

## SCHEDULE K. CALCULATION OF WEIGHTED AVERAGE COST OF CAPITAL

CEPALCO will adopt the WACC calculation of ERC as presented in its paper entitled "*Preliminary Calculation of the Regulatory Weighted Average Cost of Capital that would Apply during the Second Regulatory Period*" issued on May 30, 2006, with the following modifications:

- 1) Estimates for the US Risk Free Rate was updated as of August 24, 2006 figure taken from Bloomberg
- 2) Philippine and US Inflation Rates were updated based on the 7-month average figure or from January to July 2006.

With the above modifications, the proposed WACC is calculated as follows:

			Formula	Proposed	Source of Data
1	US Risk Free Rate	$r_{USA}$		4.80%	Yield of US 10Yr Bond as at 8/24/06, www.Bloomberg.com
2	US CPI	$CPI_{USA}$		3.87%	7-month average, Jan-July 2006, US Dept of Labor, www.bls.gov
3	Philippine CPI	$CPI_{PHI}$		7.00%	7-month average, Jan-July 2006, Philippine NSO, www.census.gov.ph
4	Country Risk Premium	CRP		3.50%	Based on data from ERC's " <i>Preliminary Calculation of the Regulatory Weighted Average Cost of Capital that Would Apply During the Second Regulatory Period</i> " Issued on May 30, 2006
5	Risk Free Rate	$r_f$	$(1+r_{USA})/(1+CPI_{USA}) \times (1+CPI_{PHIL}) \times (1+CRP)-1$	11.70%	
6	Asset Beta	$Beta_a$		0.67	Based on data from ERC's " <i>Preliminary Calculation of the Regulatory Weighted Average Cost of Capital that Would Apply During the Second Regulatory Period</i> " Issued on May 30, 2006
7	Equity Funding	E		55%	Based on RDWR
8	Debt Funding	D		45%	Based on RDWR
9	Total Funding	V	E + D	100%	
10	Equity Beta	$Beta_e$	$Beta_a \times [(1 + (D/E))]$	1.22	
11	Market Risk Premium	$(r_m - r_f)$		0.06	Based on RDWR
12	Debt Margin	$D_m$		2.5%	Based on data from ERC's " <i>Preliminary Calculation of the Regulatory Weighted Average Cost of Capital that Would Apply During the Second Regulatory Period</i> " Issued on May 30, 2006
13	<b>Cost of Equity</b>	$r_e$	$r_f + Beta_e \times MRP$	<b>19.01%</b>	
14	<b>Cost of Debt</b>	$r_d$	$r_f + DM$	<b>14.20%</b>	
15	<b>PROPOSED WACC</b>		$[r_e \times E/V] + [r_d \times D/V]$	<b>16.85%</b>	

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Key Rates

	CURRENT	1 MONTH PRIOR	3 MONTH PRIOR	6 MONTH PRIOR
Federal Reserve Target Rate	5.25	5.25	5.00	
3-Month Libor	5.40	5.48	5.21	
Prime Rate	8.25	8.25	8.00	
5-Year AAA Banking & Finance	5.32	5.61	5.54	
10-Year AAA Banking & Finance	5.65	5.95	5.86	

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Mortgage Rates provided by [Bankrate.com](#) Rates may include points.

	CURRENT	1 MONTH PRIOR	3 MONTH PRIOR	6 MONTH PRIOR
15-Year Mortgage	5.70	5.94	5.85	
30-Year Mortgage	5.98	6.23	6.18	
1-Year ARM	5.33	5.45	5.28	

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U.S. Treasuries

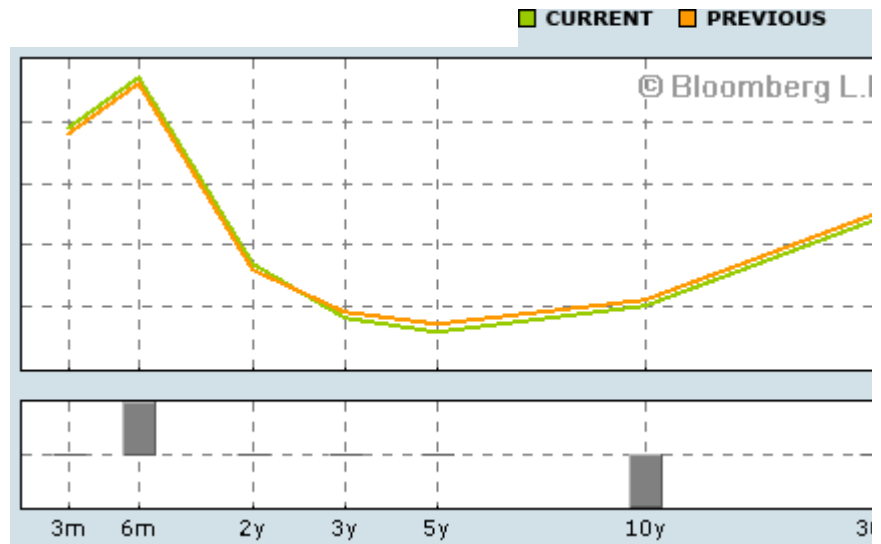
Bills

	MATURITY DATE	DISCOUNT/YIELD	DISCOUNT
3-Month	11/24/2006	4.96 / 5.09	

6-Month 02/22/2007 4.96 / 5.17

Notes/Bonds

	COUPON	MATURITY DATE	CURRENT PRICE/YIELD	PI
2-Year	5.000	07/31/2008	100-07+ / 4.87	
3-Year	4.875	08/15/2009	100-07¾ / 4.78	
5-Year	4.875	07/31/2011	100-15+ / 4.76	
10-Year	4.875	08/15/2016	100-17+ / 4.80	
30-Year	4.500	02/15/2036	93-07 / 4.94	



Inflation Indexed Treasury

	COUPON	MATURITY DATE	CURRENT PRICE/YIELD	PI
5-Year	2.375	04/15/2011	100-16 / 2.25	
10-Year	2.500	07/15/2016	102-06 / 2.25	
20-Year	2.000	01/15/2026	96-02 / 2.25	
30-Year	3.375	04/15/2032	124-20 / 2.12	

Municipal Bonds

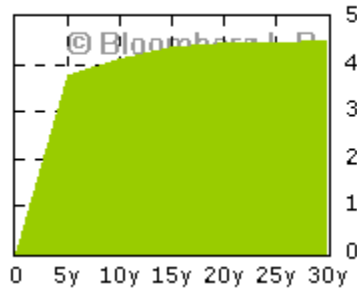
National Municipal Bond Yields:

Triple-A Rated, Tax-Exempt Insured Revenue Bonds

	1 DAY PRIOR YIELD	2 DAY PRIOR YIELD	CHANGE IN YIELD	28% EQ YIELD	1 WEEK PRIOR YIELD	1 MO PRIOR YIELD
2-Year	3.59%	3.60%	-0.01%	4.99%	3.62%	
5-Year	3.72%	3.75%	-0.03%	5.17%	3.77%	
7-Year	3.84%	3.87%	-0.03%	5.33%	3.88%	

10-Year	4.05%	4.06%	-0.01%	5.62%	4.05%
15-Year	4.33%	4.33%	0.00%	6.01%	4.30%
20-Year	4.45%	4.45%	0.00%	6.18%	4.42%
30-Year	4.51%	4.51%	0.00%	6.26%	4.48%

**INSURED REVENUE YIELD**



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