

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

**IN THE MATTER OF THE APPLICATION FOR
APPROVAL OF THE ANNUAL REVENUE
REQUIREMENT AND PERFORMANCE INCENTIVE
SCHEME IN ACCORDANCE WITH THE
PROVISIONS OF THE RULES FOR SETTING
DISTRIBUTION WHEELING RATES,**

ERC CASE NO. 2006- RC

DAGUPAN ELECTRIC CORPORATION

Applicant,

APPLICATION

COMES NOW, applicant DAGUPAN ELECTRIC CORPORATION through the undersigned counsel, and unto this Honorable Commission, most respectfully states:

1.That applicant is a corporation duly organized and existing under and by virtue of the laws of the Philippines, with principal office at Veria II Building, AB Fernandez West , Dagupan City where it may be served with summons and other legal processes, represented in this instance by its President, Isabelita L. Llamas of legal age, Filipino, Married and with office address at Veria I Bldg., 62 West Avenue, Quezon City. Herein applicant is the holder of an exclusive franchise issued by Congress of the Philippines/National Electrification Commission to operate an electric light and power services in the Municipalities/cities of Dagupan, Calasiao, San Fabian, Sta. Barbara, San Jacinto, Manaoag, Barangays Cruz and Bolingit of San Carlos, all in the Province of Pangasinan

2.That applicant has selected to enter Performance-Based Regulation at the first entry point, as described in Annex B of ERC Resolution No. 12-02 Series of 2004 "Adopting a Methodology for Setting Distribution Wheeling Rates", dated December 10, 2004 and that such selection has

been approved by the Energy Regulatory Commission (ERC). The application submitted to the ERC is for the approval of the Annual Revenue Requirement and Performance Incentive Scheme required for the Second Regulatory Period described in the Guidelines on the Methodology for Setting Distribution Wheeling Rates (DWRG) issued by the ERC on December 10, 2004 and as subsequently amended in the Rules for Setting Distribution Wheeling Rates (RDWR) issued by the ERC on August 4, 2006. This Second Regulatory Period commences on July 1, 2007 and terminates on June 30, 2011.

2a. That applicant proposes the Annual Revenue Requirement and Performance Incentive Scheme values thus approved to form the basis of the ERC's determination of the X-factor, P₀-factor and the Maximum Annual Prices that will apply to the applicant and on which it will base its rate setting for the Second Regulatory Period.

3. That applicant has prepared its proposal as contained in this application in accordance with the conditions described in the afore-mentioned RDWR and in the implementing guidelines issued by the ERC in its Position Paper on the Regulatory Reset for the Second Regulatory Period, dated December 9, 2005 (Position Paper). The application submitted to the ERC made use of the methodology described in the RDWR, the Position Paper and applied the financial spreadsheet model titled ERC-MODEL-FINAL-V3.3.xls (Price-Cap Model) that was provided to the applicant by the ERC.

4. That the proposed Annual Revenue Requirement is based on the Building Block calculation described in the afore-mentioned RDWR, as set out below for each Regulatory Year and for which the applicant is seeking the immediate approval of the ERC:

Table 1. Annual Revenue Requirement as per Building Block approach

Building Block	Proposed revenue requirement per Regulatory Year (PhP)			
	2008	2009	2010	2011
Operating and maintenance expenditure	142,045,993	160,017,914	178,346,450	199,710,023
Taxes, levies & duties (other than corporate tax)	3,186,601	3,296,515	3,412,954	3,536,309
Regulatory depreciation	57,751,300	70,134,615	79,025,645	98,059,843
Return on capital	196,376,340	224,885,312	260,302,443	313,145,112
Corporate income tax	8,118,201	32,172,028	53,585,759	94,001,426
TOTAL REVENUE REQUIREMENT	407,478,435	490,506,384	574,673,251	708,452,713

Note : All values are in nominal terms

The meaning and application of these parameters are as described in the afore-mentioned RDWR.

5. That the afore-mentioned Annual Revenue Requirement is based on a proposed rolled-forward value of the applicant's Regulatory Asset Base as described below. The opening value of the Regulatory Asset Base for 2008 is based on the value of the Regulatory Asset Base on June 30, 2006, as valued by the ERC and communicated to the applicant, suitably amended to a June 30, 2007 value in accordance with the method described in the RDWR.

Table 2. Summary of proposed Rolled-forward Regulatory Asset Base (RAB)

ITEM	PhP for Regulatory Year			
	2008	2009	2010	2011
Opening value of RAB	1,145,298,369	1,251,364,668	1,494,117,583	1,686,040,856
plus Capital Expenditure	163,817,598	312,887,531	270,948,918	556,671,495
minus Regulatory Depreciation on asset base at start of Second Regulatory Period	53,966,537	62,054,986	76,683,746	85,231,111
minus Regulatory Depreciation on capital expenditure incurred during the Second Regulatory Period	3,784,763	8,079,629	2,341,899	12,828,732
Closing value of RAB	1,251,364,668	1,494,117,583	1,686,040,856	2,144,652,509
AVERAGE VALUE OF RAB	1,198,331,518	1,372,741,125	1,590,079,220	1,915,346,682

Note : All values are in nominal terms

6. That allowance has been made in accordance with the RDWR to include assets used beyond their standard lives in the Regulatory Asset Base, at a value equal to 5% of their optimized replacement cost.

