

ANNEX J

INTERIM PERFORMANCE INCENTIVE SCHEME
UNDER PERFORMANCE BASED REGULATION
DURING THE SECOND REGULATORY PERIOD
(2007 - 2011)

By:
Dagupan Electric Corporation

Submitted to:
Energy Regulatory Commission

Interim Performance Incentive Scheme
Under Performance Based Regulation

Executive Summary

On May 12, 2006 DECORP submitted a draft Interim Performance Incentive Scheme . The submission was in compliance with the Position Paper, the Addendum to the Position Paper, and the “Framework for the Performance Incentive Scheme to apply for the Third Regulatory Period”. The proposal in the draft were selected measurements from the Final Scheme, namely:

1. Network Performance: System Losses.
2. Service Performance: Time to process applications.
Time to connect premises after compliance
with all requirements.
3. GSL: GSL4, failing to provide a connection to a
customer on the day promised.

The draft was discussed in a meeting with the ERC on May 15, 2006. In the meeting, the ERC generally accepted the proposal of Decorp. However, the ERC noted the number of indices proposed as not considered sufficient, and was uncomfortable about Performance Incentive Schemes that do not measure a sufficient number of performance indices or do not provide a strong incentive for performance improvement. In concluding the meeting, the ERC encouraged Decorp in developing additional performance indices for use during the Second Regulatory Period. These are to be included in a submission on June 9, 2006.

In this new scheme DECORP proposes the following, all based on the Final Performance Incentive Scheme:

1. Network Performance: Sustained SAIFI.
Sustained CAIDI.
Planned SAIDI.
Voltage Regulation.
2. GSL: GSL1, a customer experiencing more than the
target time of sustained interruptions.
GSL2, a customer experiencing more than the
target number of sustained interruptions.
GSL3, restoration of service to a customer after
a fault on the secondary side does not
occur within the target time.

The plan in implementing these additional measurements are provided in the proceeding discussions.

Interim Performance Incentive Scheme
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Network Performance Measurements

1. Sustained SAIFI, Sustained CAIDI, and Planned SAIDI.

After evaluating the Interruption Logs maintained by our Substation Operators, we will be submitting historical indices from January 2002 to December 2005 by August 2006. In its original form, the Interruption Logs recorded power outages only:

- Feeder-level interruptions causing tripping of substation circuit breakers and reclosers, readily detected by our SCADA or noticed by substation operators.
- Planned outages, both inside the substation premises (white tag) or outside (red tag).
- Interruptions caused by our linemen and/or linemen of our contractors (white tag) while working near energized lines.
- Customers calling our offices reporting power outages in their areas.

Using the Interruption Logs in calculating historical indices the number of customers affected must be known, or at least must be estimated. Determining the number of interrupted customers by each power outage in the past years was the most difficult and time consuming task in building up the Network Indices database. We are doing this manually using meter reading routes. Currently, this database is up to December 2003, electronic files of some of the months and the summary of the historical indices of years 2002 and 2003 are included in this proposal.

We recognise the necessity of building this information using relational database instead of spreadsheets, in preparation for the Third Regulatory Period and other ERC requirements such as System Losses segregation, Guidelines for the Monitoring of Reliability Standards for DUs, and Compliance to the Philippine Distribution Code.

2. Voltage Regulation.

DECORP has been conducting, at least once every two years, Load and Voltage Checks of all our distribution transformers. This is done in the months of February to May, thereby capturing the percent loading during the peak and the off-peak periods of all distribution transformers, by clamping their secondary leads. In addition, we also measure the voltages at the transformer secondary terminals as well as at the secondary line dead-end especially the farthest from the transformer.

However, since the preceding does not comply with the requirements called for in the Final Scheme, we propose the following plan:

- Ensure the voltage readings are taken at random positions across the network and at various times of day. This must be sufficient to ensure that the readings represent a fair reflection of all parts of the network, under all load conditions.

- Measure the voltages at the secondary terminals of approximately one hundred (100) distribution transformers per month, or approximately 1200 in a Regulatory Year, randomly among all the feeders.
- Take the measurements once at daytime (between 1pm and 5pm) and once at nighttime (between 6pm and 9pm) to capture the peak and off-peak voltages, respectively.
- Due to volume of distribution transformers surveyed per month, in random locations year round, and actual measurements taking longer time compared with our previous Load and Voltage Checks, we will be forming a new section for this requirement composed of 2 teams, each with:
 - 3-lineman;
 - service vehicles, climbing tools, ladders; and
 - Fluke 189 True RMS Multimeter, capable of logging the minimum, maximum and average voltage over a period of time.

