive scheme pursuant to Article VIII of the RTWR;
 - e. Issues identified in the Commission Position Paper, such as side constraints and customer segmentation; and
 - f. Information regarding its services, business processes and cost drivers.



17. It commissioned a pool of independent experts, led by Mr. Kieran Murray of LECG, to review the computerized MAR model provided by the Commission (Commission MAR Model). To the extent possible, it used the Commission MAR Model as delivered.
 - 17.1 It proposes certain adjustments to the Commission MAR Model as regards the following, to reflect the intent of the RTWR:
 - a. Calculation of the WACC;
 - b. Use of MAR for 2010 in the computation of the Smoothed Maximum Allowable Revenue (SMAR);
 - c. Inclusion of optimized depreciated replacement cost (ODRC) valuation as of December 2010; and
 - d. Computation of the Net Efficiency Adjustment.
 - 17.2 The proposed adjustments to the Commission MAR Model are discussed are attached to application.
18. It submits to the Commission particular transitional issues associated with taxation and under-recovery sustained during the Second Regulatory Period (copies of which are attached to the application), pertain to the following:
 - a. Overview of the intent of RTWR to compensate for actual tax paid;
 - b. Corporate income tax paid by TRANSCO;
 - c. Impact of Republic Act No. 9511 on its costs in 2009 and 2010, and on forecast costs for the period 2011 to 2015;
 - d. Calculation of the corporate income tax adjustments required under the RTWR;
 - e. Review of the taxes other than the corporate income tax paid by TRANSCO and NGCP, and calculation of the adjustment that would have applied had such other taxes been subject to the same adjustment as the income tax adjustment (ITA) applied to corporate income tax; and
 - f. Its proposal to off-set the effect of the ITA with the determined under-recoveries incurred during the Second Regulatory Period.

Its calculations on the likely net under-recoveries during the Second Regulatory Period, after allowing for the ITA, and



proposes that the Commission consider these shortfalls as it determines the MAR for its Third Regulatory Period.

19. Attached to the application are the following:
 - a. Inclusion and treatment of the relevant forecast capital and operating expenditures of TRANSCO for its continuous activities relative to its Retained Obligations under Section 5.08 of the Concession Agreement, as discussed herein.
 - b. Key assumptions, statements, calculations, and declarations made in order to come up with a preliminary indication of the Maximum Allowable Revenue (MAR) for the Third Regulatory Period, and the Annual Revenue Requirement (ARR) for each year within that five (5)-year period; and
 - c. Its position and comments on the following issues:
 - i. Treatment of CWIP
 - ii. Treatment of Working Capital;
 - iii. Determination and Treatment of Bad Debts;
 - iv. Efficiency carry-forward mechanism; and
 - v. Form of regulation.

20. The following tables summarize its key forecasts and information submitted as well as the results it obtained from the Commission MAR Model:
 - a. The table below sets out its proposed annual capital expenditures of from calendar years 2011 to 2015, including amounts for 2009 and 2010:

FORECAST CAPEX², PhP, Million, Nominal

CAPEX in PMn	2009	2010	2011	2012	2013	2014	2015
	Forecast, Total Pesos, equivalent						
RAB	8,747.4	18,871.7	31,218.9	20,792.3	17,635.1	10,208.5	7,427.4
Connection Asset	536.9	1,127.9	309.8	289.8	47.3	-	-
Residual Subtransmission Asset	120.3	719.8	549.4	393.9	376.4	374.	314.6

² Includes Proposed CAPEX from TRANSCO, PhP, Million

2009	2010	2011	2012	2013	2014	2015
883.17	2,364.75	1,569.73	1,725.91	1,652.38	1,504.17	1,431.31

CAPEX in PMn	2009	2010	2011	2012	2013	2014	2015
	Forecast, Total Pesos, equivalent						
Total CAPEX	9,404.6	19,704.9	32,078.2	21,476.1	18,058.9	10,582.5	7,742.0

Note: Amount does not tally due to rounding-off

- b. The table below sets out the proposed forecast operating expenditures for the period from 2011 to 2015:

FORECAST OPEX PhP, Million, Nominal³

OPEX in PMn	2009	2010	2011	2012	2013	2014	2015
	Forecast, Total Pesos, equivalent						
RAB	5,726.3	7,483.8	7,968.6	7,667.9	7,891.4	8,710.8	8,648.7
Connection Asset	188.4	295.5	283.9	299.4	313.5	366.9	343.9
Residual Subtransmission Asset	257.1	396.7	382.4	403.6	423.1	494.7	465.1
Total	6,171.8	8,176.1	8,634.9	8,371.	8,628.0	9,572.5	9,457.8

Note: Amount does not tally due to rounding-off

- c. The table below sets out the assumptions it used in the calculation of the applicable taxes, levies, and duties:

Taxes	Tax Rate	Basis
1. Franchise Tax	3% of gross receipt	RA 9511
3. Real Property Tax	-	Inputs from the Regional Finance

- d. The value of the RAB over the Third Regulatory Period with adjustments set out in the table below:

Particulars (PhP, Million)	2009	2010	2011	2012	2013	2014	2015
RAB(t)0	160,936.3	169,723.1	191,233.8	215,508.0	228,494.2	238,165.3	240,023.9
CAPEX (t) note (ii)	9,251.5	20,188.4	31,218.9	20,792.3	17,635.1	10,208.5	7,427.4
RAB RegDepn(t)+ Capex RegDepn (t)	(5,951.2)	(5,880.4)	(6,932.9)	(7,772.3)	(7,964.0)	(8,349.9)	(8,039.4)
Disposals(t) (note iii)	135.6	20.4	(11.8)	(33.7)	0	0	(21.7)

³ Includes Forecast OPEX proposal from TRANSCO (PhP, Million)

2009	2010	2011	2012	2013	2014	2015
9.22	10.22	284.88	11.81	12.85	13.98	15.22

Holding value for negative net receipts (note iv)	762.2	1,957.9	Added to RAB	Added to RAB	Added to RAB	Added to RAB	Added to RAB
Indexing in roll forward period	4,588.6	5,224.4	N/A	N/A	N/A	N/A	N/A
RAB (t)	169,723.1	191,233.8	215,508.0	228,494.2	238,165.3	240,023.9	239,390.2

Notes:

- i. Assumed WACC of 19%
- ii. CAPEX in 2009 and 2010 is as spent, rather than as commissioned
- iii. Disposals in the roll-forward period is net receipts from disposals
- iv. The holding values are not amortised in 2009 and 2010; Amortisation begins in 2011

e. The proposed performance indicators and the corresponding weights are set out in the table below. The proposed weightings are based on an assessment of the impacts of the different performance indicators for end users.