7. That for the calculation of the above-mentioned Annual Revenue Requirement and Rolled-forward Regulatory Asset Base, as instructed by the ERC, applicant has applied the preliminary values for the parameters presented below:

Table 3. Input values provided by the ERC

Parameter	Date instructed by ERC	Preliminary value adopted
Construction work in progress factor (CWIP factor)		For substation projects : 3.2% For other projects : 1.9%
P ₀ -factor		PhP-0-/kWh
X-factor		-0.2285
Valuation of the applicant's regulatory asset base as at June 30, 2006		PhP981,990,473
Working-capital proportion		16.67%

The meaning and application of these parameters are as described in the afore-mentioned RDWR.

8. That in calculating the afore-mentioned Annual Revenue Requirement for the Second Regulatory Period, the applicant made use of the estimated Philippine Consumer Price Index, United States of America Consumer Price Index and Philippine Peso/United States dollar exchange rate figures below:

Table 3a. Forecast Consumer Price Index for the Philippines

Quarter ending	2006	2007	2008	2009	2010	2011
March 31	136.7	144.6	151.3	157.2	163.3	169.7
June 30	138.1	146.1	152.8	158.8	165.0	171.4
September 30	131.6	141.1	149.3	156.1	162.2	168.5
December 31	133.7	143.3	151.6	158.6	164.8	171.2
Base index :			100	Base index year :		2000
Data source :	ERC's final determination of TRANSCO's PBR rate application					

Table 3b. Forecast Consumer Price Index for the United States of America

Quarter ending	2006	2007	2008	2009	2010	2011
March 31	199.8	205.6	211.4	217.3	223.4	229.6
June 30	202.9	208.8	214.6	220.6	226.8	233.2
September 30	198.8	204.6	210.5	216.4	222.7	228.9
December 31	196.8	202.5	208.4	214.2	220.2	226.4
Base index :			100	Base index year :		1984
Data source :	ERC's final determination of TRANSCO's PBR rate application					

Table 3c. Forecast PhP/US\$ Exchange Rate

Quarter ending	2006	2007	2008	2009	2010	2011
March 31	51.28	60.0	61.0	61.7	62.4	62.4
June 30	53.59	60.0	61.0	61.7	62.4	62.4
September 30	56.06	58.3	60.0	61.0	61.7	62.4
December 31		58.3	60.0	61.0	61.7	62.4
Data source :	ERC's final determination of TRANSCO's PBR rate application					

8a. That for the purposes of the initial and subsequent annual price resets during the Second Regulatory Period as required in terms of the RDWR, the applicant will update the afore-mentioned Consumer Price Indices and foreign exchange rates with actual values in accordance with the RDWR and that such updated values will be used for the price resets.

9. That the afore-mentioned Annual Revenue Requirement is in part based on a proposed rate of return of 16.07% per annum. This rate of return corresponds with the Regulatory Weighted Average Cost of Capital which the ERC has calculated in accordance with its paper titled "Preliminary Calculation of the Regulatory Weighted Average Cost of Capital That Would Apply During the Second Regulatory Period." The applicant recognizes that the ERC will determine the actual Weighted Average Cost of Capital that will apply for its setting of the Maximum Annual Prices for the Second Regulatory Period and that this may differ from that proposed.

10. That the proposed Capital Expenditure included in the afore-mentioned calculation of the Rolled-forward Regulatory Asset Base is as demonstrated below:

Table 4. Summary of proposed Capital Expenditure (per regulatory year)

ITEMS	NOMINAL PESO				
	2007	2008	2009	2010	2011
A. Distribution Plant					
Land and Land Rights (Distribution Purpose)					
Structures and Improvements (Distribution Purpose)	2,129,754		6,254,888	5,610,600	13,091,400
Station Equipment:					
Power transformers	21,607,443		44,778,372	41,539,306	97,440,773
Switchgear	11,819,731		28,741,961	61,987,963	145,408,182

