

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 (RDWR),

ERC CASE NO. 2009- RC

Davao Light and Power Co., Inc.

Applicant.

APPLICATION

COMES NOW, Applicant DAVAO LIGHT AND POWER CO., INC. ("Applicant") through the undersigned counsel, and unto this Honorable Commission, most respectfully states; that:

1. Applicant is a corporation duly organized and existing under and by virtue of the laws of the Philippines, with principal operations at C. Bangoy Sr. St., Davao City, where it may be served with summons and other legal processes, represented in this instance by its Vice President-Regulatory Affairs, Alvin S. Arco of legal age, Filipino, married and with office address also at C. Bangoy Sr. St., Davao City. Herein Applicant is the exclusive franchise holder issued by Congress of the Philippines to operate an electric light and power services in the cities of Davao and Panabo, and municipalities of Sto. Tomas, Carmen and Dujali all in the Province of Davao del Norte.
2. Applicant will enter Performance-Based Regulation at the third entry point, as originally described in Annex B of Commission Resolution No. 12-02 Series of 2004 "Adopting a Methodology for Setting Distribution Wheeling Rates", dated December 10, 2004, and later amended by the Energy Regulatory Commission ("Commission") to make provision for four entry points. The Application submitted to the Commission is for the approval of the Annual Revenue Requirement and Performance Incentive Scheme required for the Second Regulatory Period described in the amended Rules for setting Distribution Wheeling Rates (RDWR) for Privately Owned Distribution Utilities entering Performance Based Regulation

(Third Entry Point) issued by the Commission on December 8, 2008. This Second Regulatory Period commences on July 1, 2010 and terminates on June 30, 2014.

- 2a. Applicant proposes the Annual Revenue Requirement and Performance Incentive Scheme values thus approved to form the basis of the Commission'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. 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 Commission in its Position Paper on the Regulatory Reset for the July 2010 to June 2014 Regulatory Period for Privately Owned Distribution Utilities subject to Performance Based Regulation, dated December 8, 2008 (Position Paper). The Application submitted to the Commission made use of the methodology described in the RDWR, the Position Paper and applied the financial spreadsheet model titled Commission-MODEL-3RD ENTRY-V1.0.xls (Price-Cap Model) that was provided to the Applicant by the Commission.
4. The proposed Annual Revenue Requirement is based on the Building Block calculation described in the afore-mentioned RDWR, with the exclusion of corporate income tax, as set out below for each Regulatory Year and for which the Applicant is seeking the immediate approval of the Commission:

Table 1. Annual Revenue Requirement as per Building Block approach

Building Block	Proposed revenue requirement per Regulatory Year (PhP)			
	2011	2012	2013	2014
Operating and maintenance expenditure	915,682,224	1,014,651,226	1,097,303,885	1,203,305,726
Taxes, levies & duties (other than corporate tax)	38,987,661	7,560,043	8,056,692	8,592,669
Regulatory depreciation	338,775,333	350,713,822	374,053,209	404,271,308
Return on capital	1,104,815,935	1,151,751,582	1,204,527,082	1,281,815,276
TOTAL REVENUE REQUIREMENT	2,398,261,153	2,524,676,674	2,683,940,868	2,897,984,978

Note : All values are in nominal terms

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

Corporate income tax has been discontinued as a building block for the Second Regulatory Period following an approach by various Regulated Entities in this regard and consultation on the resulting changes to the RDWR. This rule change (and others approved by the Commission) was published in the ERC document titled “*Performance Based Regulation of Privately Owned Electricity Distribution Utilities : Modifications to the Rules for Setting Distribution Wheeling Rates (RDWR)*” dated December 8, 2008.

- 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 2011 is based on the value of the Regulatory Asset Based on December 31, 2008, as valued by the Commission and communicated to the Applicant, suitably amended to a June 30, 2010 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			
	2011	2012	2013	2014
Opening value of RAB	6,601,460,941	6,890,239,055	7,168,739,117	7,530,905,188
plus Capital Expenditure	627,553,447	629,213,884	736,219,281	981,816,248
minus Regulatory Depreciation on asset base at start of Second Regulatory Period	325,813,907	311,858,894	303,333,941	295,564,903
minus Regulatory Depreciation on capital expenditure incurred during the Second Regulatory Period	12,458,791	38,105,503	69,671,591	107,300,173
Closing value of RAB	6,890,239,055	7,168,739,117	7,530,905,188	8,108,450,129
AVERAGE VALUE OF RAB	6,745,849,998	7,029,489,086	7,349,822,153	7,819,677,659