Performance Indicator	Weighted Percentage, %
1. System Interruption Severity Index (SISI)	35
2. Frequency of Tripping per 100 ckt-km (FOT/100ckt-km)	25
3. System Availability (SA)	10
4. Frequency Limit Compliance (FLC)	10
5. Voltage Limit Compliance (VLC)	10
6. Power Factor Optimization	10

TRANSCO's Proposed Capital and Operational Expenditures for the Third Regulatory Period

- 21. As stated earlier, the present application includes TRANSCO's proposed capital and operating expenditures for the Third Regulatory Period.
- 22. Section 5.08 of the Concession Agreement provides:

"5.08 TRANSCO-Retained Obligations. TRANSCO shall be liable for the following:

- (a) except those assumed by the Concessionaire under the Loan Covenants Agreement, obligations in relation to loans existing prior to Commencement Date contracted by NPC relating to the Transmissions Assets;
- (b) claims relating to existing rights of way whose cause of action accrued prior to Commencement Date, provided that should the Concessionaire through any act or omission cause any liability or claim to arise or

be aggravated, it shall be liable for the incremental liability resulting from such act or omission;

- (c) obligations to TRANSCO employees under employment agreements (except for costs and expenses that are to be reimbursed by the Concessionaire under the Interim Assignment Agreement, including Cost of Service and Miscellaneous Expenses (both as defined in the Interim Assignment Agreement);
- (d) liabilities and costs for all orders, judgments, awards, interests, costs of suit and reasonable expenses (including attorney's fees) rendered in connection with any claim, controversy, action, arbitration, litigation or other similar proceeding (including tax disputes) involving TRANSCO, or any of its property or assets, contracts, business or operations (collectively, the "Litigations") filed and pending as of Commencement Date, provided however, that the Concessionaire, to the extent permitted by Applicable Law, shall be entitled to exercise all of TRANSCO's rights, orders, judgments and awards in favor or for the benefit of TRANSCO under all Litigations that may affect the operation of its regulated transmission business. TRANSCO and the Concessionaire shall agree on the consideration payable by the Concessionaire to TRANSCO for the grant of the right to exercise all of TRANSCO's rights, orders, judgments and awards referred to in this Subsection (d) for each and every Litigation.

To the extent permitted by Applicable Law and as long as this Agreement is in force, TRANSCO appoints and authorizes the Concessionaire as its attorney-in-fact with right of substitution, so that either the Concessionaire or any Person empowered by the Concessionaire, provided that the Concessionaire shall be responsible and liable for the acts of the Persons it empowered, shall be authorized without need of further act from TRANSCO, to enforce such rights, orders, judgments and awards rendered under the Litigations that affect the operation of its regulated transmission business. TRANSCO hereby confirms and ratifies all lawful actions performed or done by the Concessionaire or any Person empowered by the Concessionaire in accordance with this Subsection (d);



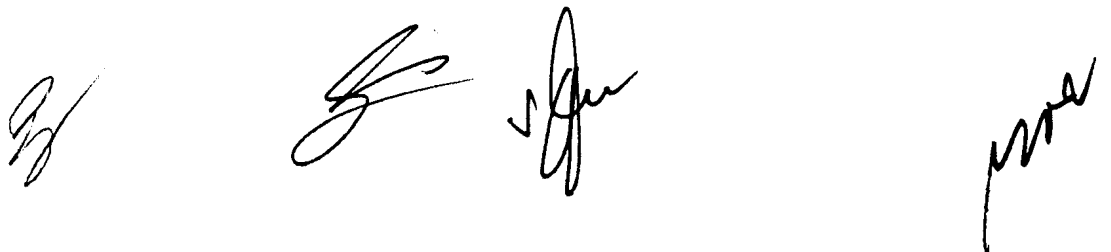
- (e) existing or future claims against TRANSCO or the Concessionaire made after the Commencement Date arising from TRANSCO's acts or omissions before the Commencement Date; and
- (f) liability for unpaid Taxes that are payable in respect of tax periods ending before the Commencement Date.

If any of the above Subsections (a) to (f) was caused or aggravated by the Concessionaire's act or omission, the Concessionaire shall be liable for the same. Upon request from TRANSCO, the Concessionaire shall include such expenses incurred by TRANSCO for all the above Subsections (a) to (f) in the appropriate regulatory filing. In the event that the ERC allows the recovery of such TRANSCO-incurred expenses, the Concessionaire shall give the same to TRANSCO within fifteen (15) days from the Concessionaire's receipt of the same. The Concessionaire shall not be held liable in the event that the ERC does not approve such TRANSCO-incurred expenses. (Emphasis supplied.)

22.1 Under said Section 5.08 of the Concession Agreement, it shall, upon the request of TRANSCO, include certain expenses incurred by TRANSCO in relation to the above quoted retained obligations, in the appropriate regulatory filing. However, it shall not be held liable in the event that such expenses are not approved by the Commission.

22.2 In this regard, TRANSCO formally requested it to include the expenses enumerated below, which TRANSCO deem and represented to be reasonable expenses in relation to its retained obligations as enumerated above, and should thus be included in its application for Regulatory Reset for the Third Regulatory Period pursuant to the said Section 5.08 of the Concession Agreement:

- a. Capital Expenditures for the following:
 - i. Right of Way claims; and
 - ii. Acquisition of Hanjin's Connection Assets per Executive Order 701;
- b. Operational Expenditures for the following:
 - i. Expenses incurred in the sale of sub-transmission assets;
 - ii. Expenses incurred in the processing of right of way claims;



- iii. Supervision/Permit Fees paid by TRANSCO for projects approved by the Commission for the Second Regulatory Period; and
- iv. Permit Fee paid by TRANSCO for the Decision in ERC Case No. 2007-148 RC.

22.3 Thus, it included the foregoing capital and operating expenditures of TRANSCO in the present application.

23. As agreed between NGCP and TRANSCO, TRANSCO shall be fully and solely responsible for presenting and justifying its capital and operating expenditures during the course of the proceedings. In particular, TRANSCO, through its own counsel, witnesses and resources, shall conduct the expository presentation and present the necessary evidence and justifications in support of said expenses.

Capital Projects Requiring Immediate Regulatory Approval

24. It manifests that certain transmission projects included forecast of its annual capital expenditures for the Third Regulatory Period in this application require immediate implementation. These projects are as follows:
- a. Compostela Substation Expansion – a project component of the Visayas Substation Reliability Project-1;
 - b. Dasmariñas Substation Expansion;
 - c. San Esteban-Laoag 230 kV Transmission (Stage 1) – a project that corresponds to the first stage of the two-stage implementation of the San Esteban – Laoag 230 kV Transmission Line Project;
 - d. Nuling and Tindalo Substations Expansions;
 - e. Kalayaan-Makban 230 kV T/L Upgrading;
 - f. Luzon Substation Reliability Project-1;
 - g. Northeastern Transmission Development (Magapit Capacitor);
 - h. Mindanao Reliability Compliance Project 1 (Mindanao Shunt Reactors and Capacitors);
 - i. New Antipolo 230 kV Substation;
 - j. New Naga-Banilad Transmission;
 - k. Tayabas Substation Expansion Project-1; and



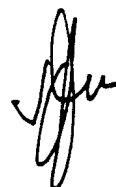
- I. Visayas Substation Expansion Project-1 -- the acquisition of three (3) units of 50 MVA transformers to installed in the Ormoc (Leyte), Talavera (Cebu) and Kabankalan (Negros) Substations.
25. It manifests that while the proposed capital expenditures for the said projects are included in its forecast of capital expenditures herein, the approval of the Commission of such projects is urgently needed for purposes of immediate project implementation.
26. It intends to file the appropriate applications, separate from the present application, for purposes of securing the Commission's provisional authority, as well as final approval, to implement the said projects.
27. It manifests that herein application was approved by its Board of Directors on December 16, 2009.
28. This application and its supporting attachments comprise its required regulatory filing, as the Regulated Entity, for purposes of the Regulatory Reset Process the Third Regulatory Period.
29. This application contains the following proposals for its Third Regulatory Period, covering its Regulatory Asset Base, Connection and Residual Subtransmission Assets:
 - a. The offset of the income tax adjustment with the sustained under-recoveries during the Second Regulatory Period;
 - b. Optimized Depreciated Replacement Cost of its RAB rolled forward from 2008 to 2015;
 - c. Forecast Capital Expenditures;
 - d. Forecast Operating and Maintenance Expenditures;
 - e. Tax Items and Assumptions;
 - f. Working Capital;
 - g. Net Efficiency Adjustment;
 - h. Performance Incentive Schemes;
 - i. WACC as recommended by Professor Tony Van Zijl, Ph.D.; and
 - j. TRANSCO's Proposed Capital and Operating Expenditures.