Protective equipment			10,938,092	20,359,388	47,758,008
Metering & control equipment					
Communications equipment			260,620	5,737,646	13,459,076
Other station equipment	6,247,407		18,229,404	24,616,309	57,743,675
Poles, Towers and Fixtures - Distribution	13,045,763	10,267,772	28,124,490	8,395,159	15,661,556
Poles, Towers and Fixtures - Customer					
Overhead Conductors and Devices - Distribution	17,914,344	51,593,418	87,627,962	43,835,959	52,847,124
Overhead Conductors and Devices - Customer					
Underground Conduits - Distribution					
Underground Conduits - Customer					
Underground Conductors and Devices - Distribution					
Underground Conductors and Devices - Customer					
Line Transformers - Distribution	5,436,723	2,862,362		1,652,759	
Line Transformers - Customer					
Power Conditioning Equipment	12,804,570	76,488	19,207,063	82,847	155,405
Services	5,025,778	5,590,967	6,161,301	6,793,152	7,491,346
Meters, Instruments & Metering Transformers-distribution					
Meters, Instruments & Metering Transformers customer	18,172,693	37,528,326	30,643,645	32,490,279	35,029,776
Information technology equipment (distribution)					
Regulated Entity Property on Consumers' Premises					
Street Lights and	2,441,805	2,568,617	2,677,736	2,782,167	2,890,672

Signal Systems					
Submarine Cables					
B. General Plant					
Land and Land Rights (non-network)					
Structures and Improvements (non-network)	3,028,510	560,090	2,335,534	606,655	3,781,887
Office Furniture and Equipment					
Transportation Equipment	7,880,089	4,480,720	2,569,087	7,765,183	7,059,522
Stores Equipment					
Tools, Shop and Garage Equipment					
Laboratory Equipment	4,754,675				
Information systems equipment (non-network)	667,678	2,073,733	347,703	341,547	477,148
Power-operated Equipment		16,802,701	7,006,601		
Communication Plant and Equipment	274,738	651,945	95,757	99,491	103,372
Miscellaneous Equipment	541,255				
C. Materials and Supplies (including spares)					
D. Transferred subtransmission assets		28,760,458			
E. Allocated Overheads Capitalized	8,515,946		16,887,315	6,252,508	56,272,574
TOTAL	142,308,903	163,817,598	312,887,531	270,948,918	556,671,495

10a. The increases reflect new capital expenditure required to meet growing energy demand, increased customer numbers, service quality and performance measurement improvements,

COMPLIANCE TO THE GRID AND DISTRIBUTION CODES, THE DISTRIBUTION SERVICE AND OPEN ACCESS RULES (DSOAR), AND OTHER ERC TECHNICAL COMPLIANCES, SECURITY AND RELIABILITY OF GRID CONNECTION, and the replacement of ageing or obsolete equipment

11.That the proposed Operating & Maintenance Expenditure included in the afore-mentioned calculation of the Annual Revenue Requirement is as demonstrated below:

Table 5. Summary of proposed Operating & Maintenance Expenditure (per regulatory year)

Opex Category and Sub-category	Nominal PhP				
	2007	2008	2009	2010	2011
Distribution : Operation					
Operation supervision & engineering	4,189,365	4,415,011	4,618,830	4,812,927	5,016,365
Load dispatching	1,994,130	2,124,973	2,272,141	2,360,755	2,452,824
Substation	1,466,870	1,827,818	2,269,926	2,821,046	3,519,387
Overhead line – demand	20,503,567	25,172,770	31,516,209	38,775,366	47,788,602
Overhead line – customer					
Streetlighting (non–roadway)					
Streetlighting (roadway)	1,373,142	1,768,481	2,259,163	2,875,008	3,658,871
Metering	6,099,896	5,851,255	6,227,478	6,607,096	7,018,365
Consumer installation expenses					
Rents	26,250	27,613	28,786	29,909	31,075
Information technology	440,471	463,343	483,025	501,863	521,435
Miscellaneous	3,159,076	3,398,812	3,653,552	3,857,703	4,075,780
Distribution : Maintenance					
Maintenance supervision & engineering	437,106	459,804	479,335	498,029	517,452
Structures	83,251	95,768	118,376	138,308	161,050
Substations	732,272	842,366	1,041,226	1,216,547	1,416,579
Overhead line – demand	8,952,981	9,894,326	11,281,171	12,447,919	13,779,477
Overhead line – customer					
Streetlighting (non–roadway)					
Streetlighting (roadway)	617,656	660,654	703,391	727,691	770,978
Line transformers	811,213	864,814	925,854	965,914	1,008,061
Information technology					
Metering	1,491,853	1,622,490	1,809,031	1,950,691	2,107,309
Miscellaneous	501,601	534,513	571,532	593,822	616,981
Sub-total Distribution	52,880,703	60,024,811	70,259,025	81,180,594	94,460,591
Consumer accounts					
Supervision	863,522	910,300	952,323	992,493	1,034,591