Note : All values are in nominal terms

- For the calculation of the above-mentioned Annual Revenue Requirement and Rolled-forward Regulatory Asset Base, as instructed by the Commission, Applicant has applied the preliminary values for the parameters presented below:

Table 2. Input values provided by the Commission

Parameter	Date instructed by Commission	Preliminary value adopted
Construction work in progress factor (CWIP factor)	April 15, 2009	For substation projects : 4.6% For other projects : 3.3%
P ₀ -factor		0 PhP/kWh
X-factor		-0.145
Valuation of the Applicant’s regulatory asset base as at December 31, 2008	April 27, 2009	PhP 5,778,318,300
Working-capital proportion	April 15, 2009	4.9%

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

7. 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 (figures provided for calendar years and converted to regulatory years):

Table 3a. Forecast Change in the Consumer Price Index for the Philippines

	2009	2010	2011	2012	2013	2014
Calendar Year	1.90%	3.60%	4.20%	4.00%	4.00%	4.00%
Regulatory Year		2.75%	3.90%	4.10%	4.00%	4.00%
Data source :	ERC Expenditure Forecast Templates					

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

	2009	2010	2011	2012	2013	2014
Calendar Year	-1.2%	0.7%	1.3%	1.6%	1.9%	1.9%
Regulatory Year		-0.25%	1.00%	1.45%	1.75%	1.90%
Data source :	ERC Expenditure Forecast Templates					

Table 3c. Forecast PhP/US\$ Exchange Rate (average for the year)

Quarter ending	2009	2010	2011	2012	2013	2014
Calendar Year	47.70	49.00	51.00	51.20	49.00	49.00
Regulatory Year		48.35	50.00	51.10	50.10	49.00
Data source :	ERC Expenditure Forecast Templates					

- 7a. 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 will use such updated values for the price resets.
8. The afore-mentioned Annual Revenue Requirement is in part based on a proposed rate of return of 16.27% per annum. This rate of return corresponds with the Regulatory Weighted Average Cost of Capital allowed in terms of the Commission's Final Determination on the price control arrangements for utilities entering Performance Based Regulation at the second entry point. The Applicant recognizes that the Commission will revise the actual Weighted Average Cost of Capital that will apply in its Final Determination of the price

control arrangements for the Second Regulatory Period for the second entry group and that this may differ from the figure used in this Revenue Application.

9. 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.
10. The proposed Capital Expenditure included in the afore-mentioned calculation of the Rolled-forward Regulatory Asset Base is as demonstrated below:

Table 4. Proposed Capital Expenditure (per regulatory year)

ITEM Capex Category	NOMINAL PESO				
	2010	2011	2012	2013	2014
A REGULATED DISTRIBUTION SERVICES ASSETS					
A1 Regulated Distribution Services Assets – Network assets					
Land and Land Rights (Distribution Purposes)	-	-	11,768,966	-	23,337,076
Structures and Improvements	7,661,751	4,964,063	5,162,757	5,474,130	51,551,529
Station Equipment	-	-	-	-	-
Power transformers	3,161,868	17,661,847	17,942,290	17,536,875	2,855,305
Switchgear	28,879,975	18,624,809	22,600,270	30,584,562	127,684,193
Protective equipment	11,839,434	10,031,327	21,826,707	17,767,578	28,360,535
Metering & control equipment	16,526,352	15,793,943	26,988,091	22,612,760	96,357,616
Communications equipment	-	-	381,402	-	6,953,977
Other station equipment	28,873,992	28,268,980	26,151,607	30,191,144	100,170,427
Poles, Towers and Fixtures - Distribution	75,678,898	83,408,260	87,091,630	76,303,201	88,042,569
Overhead Conductors and Devices - Distribution	45,714,958	55,738,018	58,762,846	56,564,206	58,063,848
Underground Cables and Devices - Distribution	-	-	-	-	-
Underground Conduits – Distribution	-	-	-	-	-
Line Transformers – Distribution	108,722,279	113,349,386	124,205,737	132,642,215	140,487,518
Power Conditioning Equipment	12,930,066	16,415,652	3,451,737	7,931,896	8,068,052
Meters, Instruments and Metering Transformers – Distribution	-	-	-	-	-
Information Systems Equipment (distribution)	11,177,748	9,285,473	12,687,989	31,305,627	7,450,329
Regulated Entity Property on Consumer's Premises	-	-	-	-	-
Street Lights and Signal Systems	5,390,889	5,038,207	4,465,182	5,463,042	6,294,403
Submarine Cables	-	-	-	-	-
A2 Regulated Distribution Services Assets – Non-network fixed assets					