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30. It submits that the said proposals are designed and developed in accordance with the provisions of the RTWR and the Commission's Regulatory Reset Issues Paper, which would lay down the basis for fair and reasonable set of smoothed maximum annual revenue for the Third Regulatory Period, which in turn, will promote efficient utilization of transmission facilities that will ultimately redound to the best interest and benefit of the consumers.

Prayer

31. Thus, it prayed for the Commission to:
- 31.1 Approve the following in the determination of its set of smoothed Maximum Allowable Revenue (MAR) for the Third Regulatory Period for its services from the Regulatory Asset Base and revenue from the Connection and Residual Subtransmission Assets, based on its proposals:
- a. Off-setting of the Income Tax Adjustments with the sustained revenue under-recovery during the Second Regulatory Period or in the alternative, allow full recovery during the Third Regulatory Period of the under-recovery from the Second Regulatory Period;
 - b. Optimized Depreciation Replacement Cost of TRANSCO's rolled forward Regulatory Asset Base (RAB) from 2008 to 2015;
 - c. The Forecast Capital Expenditures;
 - d. The Forecast Operating and Maintenance Expenditures;
 - e. The Working Capital Proposals;
 - f. The Tax items and assumptions;
 - g. Net Efficiency Adjustment;
 - h. The Performance Incentive Schemes;
 - i. Weighted Average Cost of Capital; and
 - j. TRANSCO's Proposed Capital and Operating Expenditures.
- 31.2 Approve TRANSCO's proposed capital and operating expenditures for the Third Regulatory Period, subject to its adequate justification and support to be provided therefor.



Having found said application sufficient in form and in substance with the required fees having been paid, an Order and a Notice of Public Hearing, both dated December 21, 2009, were issued setting the case for jurisdictional hearing, expository presentation and pre-trial conference on January 13, 2010 (ERC Visayas Field Office, Cebu City), January 20, 2010 (ERC Mindanao Field Office, Davao City) and January 25, 2010 (ERC Main Office, Pasig City), and evidentiary hearings on February 11 and 12, 2010 (ERC Visayas Field Office, Cebu City), February 15 to 17, 2010 (ERC Main Office, Pasig City) and February 18 and 19, 2010 (ERC Mindanao Field Office, Davao City).

In the same Order, NGCP was directed to cause the publication of the 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 scheduled date of the initial hearing.

The Office of the Solicitor General (OSG), the Commission on Audit (COA) and the Committees on Energy of both Houses of Congress were furnished with copies of the Order and the Notice of Public Hearing and were requested to have their respective duly authorized representatives present at the initial hearing.



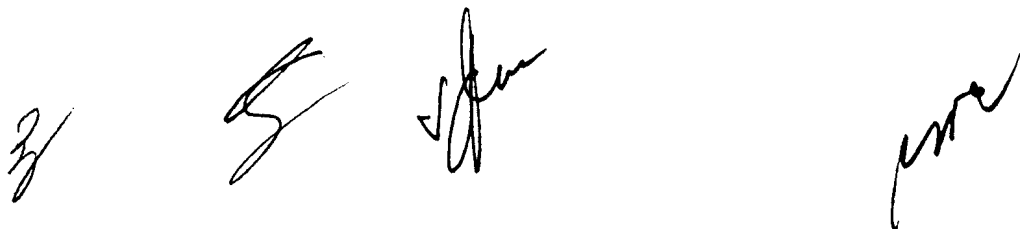
Likewise, the Office of the Mayor of Quezon City was furnished with copies of the Order and the Notice of Public Hearing for the appropriate posting thereof on its bulletin board.

On various dates, the following filed their respective Petitions for Intervention: Mr. William Espiritu, Engr. Antonio Urera, Federation of Village Association (FOVA), TRANSCO, Manila Electric Company (MERALCO), Davao Light and Power Company, Incorporated (DLPC), National Association of Electricity Consumers for Reforms, Incorporated (NASECORE), NASECORE-Cebu Chapter, NASECORE-Davao Chapter and Philippine Associated Smelting and Refining Corporation (PASAR).

On January 8, 2010, NGCP and TRANSCO submitted their respective Pre-Trial Briefs.

On January 12, 2010, the Commission issued an Order directing NGCP to submit various documents.

During the January 13, 2010 held at the ERC Visayas Field Office in Cebu City, the following entered their appearances: a) Attys. Sundy Lorence Lachica and Christiene Demaisip for NGCP; b) Attys. Annarica Reyes, Martessa Nuylan and Dexter Tualla for TRANSCO; c) Atty. Danilo Perolino for PASAR; and d) Atty. Edison John Arriola for NASECORE-Cebu Chapter. NGCP presented proofs of its compliance with the Commission's posting and publication of notice requirements which were duly marked as Exhibits "A" to "J", inclusive. Thereafter, NGCP made an expository presentation of its application.

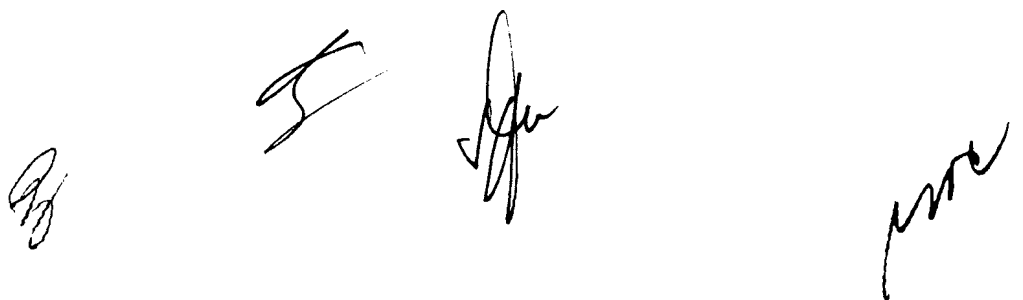


At the continuation of the hearing on January 14, 2010, TRANSCO made its own expository presentation on the said application. And then, the pre-trial conference ensued.

At the termination of the pre-trial conference, NGCP was directed to submit various documents. Subsequently, NGCP moved for a declaration of general default insofar as stakeholders for the Visayas Grid are concerned. The same was granted by the Commission.