Opex Category and Sub-category	Nominal PhP				
	2007	2008	2009	2010	2011
Meter reading	3,809,537	4,147,774	4,485,164	4,843,636	5,241,640
Information technology					
Consumer records & collection expenses	21,857,704	23,419,861	24,889,562	26,375,065	27,967,490
Uncollectible accounts	857,773	902,315	940,643	977,328	1,015,444
Informational and instructional advertising expenses	331,973	349,211	364,044	378,242	392,994
Miscellaneous	1,339,742	1,411,249	1,474,551	1,535,088	1,598,347
Consumer prompt payment discount					
Sub-total Consumer accounts expenses	29,060,250	31,140,709	33,106,287	35,101,852	37,250,505
Administrative & general					
Admin & general salaries	21,130,537	22,394,910	23,724,370	24,962,025	26,289,396
Office supplies & expenses	1,101,658	1,201,652	1,299,523	1,401,345	1,511,959
Information technology					
Outside services employed	9,274,510	10,665,421	13,173,492	15,385,497	17,908,976
Property insurance	847,552	974,977	1,205,143	1,408,065	1,639,588
Injuries & damages					
Employee pension & benefits	781,180	898,627	1,110,768	1,297,799	1,511,191
Rents	1,724,408	1,887,574	2,048,325	2,216,204	2,398,925
Maintenance of office & general plant	597,127	638,557	689,266	735,631	786,388
Officers allowance & benefits					
Travel	304,677	350,484	433,224	506,170	589,397
Training	382,225	414,515	460,277	501,485	547,387
Bad debt					
Regulatory liaison & compliance	2,187,848	2,316,697	2,441,344	2,560,287	2,686,694
Foreign exchange losses or gains					
Others	837,587	887,716	932,685	976,990	1,023,770
Sub-total Administration & general	39,169,310	42,631,130	47,518,417	51,951,498	56,893,669
WESM compliance					
Registration fees	53,231	55,995	58,374	60,650	63,015
Metering fees					
Billing & settlement fees					
Administration fees					
Costs for the PEM board, committees & working groups					
Market management software & upgrades					
Provision of security	107,903	113,506	118,328	122,943	127,737
Others	7,526,817	8,249,343	9,134,184	10,112,505	11,105,257
Sub-total WESM compliance	7,526,817	8,249,343	9,134,184	10,112,505	11,105,257
Total Operating & Maintenance Expenditure	128,637,081	142,045,993	160,017,914	178,346,450	199,710,023

11a. That the above-mentioned proposed Operating and Maintenance expenditure are increased from current levels to meet the demands relative to growing asset base, increased customer volume, **COMPLIANCE TO THE GRID AND DISTRIBUTION CODES, THE DISTRIBUTION SERVICE AND OPEN ACCESS RULES (DSOAR), ERC COMPLIANCES** and inflationary pressures.

12. That the proposed expenditure on Taxes, Levies & Duties (other than corporate income tax) included in the afore-mentioned calculation of the Annual Revenue Requirement is as demonstrated below:

Table 6. Summary of proposed Taxes, Levies & Duties (other than corporate income tax) expenditure (per Regulatory Year)

	Nominal PhP				
	2007	2008	2009	2010	2011
Taxes, levies & duties (nominal PhP)	3,282,051	3,568,675	3,848,584	4,139,919	4,456,842

12a. That the above-mentioned proposed taxes, levies & duties (other than corporate income taxes) expenditure are increased from current levels due to higher level of tax base, compliance with various local government tax ordinance and provision for regulatory compliances associated with Regulatory Reset for the Second Regulatory Period.

13. That the proposed Depreciation included in the afore-mentioned calculation of the Annual Revenue Requirement, including an allowance for assets intended to be disposed of during the Second Regulatory Period after allowing for any potential income from the sales of such disposed assets, is as demonstrated below. These values include depreciation on the applicant's Regulatory Asset Base as at the start of the Second Regulatory Period, as well as depreciation on those assets proposed to be acquired during the Second Regulatory Period.

Table 7. Summary of proposed Depreciation (per Regulatory Year)

ITEM	2007	2008	2009	2010	2011
Asset Category					
A. Distribution Plant					

Land and Land Rights (Distribution Purpose)			-	-	-
Structures and Improvements (Distribution Purpose)	208,757.95	208,757.95	365,130.16	374,258.42	374,258.42
Station Equipment			-	-	-
Power transformers	2,411,005.11	2,411,005.11	3,406,080.05	3,481,770.72	3,481,770.72
Switchgear	1,963,700.01	1,963,700.01	2,921,765.36	3,019,157.54	6,267,183.32
Protective equipment	1,565,067.87	1,565,067.87	1,929,670.95	2,007,428.03	6,854,367.42
Metering & control equipment			-	-	-
Communications equipment	1,393,439.26	1,393,439.26	1,410,813.95	1,504,868.21	1,504,868.21
Other station equipment	709,260.90	709,260.90	1,316,907.69	1,360,804.62	1,809,440.47
Poles, Towers and Fixtures – Distribution	8,774,875.18	9,110,254.28	9,877,266.11	10,326,127.12	11,900,914.12
Poles, Towers and Fixtures – Customer			-	-	-
Overhead Conductors and Devices - Distribution	5,581,553.42	7,234,075.60	9,737,731.64	10,196,867.85	10,196,867.85
Overhead Conductors and Devices – Customer			-	-	-
Underground Conduits – Distribution			-	-	-
Underground Conduits – Customer			-	-	-
Underground Conductors and Devices - Distribution			-	-	-
Underground Conductors and Devices – Customer			-	-	-
Line Transformers - Distribution	5,028,498.91	5,123,910.96	5,123,910.96	5,302,449.21	5,302,449.21
Line Transformers - Customer			-	-	-
Power Conditioning Equipment	1,469,079.71	1,471,265.07	2,020,038.31	2,077,753.69	2,077,753.69
Services	1,059,350.64	1,245,716.22	1,451,092.90	1,499,462.67	1,504,642.84
Meters, Instruments & Metering Transformers-distribution	9,501,058.56	12,382,846.79	16,406,958.67	22,200,139.07	28,086,656.08
Meters, Instruments & Metering Transformers - customer			-	-	-
Information technology equipment (distribution)			-	-	-
Regulated Entity Property on Consumers' Premises			-	-	-
Street Lights and Signal Systems	325,677.29	411,297.87	500,555.73	517,240.92	517,240.92
Submarine Cables			-	-	-
Sub-total Distribution Plant	39,991,324.82	45,230,597.90	56,467,922.49	63,868,328.05	79,878,413.27
B. General Plant			-	-	-
Land and Land Rights (non-			-	-	-