ITEM	NOMINAL PESO				
	2010	2011	2012	2013	2014
Capex Category					
Land and Land Rights (non-network)	26,710,187	3,764,864	-	50,259,371	-
Structures and Improvements (non-network)	27,779,081	73,675,574	8,857,455	10,232,637	11,372,964
Office Furniture and Equipment	1,065,440	1,212,077	664,729	996,178	856,366
Transportation Equipment	11,813,881	13,709,908	22,515,640	20,079,698	22,419,481
Stores Equipment	-	-	-	147,330	94,291
Tools, Shop and Garage Equipment	10,806,287	12,123,158	15,406,583	11,718,576	9,600,024
Laboratory Equipment	605,673	1,045,796	326,916	-	5,893,201
Information Systems Equipment (non-network)	12,271,918	9,838,323	7,822,926	50,909,354	14,583,841
Power-operated Equipment	8,984,152	8,575,525	18,198,309	17,309,198	9,193,393
Communication Plant and Equipment	216,921	449,460	468,337	608,838	506,553
Miscellaneous Equipment	-	711,141	163,458	339,992	707,184
A3 Regulated Distribution Services Assets – Materials and supplies (including spares)	-	-	-	-	-
A4 Regulated Distribution Services Assets – Transferred Subtransmission Assets	30,283,659	-	-	-	-
Subtotal A	487,095,408	503,685,790	497,911,563	596,978,406	820,904,679
B DISTRIBUTION CONNECTION SERVICES ASSETS					
B1 Distribution Connection Services Assets – Network assets					
Poles, Towers and Fixtures (Customer)	-	-	-	-	-
Overhead Conductors and Devices (Customer)	3,499,970	3,728,395	3,981,879	4,246,416	4,525,686
Underground Conductors and Devices (Customer)	-	-	-	-	-
Line Transformers (Customer)	10,582,083	11,483,610	12,623,348	13,512,120	14,396,340
Information Systems Equipment (Connection)	-	-	-	-	-
B2 Distribution Connection Services Assets – Non-network fixed assets					
Land and Land Rights (non-network)	-	-	-	-	-
Structures and Improvements (non-network)	-	-	-	-	-
Office Furniture and Equipment	-	-	-	-	-
Transportation Equipment	-	-	-	-	-
Stores Equipment	-	-	-	-	-
Tools, Shop and Garage Equipment	-	-	-	-	-
Laboratory Equipment	-	-	-	-	-
Information Systems Equipment (non-network)	-	-	-	-	-
Power-operated Equipment	-	-	-	-	-
Communication Plant and	-	-	-	-	-

ITEM Capex Category	NOMINAL PESO				
	2010	2011	2012	2013	2014
Equipment					
Miscellaneous Equipment	-	-	-	-	-
B3 Distribution Connection Services Assets – Materials and supplies (including spares)	-	-	-	-	-
Subtotal B	14,082,053	15,212,005	16,605,227	17,758,535	18,922,025
C REGULATED RETAIL SERVICES ASSETS					
C Regulated Retail Services Assets					
Meters, Instruments & Metering Transformers (Consumer Consumption Metering)	82,429,268	89,571,106	96,156,441	102,511,656	109,288,663
Land and land rights	-	-	-	-	-
Structures and improvements	-	-	-	-	-
Office Furniture and Equipment	-	-	-	-	-
Transportation Equipment	-	-	-	-	-
Stores Equipment	-	-	-	-	-
Tools, Shop and Garage Equipment	-	-	-	-	-
Laboratory Equipment	-	-	-	-	-
Information Systems Equipment	56,910,327	-	-	-	-
Communication Plant and Equipment	-	-	-	-	-
Miscellaneous Equipment	-	-	-	-	-
Subtotal C	139,339,595	89,571,106	96,156,441	102,511,656	109,288,663
TOTAL	640,517,056	608,468,901	610,673,231	717,248,597	949,115,367

10a. The above-mentioned proposed Capital Expenditure is increased from current levels for the following reasons: The increases reflect new capital expenditure required to meet growing energy demand, increased customer numbers, service quality and performance measurement improvements and the replacement of ageing or obsolete equipment.