During the January 20, 2010 hearing held at the ERC Visayas Mindanao Field Office in Davao City, the following entered their appearances: a) Attys. Lachica and Demaisip for NGCP; b) Attys. Reyes, Nuylan and Tualla for TRANSCO; c) Atty. Maria Consolacion Mercado for DLPC; and d) Ms. Myrna Valdez for NASECORE-Davao Chapter. DLPC manifested its intention to intervene in the instant case which the Commission provisionally allowed the intervention of DLPC subject to the filing of the required petition in intervention within five (5) working days from said date of hearing.

NGCP then presented proofs of its compliance with the Commission's posting and publication of notice requirements for the benefit of the Mindanao Grid consumers. Thereafter, NGCP and TRANSCO made their respective expository presentations on the application.

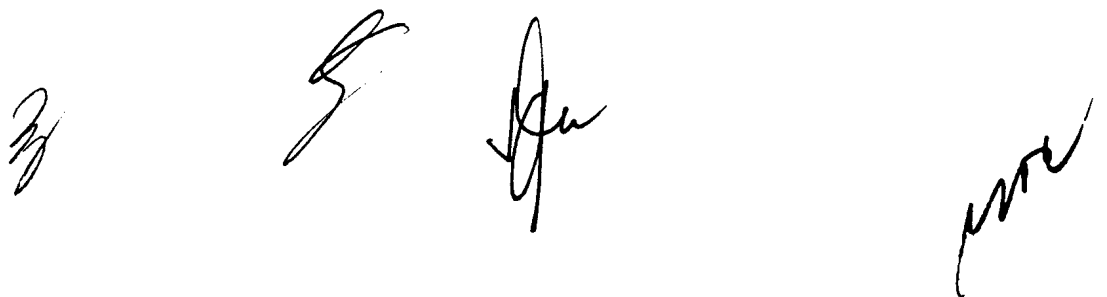


On January 21, 2010, the Commission conducted a pre-trial conference. Subsequently, NGCP moved for a declaration of general default insofar as stakeholders for the Visayas Grid are concerned. The same was granted by the Commission.

During the January 25, 2010 hearing held at the ERC Main Office in Pasig City, the following entered their appearances: a) Attys. Lachica and Demaisip for NGCP; b) Attys. Reyes, Nuylan and Tualla for TRANSCO; c) Attys. Francis Dino Antonio, Irish Mae Rodriguez and Paul Soriño for MERALCO; d) Atty. Ronnie Rodillas and Mr. Pete Ilagan for NASECORE; and e) Engr. Siegfredo Veloso for FOVAMaria Consolacion Mercado for DLPC.

NGCP presented proofs of its compliance with the Commission's posting and publication of notice requirements for the benefit of the Luzon Grid consumers. Thereafter, NGCP and TRANSCO made their respective expository presentations on the application. The pre-trial conference ensued thereafter.

At the termination of the pre-trial conference, NGCP and TRANSCO were directed to submit various documents. Subsequently, NGCP moved for a declaration of general default insofar as the stakeholders for the Luzon Grid are concerned. The same was granted by the Commission.



On the same day, MERALCO and NGCP filed their "Pre-Trial Brief" and "Compliance with Motion to Treat Information as Confidential", respectively.

During the evidentiary hearings held on February 11 and 12, 2010 held at the ERC Visayas Field Office in Cebu City, NGCP presented the following witnesses: a) Mr. Antonius Johannes Van Zijl, Professor of Accounting and Financial Management at the University of Wellington and Consulting Director of Law and Economics Consulting Group, Incorporated (LECG)-Asia Pacific, who testified, among others, on the weighted average cost of capital (WACC); b) Mr. Kieran O' Neill Murray, Chairman of LECG-Asia Pacific, who testified, among others, on transitional issues associated with taxation; c) Ms. Ruth Ah Hing, Executive Director of PricewaterhouseCoopers Financial Advisors, Incorporated (PwCFA), who testified, among others, on income and other taxes; d) Mr. Simone Peter Orme, Consulting Principal at LECG-Asia Pacific, who testified, among others, on Net Efficiency Adjustment and Bad Debts; e) Mr. Armando Pagayon, Head of the Load Forecast and Research, Revenue and Regulatory Affairs Department of NGCP, who testified, among others, on the Department of Energy (DOE) System Peak Demand Forecast; and f) Mr. Michael Emerton, Principal Consultant of Parsons Brinckerhoff (PB) Associates, who testified, among others, on operating expenses.

In the course of their respective direct examinations, the witnesses identified various documents in support of the application which were duly marked as exhibits.

Four handwritten signatures in black ink are located at the bottom of the page. From left to right, they appear to be: a stylized signature, a signature starting with 'L', a signature starting with 'V', and a signature starting with 'm'.

The witnesses were lengthily cross-examined by NASECORE-Cebu Chapter, PASAR and TRANSCO, at the time they were presented as such. They were, likewise, required to address the clarificatory questions propounded by the Commission and its technical consultants.

Thereafter, NASECORE manifested that a witness from the DOE should, likewise, be presented to testify on the Energy Sales and Peak Demand Forecast for 2009-2030, Power Development Plan (PDP), Distribution Development Plan (DDP), Transmission Development Plan (TDP), Transmission Master Plan (TMP); and the Philippine Energy Plan (PEP), as stated by Mr. Pagayon.

On January 26, 2010, the Commission issued an Order directing the Distribution Management Committee (DMC) and the Grid Management Committee (GMC) to appear and testify as *amici curiae* at the succeeding hearings of the instant application.

During the evidentiary hearings held on February 15 to 17, 2010 held at the ERC Main Office in Pasig City, the witnesses presented by NGCP were cross-examined by MERALCO, NASECORE, FOVA, Mr. Urera and TRANSCO.

During the evidentiary hearings held on February 18 and 19, 2010 at the ERC Mindanao Field Office in Davao City, the same NGCP witnesses were cross-examined by NASECORE-Davao Chapter, DLPC and TRANSCO.




Subsequently, NGCP presented its next witness, Mr. Emmanuel Abellanosa, Head of its Mindanao Operations and Maintenance Department, who testified, among others, on Forecast Capital Expenditures (CAPEX) for Operations and Maintenance (O & M) in the Visayas and Mindanao. In the course of his direct examination, Mr. Abellanosa identified various documents in support of the application which were duly marked as exhibits. Thereafter, he was lengthily cross-examined by NASECORE-Davao Chapter, DLPC and TRANSCO. He was, likewise, required to address the clarificatory questions propounded by the Commission and its technical consultants.

At the continuation of the hearing on February 25, 2010 held at the ERC Main Office in Pasig City, NASECORE manifested that it will cross-examine the witnesses for its Cebu and Davao Chapters. Thus, Messrs. Galang and Loria were recalled to the witness stand to address additional cross-examinations by all intervenors.

Thereafter, NGCP presented Mr. Fernando Abesamis, Head of its South Luzon Operations and Maintenance Department, who testified, among others, on Forecast CAPEX for Luzon O & M.

In the course of his direct examination, Mr. Abesamis identified various documents in support of the application which were duly marked as exhibits. Thereafter, he was lengthily cross-examined by the intervenors. He was, likewise, required to address the clarificatory questions propounded by the Commission and its technical consultants.



On March 2, 2010, the Commission issued an Order resolving the "Compliance With Motion to Treat Information as Confidential" filed on January 25, 2010 and February 5, 2010 and "Compliance With Motion for Treatment of Information as Confidential" filed on February 10, 2010 by NGCP.