network)					
Structures and Improvements (non-network)	511,884.71	525,886.96	539,034.13	552,509.98	647,057.15
Office Furniture and Equipment	836,203.99	836,203.99	919,824.39	1,011,806.82	1,011,806.82
Transportation Equipment	4,053,875.45	4,614,173.96	5,221,894.11	5,915,951.29	6,724,669.94
Stores Equipment		-	-	-	-
Tools, Shop and Garage Equipment	435,126.99	435,126.99	456,883.34	479,727.51	479,727.51
Laboratory Equipment			-	-	-
Information systems equipment (non-network)	1,289,447.62	1,704,194.29	1,149,980.08	474,123.02	451,788.35
Power-operated Equipment		-	-	-	-
Communication Plant and Equipment		-	-	-	-
Miscellaneous Equipment		-	-	-	-
Sub-total General Plant	7,126,538.75	8,115,586.19	8,287,616.05	8,434,118.64	9,315,049.77
C. Materials and Supplies (including spares)		-	-	-	-
D. Transferred subtransmission assets		958,681.92	990,637.98	1,023,659.25	1,023,659.25
E. Allocated Overheads Capitalized	283,864.88	283,864.88	293,327.04	303,104.61	2,178,857.06
TOTAL ASSET VALUE	47,401,728.46	54,588,730.89	66,039,503.56	73,629,210.55	92,395,979.36

13a. That the afore-mentioned depreciation is calculated on a straight-line basis, based on the standard asset lives approved by the ERC.

14. That the proposed Corporate Income Tax included in the afore-mentioned calculation of the Annual Revenue Requirement is based on the Philippines corporate tax rate of 35% for 1998 and 30% from 1999 onwards and is calculated as demonstrated below:

Table 8. Summary of proposed Corporate Income Tax (per Regulatory Year)

	2008	2009	2010	2011
Corporate Tax (nominal PhP)	8,118,201	32,172,028	53,585,759	94,001,426

15. That the calculation of the foregoing proposed Corporate Income Tax is based on the forecast sales of energy as demonstrated below:

Table 9. Summary of forecast energy consumption (per Regulatory Year)

	2007	2008	2009	2010	2011
Energy consumption (MWh)	244.03	254.66	271.08	289.48	306.51

16. That the calculation of the afore-mentioned Corporate Income Tax is based on an estimated price-path for the Second Regulatory Period that was determined using the afore-mentioned proposed Allowed Annual Revenue and an assumed zero P_0 -factor. The estimated Maximum Annual Prices thus calculated for the Second Regulatory Period is as demonstrated below:

Table 10. Assumed Maximum Annual Prices for the Second Regulatory Period

	2008 Regulatory year	2009 Regulatory year	2010 Regulatory year	2011 Regulatory year
Maximum Annual Price (PhP/kWh)	1.320	1.680	2.129	2.699

16a. That the applicant recognizes that the ERC will determine the actual X-factor and P_0 -factor after its consideration of this application for Allowed Annual Revenue and will determine the actual price-path for the Second Regulatory Period after incorporating such amendments to these proposals as the ERC deems necessary. As part of its consideration the ERC may also amend one or more of the parameters on which the calculations of the Allowed Annual Revenue are based. The actual approved price path is therefore likely to differ from that estimated above.