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

Table 5. Proposed Operating & Maintenance Expenditure (per regulatory year)

Opex Category and Sub-category	Nominal PhP				
	2010	2011	2012	2013	2014
A REGULATED DISTRIBUTION SERVICES					
A1. Distribution : Operation					
Operation supervision & engineering	33,680,707	36,994,250	41,059,108	45,518,328	50,520,233
Load dispatching	2,931,869	3,201,396	3,580,407	4,107,070	4,687,117

Opex Category and Sub-category	Nominal PhP				
	2010	2011	2012	2013	2014
Substations	3,680,174	4,187,223	4,827,278	5,563,092	6,414,114
Overhead conductors & devices	11,005,992	12,920,877	15,722,217	17,410,226	17,790,326
Underground cables & devices	-	-	-	-	-
Streetlighting and signal systems	1,217,607	1,387,926	1,541,654	1,745,437	2,014,705
Metering (distribution network)	3,620,343	4,029,255	4,530,059	5,073,381	5,714,075
Rents	158,242	179,268	195,241	212,710	232,268
Information technology (distribution network)	5,499,908	5,879,413	6,661,388	7,082,898	7,674,729
Miscellaneous	1,836,267	1,883,405	2,022,076	2,158,408	2,320,032
A2. Distribution : Maintenance					
Maintenance supervision & engineering	20,512,854	22,656,530	25,086,844	27,744,100	30,652,344
Substations	8,233,918	9,525,850	10,452,556	11,320,821	12,457,918
Overhead lines	32,364,236	36,094,348	39,891,270	44,378,289	48,948,186
Underground cables & devices	-	-	-	-	-
Streetlighting and signal systems	9,213,623	9,775,299	8,181,454	10,661,556	11,365,874
Line transformers	718,662	583,011	653,265	707,491	783,014
Information technology (distribution network)	11,701,079	12,390,443	14,490,128	14,956,645	15,706,457
Metering (distribution network)	579,972	661,280	770,036	895,913	1,041,125
Miscellaneous	597,556	494,604	570,848	545,213	643,109
A3. Administrative & General					
Admin & general salaries	108,048,358	120,603,817	134,878,807	150,522,605	168,402,793
Office supplies & expenses	11,695,084	12,176,995	12,774,699	13,277,030	13,918,373
Information technology (admin & general)	14,249,171	14,878,453	15,570,082	16,250,482	22,552,851
Outside services employed	79,381,764	87,028,709	91,871,206	96,780,983	101,936,709
Property insurance	2,690,151	2,794,711	2,912,089	3,028,572	3,149,715
Injuries & damages	697,523	763,898	797,515	812,709	866,246
Employee pension & benefits	100,922,696	103,216,461	131,658,603	136,372,329	153,057,650
Rents	5,037,767	5,321,154	5,656,271	6,004,421	6,377,711
Maintenance of office & general plant	9,179,504	8,799,919	9,047,133	9,481,478	10,170,334
Officers allowance & benefits	175,016	194,047	210,555	228,634	253,650
Travel	3,185,904	3,605,667	3,757,105	3,907,389	4,063,685
Training	22,798,411	26,651,879	27,448,975	29,121,288	30,934,669
Regulatory liaison & compliance	11,345,715	11,769,216	12,294,078	12,822,443	13,377,391
Water and Electricity	17,362,202	17,987,241	18,742,705	19,492,413	20,272,110
Other	35,538,118	37,271,242	38,808,429	40,398,883	42,028,323
WESM compliance (applicable to Regulated)	-	-	-	-	-