In the said Order, the Commission declared the following information as confidential: grid data including nodes, transmission lines and connections for a model and transmission line standing data for thermal capacity, resistance and reactance for each transmission line.

During the March 24, 2010 hearing of this case, Mr. Galang was recalled. Subsequently, NGCP presented the following witnesses: a) Mr. Anastacio Almario, Head of the Planning Division, Technical Services Department, System Operations of NGCP; and b) Mr. Gerry Buhain, Head of the Telecommunications Planning Section, Planning Division, Technical Services Department, System Operations of NGCP, who both testified, among others, on Forecast CAPEX System Operations.

In the course of their respective direct examinations, the witnesses identified various documents in support of the application which were duly marked as exhibits. Thereafter, they were lengthily cross-examined by the intervenors, at the time they were presented as such. They were, likewise, required to address the clarificatory questions propounded by the Commission and its technical consultants.



Handwritten signatures of the witnesses and the Commission representative.

At the continuation of the hearing on March 26, 2010, NGCP presented Mr. Raymund Fontillas, its Financial Controller, who testified, among others, on the Forecast CAPEX for the Head Office.

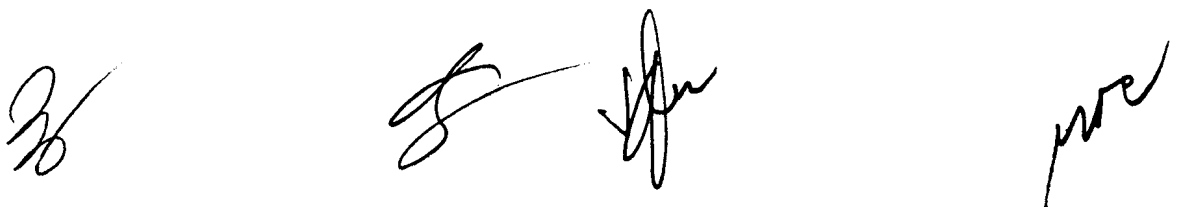
In the course of his direct examination, Mr. Fontillas identified various documents in support of the application which were duly marked as exhibits. Thereafter, was lengthily cross-examined by the intervenors. He was, likewise, required to address the clarificatory questions propounded by the Commission and its technical consultants.

During the April 6, 2010 hearing, NGCP presented Mr. Emmanuel Sotomil, Head of its Metering Services Division, who testified, among others, on the Forecast CAPEX for Metering.

In the course of his direct examination, Mr. Sotomil identified various documents in support of the application which were duly marked as exhibits. Thereafter, he was lengthily cross-examined by the intervenors. He was, likewise, required to address the clarificatory questions propounded by the Commission and its technical consultants.

Subsequently, Ms. Ah Hing was recalled to the witness stand to address additional cross-examinations of the intervenors.

She was, likewise, recalled during the April 7, 2010 hearing. Thereafter, NGCP presented the following witnesses: a) Ms. Mary Jade Roxas-Divinagracia, Managing Director of PwCFA, who testified, among others, on Construction Work-In-Progress (CWIP) Factor; and b) Mr.



Carlos Tabora, Associate Director of PwCFA, who testified, among others, on CAPEX and OPEX Efficiency Adjustments.

In the course of their respective direct examinations, the witnesses identified various documents in support of the application which were duly marked as exhibits. Thereafter, they were lengthily cross-examined by the intervenors, at the time they were presented as such. They were, likewise, required to address the clarificatory questions propounded by the Commission and its technical consultants.

During the April 8, 2010 hearing of this case, Messrs. Murray and Orme were recalled to address the additional cross-examination of the intervenors.

During the May 3, 4, 5 and 6, 2010 hearings, Messrs. Van Zijl, Tabora, Orme and Fontillas, Galang and Loria were recalled.

Thereafter, NGCP presented Mr. Cesar Sacdal, Head of its Reliability and Technical Assessment Department, who testified, among others, on the Performance Incentive Scheme (PIS). In the course of his direct examination, Mr. Sacdal identified various documents in support of the application which were duly marked as exhibits. Thereafter, he was lengthily cross-examined by the intervenors. He was, likewise, required to address the clarificatory questions propounded by the Commission and its technical consultants.

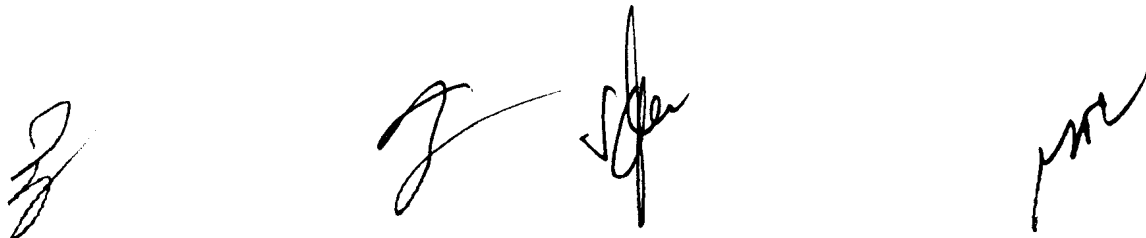


On May 17, 2010, the Commission issued an Order resolving the: a) the "Memorandum (On Presentation of Mr. Walter W. Brown)" filed on February 23, 2010 by NASECORE; b) the "Motion for Reconsideration" and "Supplement to Motion for Reconsideration" both filed by NGCP on March 22, 2010 and May 13, 2010, respectively; and c) the various "Compliance With Motion to Treat Information as Confidential" filed by NGCP.

In the said Order, the Commission directed NGCP to present its Corporate Secretary or any witness to testify on the due execution of the instant application. The Commission, likewise, denied NGCP's "Motion for Reconsideration" and "Supplement to Motion for Reconsideration".

Further, the Commission declared the following information as confidential: line diagrams for the Market Model Data and updated and simplified market model single line diagrams for Luzon and Visayas Grids per year from 2010-2015 highlighting the inclusion of additional CAPEX and new entrants.

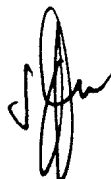
At the continuation of the hearing on May 20, 2010, NGCP presented its last witness, Ms. Karen Ong, its Corporate Secretary, who testified, among others, on the Corporate Secretary's Certificate. In the course of her direct examination, Ms. Ong identified various documents in support of the application which were duly marked as exhibits. Thereafter, she was lengthily cross-examined by the intervenors. She was, likewise, required to address the clarificatory questions propounded by the Commission and its technical consultants.



Subsequently, Mr. Abellanosa was recalled to address the additional cross-examinations of the intervenors.

On the same day, TRANSCO then presented its first witness, Ms. Dinna Dizon, Manager for its Compliance Monitoring Department, who testified, among others, on Sections 5.03 and 5.08 of the Concession Agreement and Connection Assets of Hanjin Heavy Industries and Construction Philippines, Incorporated (HANJIN). In the course of her direct examination, Ms. Dizon identified various documents in support of the application which were duly marked as exhibits. Thereafter, she was lengthily cross-examined by the intervenors. She was, likewise, required to address the clarificatory questions propounded by the Commission and its technical consultants.