17. That, since the Maximum Average Prices calculated under Performance-Based Regulation are not directly comparable with unbundled rates, for illustrative purposes the applicant has prepared a comparison of its current rates for providing distribution wheeling services with those that would result from the implementation of the afore-mentioned estimated Maximum Annual Prices. This is presented below:

Table 11. Comparison of estimated rates with current rates (illustrative only)

	Current Rates	Illustrative Rates (2008)	Illustrative Rates (2009)	Illustrative Rates (2010)	Illustrative Rates (2011)
Customer Class					
RESIDENTIAL					
Distribution (PhP/kWh)	1.0694	1.6159	2.2413	3.0176	3.9348
Supply (PhP/kWh)	0.2886	0.2886	0.2886	0.2886	0.2886
Metering (PhP/kWh)	0.2493	0.2493	0.2493	0.2493	0.2493
Metering (PhP/customer/month)	5.00	5.00	5.00	5.00	5.00
Total PhP/kWh	1.6073	2.1538	2.7792	3.5555	4.4727
Total PhP/customer/month	5.00	5.00	5.00	5.00	5.00
Average PhP/kWh distribution wheeling rate	1.6105	2.1928	2.8181	3.5945	4.5117
STREETLIGHTS					
Distribution (PhP/kWh)	1.3607	1.8513	2.3796	3.0355	3.8105
Supply (PhP/customer/month)	38.66	39.43	40.22	41.03	41.85
Total PhP/kWh	1.3607	1.8513	2.3796	3.0355	3.8105
Total PhP/customer/month	38.66	39.43	40.22	41.03	41.85
Average PhP/kWh distribution wheeling rate	1.3608	1.8528	2.3811	3.0371	3.8121
GENERAL SERVICE RATE					
Distribution (PhP/kWh)	0.7028	0.8108	1.0828	1.4216	1.8226
Supply (PhP/customer/month)	38.66	39.43	40.22	41.03	41.85
Metering (PhP/customer/month)	54.53	55.62	56.73	57.87	59.03
Total PhP/kWh	0.7028	0.8108	1.0828	1.4216	1.8226
Total PhP/customer/month	93.19	95.05	96.95	98.89	100.87
Average PhP/kWh distribution wheeling rate	0.7159	0.9748	1.2527	1.5978	2.0056
GENERAL POWER RATE					
Distribution (PhP/kWh)	0.0270	0.0265	0.0259	0.0254	0.0249
Distribution demand charge	112.38	0.69	0.72	0.76	0.80

(PhP/kW)					
Supply (PhP/customer/month)	38.66	39.43	40.22	41.03	41.85
Metering (PhP/customer/month)	530.09	530.09	530.09	530.09	530.09
Total PhP/kWh	0.0270	0.0265	0.0259	0.0254	0.0249
Total PhP/kW	112.38	0.69	0.72	0.76	0.80
Total PhP/customer/month	568.75	569.52	570.31	571.12	571.94
Average PhP/kWh distribution wheeling rate	0.0638	0.0869	0.1117	0.1424	0.1788
BULK POWER RATE					
Distribution (PhP/kWh)	0.1354	0.1327	0.1300	0.1274	0.1249
Distribution demand charge (PhP/kW)	47.35	16.22	17.03	17.88	18.77
Supply (PhP/customer/month)	38.66	39.43	40.22	41.03	41.85
Metering (PhP/customer/month)	4,939.83	5,038.63	5,139.40	5,242.19	5,347.03
Total PhP/kWh	0.1354	0.1327	0.1300	0.1274	0.1249
Total PhP/kW	47.35	16.22	17.03	17.88	18.77
Total PhP/customer/month	4,978.49	5,078.06	5,179.62	5,283.21	5,388.88
Average PhP/kWh distribution wheeling rate	0.1510	0.2056	0.2643	0.3370	0.4231

18. That the applicant proposes to adopt a Price-Linked Performance Incentive Scheme as required in terms of the RDWR. According to this Performance Incentive Scheme the applicant will be rewarded if the service performance levels of its electricity distribution business exceed the target levels proposed below, and will be penalized if the service performance level of its electricity distribution business falls below the proposed targets. This reward or penalty will be directly incorporated into the Maximum Annual Prices from the second year of the Second Regulatory Period onward. The proposed Price-linked Performance Incentive Scheme is based on the performance measures and performance targets demonstrated below. Stepped performance target levels are proposed, which will influence the size of the reward or penalty.

Table 12. Summary of proposed Price-linked Performance Incentive Scheme

Performance index	Units	Weight	Reward		Target	Penalty	
			Level 5	Level 4	Level 3	Level 2	Level 1
System average interruption frequency index (SAIFI)	Number	0.20	24	32	48	64	
Customer average interruption duration index (CAIDI)	Minutes	0.20	84	96	120	144	
Planned system average interruption duration index (SAIDI)	Minutes	0.15	2178	2532	3240	3948	
Probability of voltage levels falling within prescribed limits	%	0.10	2.0%	3.0%	5.0%	7.5%	
System losses	%	0.15	7.0%	8.5%	9.5%		
Average time to process applications for Regulated Distribution Services	Days	0.10	10	15	20	30	
Average time to connect premises to the Regulated Distribution System	Days	0.10	15	25	30	45	