Opex Category and Sub-category	Nominal PhP				
	2010	2011	2012	2013	2014
Distribution Services) Registration fees Metering fees Billing & settlement Costs for the PEM board, committees & working groups Market management software & upgrades Provision for security Other					
Subtotal A	569,860,394	615,907,784	686,664,083	738,583,237	810,327,835
B DISTRIBUTION CONNECTION SERVICES					
B1. Connection Services: Operation					
Operation supervision & engineering	1,403,205	1,531,557	1,664,546	1,803,934	1,951,687
Load dispatching	-	-	-	-	-
Overhead connections & devices	2,214,513	2,394,516	2,703,481	3,059,386	3,458,172
Underground cables & devices	-	-	-	-	-
Consumer installations	-	-	-	-	-
Distribution transformers	-	-	-	-	-
Information technology (connection assets)	429,318	483,365	551,697	620,626	686,257
Miscellaneous	5,087	5,959	6,569	7,079	7,569
B2. Connection Services: Maintenance					
Maintenance supervision & engineering	3,073,864	3,336,882	3,593,385	3,858,242	4,138,453
Load dispatching	-	-	-	-	-
Overhead connections & devices	8,530,860	9,206,299	10,385,544	11,670,329	13,026,147
Underground cables & devices	-	-	-	-	-
Consumer installations	883,716	1,004,828	1,125,321	1,267,539	1,425,468
Distribution transformers	-	-	-	-	-
Information technology (connection assets)	775,164	730,887	840,637	889,057	803,573
Miscellaneous	5,087	5,959	6,569	7,079	7,569
B3. Administrative & General					
Admin & general salaries	923,847	1,031,678	1,168,863	1,323,393	1,499,529
Office supplies & expenses	346,687	360,708	380,741	391,844	404,783
Information technology (admin & general)	50,498	52,315	54,512	56,693	58,960
Outside services employed	-	-	-	-	-
Property insurance	-	-	-	-	-
Injuries & damages	-	-	-	-	-
Employee pension & benefits	-	-	-	-	-
Rents	-	-	-	-	-

Opex Category and Sub-category	Nominal PhP				
	2010	2011	2012	2013	2014
Maintenance of office & general plant	-	-	-	-	-
Officers allowance & benefits	-	-	-	-	-
Travel	-	-	-	-	-
Training	-	-	-	-	-
Water and Electricity	-	-	-	-	-
Miscellaneous	-	-	-	-	-
Subtotal B	18,641,847	20,144,953	22,481,866	24,955,199	27,468,167
C REGULATED RETAIL SERVICES					
Administration & management	76,344,997	84,972,439	92,641,868	101,148,463	110,468,623
Consumer meter installations (planning, supply, install, maintain)	52,229,716	73,204,214	78,879,066	84,392,155	91,126,031
Meter reading expenses	17,094,830	18,681,734	20,461,808	22,430,637	24,812,616
Information technology (consumer related)	5,012,764	5,637,600	6,229,769	6,858,509	7,512,455
Consumer records, billing and collection	54,011,377	60,802,059	66,476,388	73,041,379	79,804,163
Bad debts	28,128,949	29,797,498	34,042,934	38,764,037	44,136,690
Informational and instructional advertising	2,816,269	3,592,327	3,788,051	3,976,540	4,177,893
Energy trading expenses	-	-	-	-	-
Water and Electricity	2,477,800	2,567,001	2,674,815	2,781,807	2,893,080
Miscellaneous consumer services expenses	278,483	374,617	310,579	371,921	578,172
Subtotal C	238,395,185	279,629,488	305,505,277	333,765,449	365,509,723
TOTAL	826,897,426	915,682,224	1,014,651,226	1,097,303,885	1,203,305,726

11a. The above-mentioned proposed Operating and Maintenance expenditure are increased from current levels for the following reasons: The proposed increase in operating and maintenance expenditure is a result of increased inputs required to service the growing asset base and of inflationary pressures.

12. 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				
	2010	2011	2012	2013	2014
Levies	-	33,562,637	1,730,561	1,799,784	1,871,775
Duties	-	-	-	-	-

	Nominal PhP				
	2010	2011	2012	2013	2014
Other taxes	5,081,775	5,425,024	5,829,482	6,256,908	6,720,894
TOTAL	5,081,775	38,987,661	7,560,043	8,056,692	8,592,669

12a. The above-mentioned proposed taxes, levies & duties (other than corporate income taxes) expenditure are increased from current levels for the following reasons: The taxes, levies and duties (other than corporate income tax) figure include provision for increased property taxes required by local councils.