At the continuation of the hearing on May 21, 2010, TRANSCO presented the following witnesses: a) Mr. Michael Stephen Farr, Consulting Engineer of Sinclair Knight Merz (SKM), who testified, among others, on the valuation of HANJIN connection assets; b) Mr. Moses Rubio, Corporate Staff Officer B of TRANSCO's Sub-transmission Divestment Department, who testified, among others, on the budget projection for personnel services and maintenance and other operating expenses (MOOE); c) Ms. Leonor S. Quintana, Manager of TRANSCO's Finance Department, who testified, among others, on the assumptions used in forecasting the MOOE; and d) Atty. Elmira Cruz-Caisido, Manager of TRANSCO's Human Resources Division, who testified among others, on assumptions used for compensation data. In the course of their



respective direct examinations, the witnesses identified various documents in support of the application which were were duly marked as exhibits. Thereafter, were lengthily cross-examined by NASECORE-Cebu Chapter, PASAR and TRANSCO, at the time they were presented as such. They were, likewise, required to address the clarificatory questions propounded by the Commission and its technical consultants.

On May 26, 2010, TRANSCO presented its last witness, Atty. Jose Jesus Moreno, Manager for its Right-of-Way and Land Management Services Department, who testified, among others, on TRANSCO's forecast OPEX and CAPEX for Right-of-Way and Land Management Services Department; the Commission-approved budget for the Second Regulatory Period; reasons and justifications for the increase in the forecast amount for the Third Regulatory Period, rationale why the said forecasts should be granted or consequences if the same are disallowed; and, permit and supervision fees paid by TRANSCO during the Second Regulatory Period. He identified various documents in support of the application which were duly marked as exhibits. Thereafter, he was lengthily cross-examined by the intervenors. He was, likewise, required to address the clarificatory questions propounded by the Commission and its technical consultants.

On May 31, 2010, PASAR filed a "Manifestation with Motion to Reopen Presentation of Applicant's Evidence" praying, among others, that: a) it be furnished a copy of the Concession Agreement, including its annexes, if any, and those documents not classified as confidential information; b) it be given a period of five (5) working days from May 31,



2010 within which to execute and submit the required undertaking with respect to the confidential information; c) the presentation of evidence of the National Grid Corporation of the Philippines (NGCP) be reopened so it can present its witness on the application; and d) it be given an opportunity to cross-examine the witness.

On June 11, 2010, TRANSCO filed its "Offer of Exhibits".

On June 15, 2010, NGCP filed its "Formal Offer of Evidence".

On June 25, 2010, FOVA filed its "Comment (On NGCP's Formal Offer of Evidence)". On even date, PASAR filed a "Motion for Extension to File Comment to Formal Offer of Evidence". Likewise, MERALCO separately filed its "Comment (To NGCP's Formal Offer of Evidence)" and "Comment (To TRANSCO's Formal Offer of Evidence)".

On July 1, 2010, NASECORE-Cebu Chapter filed its "Comment (To Applicant's Formal Offer of Evidence)".

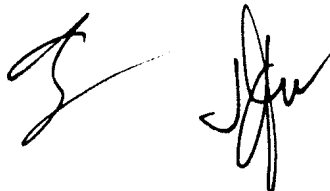
On July 6, 2010, Leyte II Electric Cooperative, Incorporated filed its "Opposition and Comments". On even date, PASAR filed its "Comments/Objections to Formal Offer of Evidence".

On October 18, 2010, the Commission issued an Order consolidating the instant application with ERC Case Nos. 2010-043 RC (In the Matter of the Application for Approval of the Nuling and Tindala Substation Expansion Projects, With Prayer for Issuance of a Provisional



Authority, NGCP –Applicant), 2010-045 RC (In the Matter of the Application for Approval of the Visayas Substation Reliability Project-1 (Compostela Substation Expansion Project), With Prayer for Issuance of a Provisional Authority, NGCP –Applicant), 2010-048 RC (In the Matter of the Application for Approval of the New Antipolo 230 kV Substation Project, With Prayer for Issuance of a Provisional Authority, NGCP –Applicant), 2010-056 RC (In the Matter of the Application for Approval of the Northeastern Transmission Development Project (Magapit Capacitor), With Prayer for Issuance of a Provisional Authority, NGCP –Applicant), 2010-057 RC (In the Matter of the Application for Approval of the Luzon Substation Reliability Project-1, With Prayer for Issuance of a Provisional Authority, NGCP –Applicant), 2010-059 RC (In the Matter of the Application for Approval of the Reliability Compliance Project-1 Mindanao (Phase III-Mindanao Shunt Reactors and Capacitors), With Prayer for Issuance of a Provisional Authority, NGCP –Applicant), 2010-060 RC (In the Matter of the Application for Approval of the Visayas Substation Expansion Project-1, With Prayer for Issuance of a Provisional Authority, NGCP –Applicant) and 2010-061 RC (In the Matter of the Application for Approval of the Tayabas Substation Expansion Project-1, With Prayer for Issuance of a Provisional Authority, NGCP –Applicant).

On even date, the Commission issued another Order denying the several "Motions to Dismiss" filed by MERALCO and consolidating the instant application with ERC Case Nos. 2010-044 RC (In the Matter of the Application for Approval of the San Esteban-Laoag 230 kV Transmission Project (Stage 1: Laoag Substation Expansion/Reconfiguration Project), With Prayer for Issuance of a Provisional Authority, NGCP –Applicant),




2010-046 RC (In the Matter of the Application for Approval of the Kalayaan-New Macban 230 kV Transmission Line Upgrading Project, With Prayer for Issuance of a Provisional Authority, NGCP –Applicant), 2010-047 RC (In the Matter of the Application for Approval of the Dasmariñas EHV Substation Expansion Project, With Prayer for Issuance of a Provisional Authority, NGCP –Applicant), 2010-058 RC (In the Matter of the Application for Approval of the New Naga Banilad 138 kV Transmission Line Project, With Prayer for Issuance of a Provisional Authority, NGCP –Applicant) and 2010-091 RC (In the Matter of the Application for Approval of the Taytay (Dolores) Substation Upgrade Project, With Prayer for Issuance of a Provisional Authority, NGCP – Applicant).

On November 8, 2010, the Commission issued an Order directing NGCP to submit the data used by its consultants in formulating their respective analyses and reports.

Relative thereto, on November 12, 2010, NGCP filed its “Compliance”.

On November 11, 2010, the Commission issued an Order denying the “Manifestation with Motion to Reopen Presentation of Applicant’s Evidence” filed on May 31, 2010 by PASAR.

On November 17, 2010, PASAR filed a “Manifestation with Motion for the Cross-Examination of Witnesses” praying that: a) it be permitted to cross-examine the named witnesses on the documents that they will be



submitting on the date and time as scheduled by the Commission; b) the National Grid Corporation of the Philippines (NGCP) be directed to furnish each and every oppositor-intervenor, copies of the documents to be submitted at least ten (10) days prior to the scheduled hearing date; c) the date, time and schedule when the witnesses will testify be set by the NGCP with approval of the Commission for an orderly presentation of evidence.

On November 18, 2010, the Commission issued an Order denying the said motion.


To facilitate the evaluation of the instant application, on various dates, the Commission issued several Orders directing NGCP to submit documents.