19. That the applicant proposes to adopt a Guaranteed Service Level Performance Incentive Scheme as required in terms of the RDWR. According to this Guaranteed Service Level scheme, customers will be directly compensated, in the form of reductions in their monthly electricity bills, if service performance falls below certain minimum thresholds. The thresholds and the penalties that will apply are as demonstrated below:

Table 13. Summary of proposed Guaranteed Service Level Incentive Scheme

Performance Measure	Threshold	Penalty level (PhP)
Customer experiencing a total duration of sustained service interruptions in a Regulatory Year that exceeds the threshold	Maximum duration of 72 hours per Regulatory year.	Php 250 per breach of proposed threshold level
Customer experiencing a number of sustained service interruptions in a Regulatory Year that exceeds the threshold	Maximum no. of interruptions of 60 per Regulatory year.	Php 250 per breach of proposed threshold level
Restoration of supply to a customer after a fault on the secondary distribution network taking longer than the threshold time	"Within 8 hours if the customer is Dagupan City (except in Island Barrios) or Calasiao.	Php 250 per breach of proposed threshold level

	<p>Within 24 hours if Sta. Barbara, San Fabian, San Jacinto or Manaoag.</p> <p>Withing 48 hours if in the Island Barrios."</p>	
Customer connection not provided on the day agreed with the customer	Within 30 days after the agreed connection date.	Php 250 per breach of proposed treshold level

19a. That the applicant will be entitled to an additional revenue amount equal to 0.5% of its Annual Revenue Requirement, which is intended to be applied to the Guaranteed Service Level Scheme and can be used to either provide for penalties under the scheme, or for network or operational improvements to avoid such penalties.

20. That applicant will comply with the requirements in Section 4(e), Rule 3 of the Rules and Regulations of Republic Act No. 9136, in relation to Rule 6 of the ERC Rules of Practice and Procedure, prior to the filing of this application with the ERC.

21. That in support of this application for the approval of its Allowed Annual Revenue and Performance Incentive Scheme, the applicant has attached the following required documents as described in the RDWR and the Position Paper:

Table 14. Supporting Information attached

Schedule	Information provided
A	Regulatory Asset Base
A1	Summary of the optimized depreciated replacement cost (ODRC) and the depreciated historical cost of the Regulatory Asset Base as at the initial valuation date (the Regulatory Asset Base).
A2	Summary of the optimized depreciated replacement cost and the depreciated historical cost of the Original Regulatory Asset Base as at the start of the Second Regulatory Period, with supporting calculations for indexing applied.
A3	Assets forecast to be acquired during the period between the initial valuation date and the start of the Second Regulatory Period.
A3.1	-Schedule of assets to be acquired

Schedule	Information provided
A3.2	-Value of the assets to be acquired
A3.3	-Justification for assets to be acquired
A5	Forecast asset disposal during the period between the initial valuation date and the start of the Second Regulatory Period.
A5.1	-Schedule of assets to be disposed of
A5.2	-Value of the assets to be disposed of
A5.3	-Forecast income from the sale of disposed assets
A6	ODRC depreciation schedules for the Regulatory Asset Base for the period between the initial valuation date and the start of the Second Regulatory Period.
A6.1	-Assets included in the Original Regulatory Asset Base
A6.2	-Assets acquired in the lead-up to the Second Regulatory Period
A7	Historical cost depreciation schedules for the Regulatory Asset Base for the period between the initial valuation date and the start of the Second Regulatory Period.
A7.1	-Assets included in the Original Regulatory Asset Base
A7.2	-Assets acquired in the lead-up to the Second Regulatory Period
A8	Application of the construction work in progress (CWIP) factor to the Regulatory Asset Base as at the start of the Second Regulatory Period.
A9	Summary of the optimized depreciated replacement cost (ODRC) and the depreciated historical cost of the full Regulatory Asset Base as at the start of the Second Regulatory Period (the opening value of the rolled-forward Regulatory Asset Base).
B	Financial indices forecast for Second Regulatory Period
B1	Philippine quarterly CPI
B2	United States quarterly CPI
B3	PhP/US\$ quarterly exchange rate
B4	180-Day Manila Reference Rate
C	Forecast capital expenditure for the Second Regulatory Period
C1	Summary of capital expenditure forecasts for each year of the Second Regulatory Period
C1.1	-Real values, divided in PhP and US\$ components
C1.2	-Nominal values, divided in PhP and US\$ components
C1.3	-Total nominal values, in PhP
C1.4	-Justification for capital expenditure (major and minor projects)
C2	Broken down historical capital expenditure
D	Forecast disposals during the Second Regulatory Period