The additional operating expense due to this compliance is expected to appear in our future operating expenses.

Guaranteed Service Levels

3. GSL1, GSL2 and GSL3.

As an extension of the Network Indices database above, we will be submitting historical interruption time and frequency a customer experienced from January 2002 to December 2005, and the historical restoration time in that same period, by August 2006.

We will be determining these target levels by linking this database to our Customer database, either manually or through estimation. Therefore, we prefer measuring the Guaranteed Service levels per customer rather than per feeder or distribution transformer, as previously planned.

We are currently building these systems in compliance with System Losses segregation, so we are confident that these system will be ready by July 2007.

DAGUPAN ELECTRIC CORPORATION
Performance Incentive Scheme

In line with DWRG's Performance Incentive Scheme, we are proposing the following performance indices:

Price-linked Incentives

Network Performance Measures

System Losses, please refer to Annex A for ten (10) years historical figures.

Service Performance Measures

| Performance Indices | 2005 Performance Level | | Proposed Level |
|--|---------------------------------------|-------------------------|----------------|
| | Volume of Transactions Measured | Average Processing Days | |
| a) Price-linked Incentive Scheme | | | |
| 1) Time to Process Applications for Regulated Regulated Distribution Services | 1184 | 17.67 | 20 |
| 2) Time to Connect Premises to the Regulated Distribution System after compliance with all Government and Regulated Entity requirement | 1186 | 3.69 | 30 |
| Normal Applications | 1105 | 2.26 | |
| Requiring Secondary L/E | 55 | 17.36 | |
| Requiring Primary L/E or Revamp | 26 | 35.62 | |
| b) Guaranteed Service Levels | | | |
| 1) GSL 4 - The Regulated Entity failing to provide a connection to a customer on the day promised, with cumulative payments applying for each day that a connection is later than promised | "Same level as proposed in a.2 above" | | |

The above Table is based on actual transactions monitored in 2005. The computations for the determination of Average Processing Days as per the DWRG was applied to individual applications then summarized to derive the data(pls refer to Annex B). In addition, the following were considered:

1. The following definitions apply under existing DECORP applications processes:

1.1 Applications Deemed Initiated - prospective applicant arrives at the office, inquires for service, signifies intention to apply, is given brief orientation and given a list of requirements for presentation/submission (includes government permits and company documentary requirements).

1.2 Applications Deemed Accepted - prospective applicant arrives at the office, applies for electric service, present all required government permits and company documentary requirements. Applicant is required to fill up

application form, oriented on setting up service entrances, and scheduled for initial inspection.

1.3 Applications Deemed Approved - final inspection approved by Electric Inspector, applicant submits all permits and documentary requirement and tenders payment of applicable deposits and service fees.

Under such a process, time lost for applications commencing from 1.1 to 1.3 includes time spent by applicant in processing and availing of government and company documentary requirements. However, for application commencing from 1.2 to 1.3, time lost pertains only to the time spent for complying with service entrance/metering standards and/or Grant of Way requirements, if applicable. The data above represents the performance under both process condition, and only the applicable time lost for each particular application was excluded.

2. The time to process connection included all application types, regardless of customer rate class or those necessitating a secondary or primary line extension or revamp.

3. The time to connect premises also included all application types, regardless of customer rate class or those necessitating a secondary or primary line extension or revamp. However, the result was disaggregated into normal applications, those requiring secondary L/E, and those requiring primary L/E or revamp, simply to show the performance disparity in relations to these service specifics.

1. Applications Deemed Accepted
2. Applications Deemed Initiated
3. Applications Deemed Approved

Dagupan Electric Corporation
System Losses
1996 to 2005

| <u>Year</u> | <u>%</u> |
|-------------|----------|
| 1996 | 15.33% |
| 1997 | 14.28% |
| 1998 | 11.11% |
| 1999 | 10.09% |
| 2000 | 11.14% |
| 2001 | 10.51% |
| 2002 | 10.24% |
| 2003 | 9.85% |
| 2004 | 8.89% |
| 2005 | 8.33% |