Likewise, the Commission takes note of the following pleadings submitted by the parties:

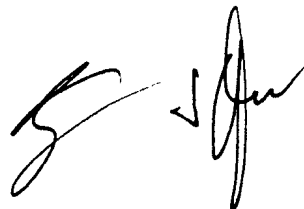
1. "Compliance" separately filed on February 1, 4 and 5, 2010 by NGCP;
2. "Compliance with Manifestation" separately filed on February 5 and 8, 2010 by TRANSCO;
3. "Compliance with Motion for Treatment of Information as Confidential" filed on February 10, 2010 by NGCP;
4. "Opposition to Motion to Treat Information as Confidential" filed on February 22, 2010 by PASAR;
5. "Omnibus Opposition to NGCP" filed on February 25, 2010 by NASECORE;
6. "Compliance with Motion to Treat Information as Confidential" filed on February 25, 2010 by NGCP;



7. "Manifestation" filed on February 25, 2010 by MERALCO;
8. "Compliance" and "Motion to Treat Information as Confidential" separately filed on February 26, 2010 by NGCP;
9. "Compliance" filed on February 26, 2010 by DLPC;
10. "Compliance" and "Compliance with motion to Treat Information as Confidential" separately filed on March 1, 2010 by NGCP;
11. "Memorandum on the Presentation of Mr. Walter W. Brown" filed on March 3, 2010 by NASECORE;
12. "Position Paper", "Compliance" and "Compliance with motion to Treat Information as Confidential" separately filed on March 4, 2010 by NGCP;
13. "Compliance" filed separately on March 5 and 15, 2010 by NGCP;
14. "Manifestation" filed on March 16, 2010 by MERALCO;
15. "Manifestation/Submission" filed on March 19, 2010 by TRANSCO;
16. "Partial Compliance" filed on March 19, 2010 by NGCP;
17. "Motion for Reconsideration" and "Manifestation" separately filed on March 22, 2010 by NGCP;
18. "Manifestation" filed on March 23, 2010 by the DOE;
19. "Opposition" filed on March 24, 2010 by PASAR'
20. "Compliance" filed on March 26, 2010 by NGCP;
21. "Opposition (To NGCP's Motion for Reconsideration dated March 25, 2010)" filed by NASECORE;
22. "Compliance" filed on March 26, 2010 by MERALCO;
23. "Manifestation (RE: NGCP's Presentation of a Witness to Testify on the Whole Application)" filed on March 29, 2010 by TRANSCO;
24. "Manifestation" separately filed on March 29 and 30, 2010 by NGCP;
25. "Compliance" filed on March 31, 2010 by NGCP;
26. "Manifestation" filed on April 5, 2010 by the DOE;



27. "Motion for Intervention and Manifestation" filed on April 8, 2010 by Energy Logics Philippines, Incorporated
28. "Compliance" filed on April 19, 2010 by NGCP;
29. "Manifestation" and "Compliance and Manifestation" separately filed on April 30, 2010 by NGCP;
30. "Supplemental Motion for Reconsideration" filed on May 13, 2010 by NGCP;
31. "Manifestation" and "Manifestation/Submission" separately filed on May 14, 2010 by TRANSCO"
32. "Manifestation with Motion (RE: SKM's Valuation of NGCP Assets)" filed on May 17, 2010 by MERALCO;
33. "Written Interrogatories" filed on May 20, 2010 by FOVA;
34. "Compliance" separately filed on May 21 and 24, 2010 by NGCP;
35. "Compliance" separately filed on May 26, 2010 by NGCP and TRANSCO:
36. "Written Interrogatories to NGCP" and "Written Interrogatories to TRANSCO" separately filed on May 31, 2010 by NASECORE;
37. "Written Interrogatories" filed on May 31, 2010 by MERALCO;
38. "Compliance" filed on May 31, 2010 by NGCP;
39. "Compliance (RE: SKM Valuation Report and SKM Supplemental Valuation Report)" filed on June 3, 2010 by TRANSCO;
40. "Compliance" filed on June 4, 2010 by NGCP;
41. "Comment (On SKM's Valuation of NGCP Asset dated June 4, 2010)" filed on June 4, 2010 by MERALCO;
42. "Manifestation and Compliance" and "Compliance" separately filed on June 15, 2010 by NGCP;
43. "Compliance (With the Order dated May 7, 2010)" filed on June 15, 2010 by DLPC;
44. "Memorandum", "Manifestation (RE: NASECORE's Written Interrogatories)" and "Submission" separately filed on June 16, 2010 by TRANSCO;



45. "Motion for Leave to Admit Attached Memorandum" filed on June 29, 2010 by MERALCO;
46. "Manifestation and Motion" and "Manifestation with Motion" filed on July 1, 2010 by NASECORE-Cebu Chapter and MERALCO, respectively;
47. "Manifestation (RE: FOVA's comment dated June 24, 2010)" and "Submission/Manifestation" separately filed on July 15, 2010 by TRANSCO;
48. "Reply to Opposition and Comment of Leyte II Electric Cooperative, Incorporated" filed on July 15, 2010 by NGCP;
49. "Opposition/Comment (RE: MERALCO's Motion for Leave to Admit Attached Memorandum dated June 28, 2010 and Memorandum dated June 28, 2010) filed on July 20, 2010 by TRANSCO;
50. "Omnibus Reply to Comments of FOVA, PASAR and MERALCO with Comments to MERALCO's Memorandum" filed on July 21 by NGCP;
51. "Manifestation and Compliance" filed on August 6, 2010 by the DOE;
52. "Compliance" separately filed on August 16 and 27, 2010 by NGCP;
53. "Compliance" filed on August 27, 2010 by MERALCO;
54. "Compliance" filed on November 12, 2010 by NGCP; and
55. "Manifestation with Motion" filed on November 15, 2010 by MERALCO.

The Commission hereby admits the "Offer of Exhibits" and "Formal Offer of Evidence" filed by TRANSCO and NGCP, respectively, for being relevant and material to the final resolution of the instant application.

1.2 Issuance of the Draft Determination

In accordance with the RTWR and the Regulatory Reset Position Paper, the Commission issued a Draft Determination which embodies the

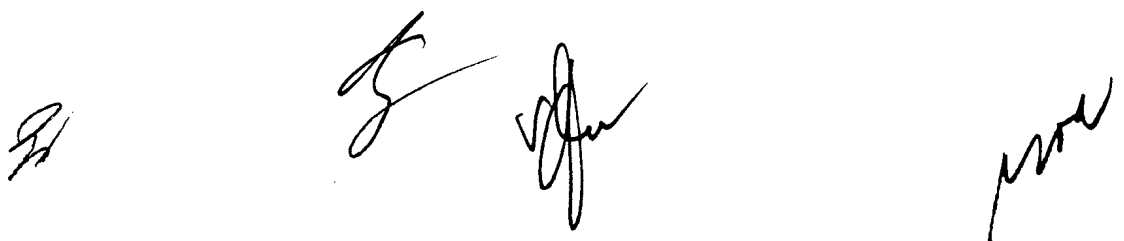


Commission's preliminary position on the price control arrangements that should apply to the Third Regulatory Period and describes its initial evaluation of NGCP's proposals in the instant application, as well as the evidence presented in support thereof during the public hearings up to the date of this issuance.