Schedule	Information provided
D1	Value of assets to be disposed of (based on ODRC register)
D2	Forecast income from the sale of disposed assets
E	Forecast depreciation during the Second Regulatory Period
E1	Depreciation of the opening asset base
E1.1	-ODRC basis
E1.2	-Historical cost basis
E2	Depreciation of the assets forecast to be acquired during the Second Regulatory Period
E2.1	-ODRC basis
E2.2	-Historical cost basis
F	Forecast assets used beyond standard lives
F1	Forecast addition to assets used beyond standard lives
F2	Forecast removal from assets used beyond standard lives
G	Forecast operating & maintenance expenditure
G1	Summary of forecast operating & maintenance expenditure
G1.1	-Annual expenditure, divided in real PhP and US\$ components
G1.2	-Annual expenditure, divided in nominal PhP and US\$ components
G1.3	-Total annual expenditure, in nominal PhP
G1.4	-Justification for operating & maintenance expenditure forecasts
G2	Historical operating & maintenance expenditure
G3	Summary of expenditure on taxes (other than corporate income tax), duties and levies
G3.1	-Annual expenditure, in real PhP
G3.2	-Annual expenditure, in nominal PhP
G3.3	-Justification for expenditure
G3.4	-Historical taxes, levies & duties
H	Forecast energy consumption and demand
H1	Forecast energy consumption figures (kWh)
H1.1	-Breakdown of consumption figures
H1.2	-Supporting evidence
H2	Forecast energy demand figures (kW)
H2.1	-Breakdown of demand figures
H2.2	-Supporting evidence

Schedule	Information provided
I	Regulatory financial statements
J	Performance incentive scheme details
J1	Price-linked incentive scheme
J1.1	-Details of scheme proposed
J1.2	-Proposed target levels
J1.3	-Supporting information & calculations
J2	Guaranteed service level scheme
J2.1	-Details of scheme proposed
J2.2	-Proposed target levels
J2.3	-Proposed penalty levels
J2.4	-Supporting information & calculations
K	Calculation of Weighted Average Cost of Capital
L	Additional information for price-cap model
L1	Contact details for input sheets
L2	2006 Billing & consumption data
L3	Related business revenue for 2006
L4	Maximum annual price for 2006 and 2007 (initial entrants)
L5	Tax losses carried forward from 2007 regulatory year
M	Detailed calculations for Second Regulatory Period
	Rolled forward regulatory asset base
	Annual revenue requirement
	Corporate income tax forecasts
	Forecast price-caps for the opening and subsequent years of the Second Regulatory Period
N	Calculation of demonstrative unbundled rates

22. That applicant most respectfully requests for approval of this application to allow it to fulfill its obligations under Performance Based-Regulation and in order to avoid irreparable losses which will ultimately result in the deterioration of its services, to the damage, and prejudice of the public, in general, and its consumers, in particular.

PRAYER

WHEREFORE, premises considered, Dagupan Electric Corporation respectfully prays of this Honorable Commission, upon the filing hereof, that this application be approved ex–parte based on the submitted documents, and that Dagupan Electric Corporation be authorized to adopt the afore–mentioned Annual Revenue Requirements and Performance Incentive Scheme.

Dagupan Electric Corporation prays, after due notice and hearing and consideration, that the application be approved and that a final authority be issued to applicant authorizing it to adopt the above Annual Revenue Requirements and Performance Incentive Scheme.

Other reliefs equitable under the premises are likewise prayed for.

RESPECTFULLY SUBMITTED.

Pasig City, August 29, 2006.

**QUIASON MAKALINTAL BAROT
TORRES & IBARRA**

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By:

**MANUEL L.M. TORRES
ROLL OF ATTORNEYS NO. 25410
PTR NO. 2952923; 1/5/06
PASIG CITY
IBP NO. 667429; 1/5/06
QUEZON CITY**

VERIFICATION/CERTIFICATION

ISABELITA L. LLAMES, of legal age, Filipino and with office address at (office address), after having been duly sworn in accordance with law, hereby deposes and states: That -

1. She is the President of Dagupan Electric Corporation (DECORP), who had caused the preparation of the foregoing Application.

2. That the allegations set forth therein are true and correct based on her own personal knowledge and/or on the authentic records of DECORP.

3. DECORP has not commenced any other action or proceeding involving the same issues in the Supreme Court, the Court of Appeals, or any other tribunal or agency; to the best of their knowledge, no such action or proceeding is pending in the Supreme Court, the Court of Appeals, or different Divisions thereof, or any other tribunal or agency, which involve issues that may somehow be related to those in this Application; and that, if they should learn that a similar action or proceeding has been filed or is pending before the Supreme Court, the Court of Appeals, or different Divisions thereof, or any other tribunal or agency, they undertake to promptly inform this Honorable Court within five (5) days therefrom.

ISABELITA L. LLAMES

SUBSCRIBED AND SWORN to before me this ____ day of August 2006 at _____, affiant exhibiting to me her Community Tax Certificate No. 21522019 issued at Quezon City on February 23, 2006

ERNESTO M. ANDRADE
Notary Public
PTR No.6977885
Issued on January 05, 2006
Expiring on December 31, 2006
Quezon City

Doc. No. _____;
Page No. _____;
Book No. _____;
Series of 2006.