It is important to note that the Draft Determination is not a final decision. It merely provided an opportunity for interested parties to comment and discuss the Commission's evaluation during the public consultations and/or hearings to be held for that purpose, prior to the issuance of a final determination. The final determination is issued by the Commission after the termination of the presentation of evidence by all the parties (both documentary and testimonial) during the public consultations and/or hearings and only after it has conducted a complete evaluation thereof.

For purposes of eliciting comments from stakeholders, on July 15, 2010, the Commission issued an Order setting the Draft Determination for public consultations on August 17, 2010 at the ERC Mindanao Field Office in Davao City; on August 18, 2010 at the ERC Main Office in Pasig City; and on August 20, 2010 at the ERC Visayas Field Office in Cebu City.

In the same Order, the Commission directed NGCP to post a copy of the Notice of Public Consultation and the Draft Determination in its main office, branch offices and at least three (3) conspicuous places within its franchise area. NGCP was also directed to undertake other possible



means of disseminating information to the public relative to the Draft Determination.

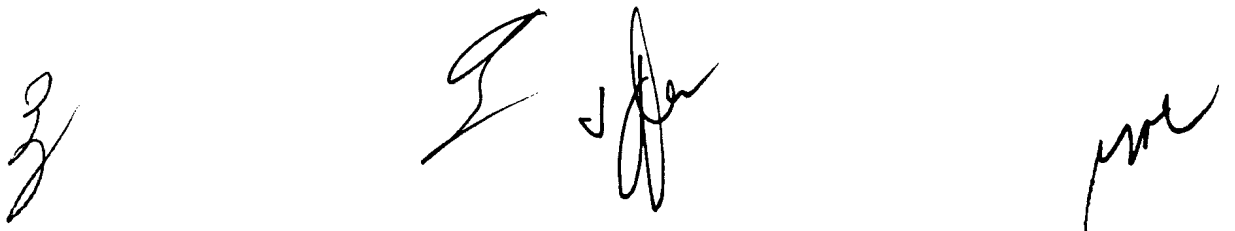
On even date, the Draft Determination was posted on the Commission's website and interested parties were given until August 6, 2010 within which to submit their written comments thereon.

On various dates before the scheduled public consultations, NGCP, MERALCO, TRANSCO, Electric Consumers Advocacy of the Philippines (ECAP), NASECORE, Region I Electric Cooperatives Association (RECA I) and PASAR submitted their respective written comments on the Draft Determination. At the said public consultations, NGCP and all the intervenors appeared and actively participated in the discussion of their respective comments on the Draft Determination.

On August 31, 2010, the Commission issued an additional Performance Incentive Scheme (PIS) Indicator intended to be an integral part of the Draft Determination.

On September 9, 2010, the Commission issued an Order directing all interested parties to submit their respective comments on the said additional PIS Indicator on or before September 20, 2010.

The Commission took note of the written comments and verbal manifestations of NGCP and all intervenors during the public consultations for the Draft Determination.



2. Discussion

The detailed discussion of the Commission's resolution on each and every issue in this case is embodied in a separate document denominated as "*Final Determination*" hereto attached as *Annex "A"* and made an integral part of this Decision.

WHEREFORE, the foregoing premises considered, the application for approval of its maximum annual revenue for the third regulatory period (2011-2015) during the regulatory reset process for the third regulatory period in accordance with the alternative form of rate setting methodology under the Rules in Setting the Transmission Wheeling Rates (RTWR) filed by the National Grid Corporation of the Philippines (NGCP) is hereby **APPROVED** as follows:

a. Annual Revenue Requirement (ARR), including the Second Regulatory Period Carry-Over

(in PhP Million, nominal)	2010	2011	2012	2013	2014	2015
Final Determination						
OPEX		5,602.70	6,335.82	6,676.20	7,752.64	7,575.36
Return of capital (depreciation)		6,572.12	7,033.17	7,420.69	7,125.06	7,089.94
Return on capital		27,427.77	28,637.70	29,560.78	29,996.71	29,932.33
Real property taxes and VAT		1,095.29	973.31	897.32	828.10	675.42
Provision for land related CAPEX		66.99	195.92	301.10	389.61	482.27
Net efficiency adjustment		(292.02)	(1,526.41)	(1,489.17)	(1,699.20)	(1,628.57)
Third regulatory period revenue requirement		40,472.85	41,649.51	43,366.92	44,392.92	44,126.75
Force majeure adjustment		284.08				
Rate arrears from transferred assets		1,455.09				

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Carryover of revenue under-recoveries	(8,303.69)	2,383.35	2,428.07	2,522.51	2,577.42	2,556.40
Second regulatory period recoveries		4,175.06	2,403.43	2,502.53	2,561.74	2,546.38
TOTAL UNSMOOTHED MAR		44,647.91	44,052.94	45,869.45	46,954.66	46,673.13

b. Smoothed MAR based on P_0 of PhP1,435 Million and X factor of 3%

Particulars	2010	2011	2012	2013	2014	2015
Unsmoothed MAR	-	44,647.91	44,052.94	45,869.44	46,954.65	46,673.14
2010 MAR	44,991.45	-	-	-	-	-
P_0	1,435.00	-	-	-	-	-
2010 MAR – P_0	43,556.45	-	-	-	-	-
SMAR	-	44,079.13	44,872.55	45,680.26	46,456.82	47,246.59

c. Capital Expenditure Forecasts

Particulars	2010	2011	2012	2013	2014	2015
Final Determination						
Approved SMAR (PhP million)	-	44,079.13	44,872.55	45,680.26	46,456.82	47,246.59
Assumed billing determinant (MW/month)	-	120,848	123,811	126,700	129,274	131,830
Estimated average transmission rate (PhP/kw/month,)	-	364.75	362.43	360.54	359.37	358.39
Current average transmission rate (PhP/kW/month)	372.38	-	-	-	-	-

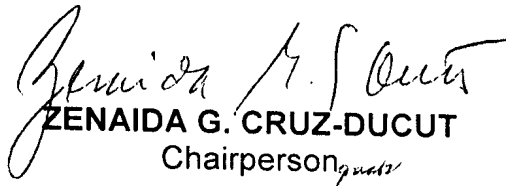
Further, the Commission hereby **APPROVES** the Performance Incentive Scheme using the same performance measures that were used for the second regulatory period (2006-2010), as indicated in the attached Final Determination and with inclusion of the following:

- a. A congestion availability indicator (ConA) that measures the availability of a subset of lines and transformers on the Luzon grid. The network elements are necessary in the operation of the Wholesale Electricity Spot Market (WESM) as well as to avoid congestion on the grid;
- b. An ancillary services availability indicator that measures the availability of ancillary services in the grid for each hourly charging period; and
- c. A customer satisfaction indicator that measures the extent of satisfaction for all customers connected to the grid through annual survey conducted by a duly Commission-accredited external research provider using an objective and quantitative scoring system.

Finally, NGCP is hereby directed to file an application for the approval of its Maximum Allowable Revenue (MAR) for the Calendar Year 2011 in accordance with the Alternative Form of Rate Setting Methodology under the RTWR on or before December 17, 2010.

SO ORDERED.

Pasig City, November 22, 2010.


ZENAIDA G. CRUZ-DUCUT
Chairperson


RAUF A. TAN
Commissioner


MARIA TERESA R. CASTAÑEDA
Commissioner


ALEJANDRO Z. BARIN
Commissioner


JOSE C. REYES
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