13. 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	NOMINAL PESO				
Capex Category	2010	2011	2012	2013	2014
A REGULATED DISTRIBUTION SERVICES ASSETS					
A1 Regulated Distribution Services Assets – Network assets					
Land and Land Rights (Distribution Purposes)	-	-	-	-	-
Structures and Improvements	2,046,826	2,331,347	2,462,109	2,599,458	3,335,802
Station Equipment	-	-	-	-	-
Power transformers	17,134,040	18,402,510	19,023,209	19,641,729	19,997,232
Switchgear	11,148,489	12,471,695	13,190,386	14,117,575	16,876,727
Protective equipment	7,377,435	8,268,146	8,369,909	8,627,093	8,959,366
Metering & control equipment	1,904,191	2,504,029	3,249,862	4,114,570	6,188,621
Communications equipment	4,689,001	5,086,579	5,106,527	5,120,377	5,478,073
Other station equipment	12,185,754	13,976,442	14,849,171	15,364,327	16,789,020
Poles, Towers and Fixtures - Distribution	57,192,913	63,167,786	66,103,225	68,907,299	71,527,582
Overhead Conductors and Devices - Distribution	21,263,917	24,064,778	25,853,568	27,695,182	29,250,602
Underground Cables and Devices - Distribution	-	-	-	-	-
Underground Conduits – Distribution	-	-	-	-	-
Line Transformers – Distribution	55,235,727	61,942,341	64,838,800	68,462,624	72,357,716

ITEM Capex Category	NOMINAL PESO				
	2010	2011	2012	2013	2014
Power Conditioning Equipment	3,998,571	4,571,394	4,913,444	5,109,432	5,378,590
Meters, Instruments and Metering Transformers – Distribution	-	-	-	-	-
Information Systems Equipment (distribution)	925,599	1,638,552	2,737,225	4,936,906	6,874,704
Regulated Entity Property on Consumer's Premises	-	-	-	-	-
Street Lights and Signal Systems	6,585,677	6,986,901	7,145,290	7,310,761	7,506,718
Submarine Cables	-	-	-	-	-
A2 Regulated Distribution Services Assets – Non-network fixed assets					
Land and Land Rights (non-network)	-	-	-	-	-
Structures and Improvements (non-network)	6,082,341	7,929,252	8,994,960	9,241,461	9,520,443
Office Furniture and Equipment	1,642,529	1,750,832	1,797,752	1,839,275	1,885,588
Transportation Equipment	13,886,014	11,471,306	11,820,035	12,375,911	13,445,255
Stores Equipment	42,275	43,434	43,434	47,117	53,158
Tools, Shop and Garage Equipment	3,738,235	4,553,915	5,242,159	5,920,288	6,453,253
Laboratory Equipment	2,014,655	2,118,681	2,152,999	2,161,171	2,308,502
Information Systems Equipment (non-network)	25,384,109	20,871,782	13,531,489	16,038,804	20,553,674
Power-operated Equipment	5,182,192	5,880,630	6,541,921	7,334,106	7,996,671
Communication Plant and Equipment	617,861	677,870	723,760	550,661	379,472
Miscellaneous Equipment	251,295	275,942	297,807	310,393	336,573
A3 Regulated Distribution Services Assets – Materials and supplies (including spares)	-	-	-	-	-
A4 Regulated Distribution Services Assets – Transferred Subtransmission Assets	250,000	1,000,000	1,000,000	1,000,000	1,000,000
Subtotal A	260,779,645	281,986,143	289,989,041	308,826,519	334,453,341
B DISTRIBUTION CONNECTION SERVICES ASSETS					
B1 Distribution Connection Services Assets – Network assets					
Poles, Towers and Fixtures (Customer)	-	-	-	-	-
Overhead Conductors and Devices (Customer)	3,371,367	3,712,575	3,845,320	3,986,072	4,086,185
Underground Conductors and Devices (Customer)	-	-	-	-	-
Line Transformers (Customer)	6,024,511	6,734,036	7,017,503	7,379,464	7,770,953
Information Systems Equipment (Connection)	-	-	-	-	-
B2 Distribution Connection Services Assets – Non-network fixed assets					
Land and Land Rights (non-	-	-	-	-	-

ITEM Capex Category	NOMINAL PESO				
	2010	2011	2012	2013	2014
network)					
Structures and Improvements (non-network)	-	-	-	-	-
Office Furniture and Equipment	-	-	-	-	-
Transportation Equipment	-	-	-	-	-
Stores Equipment	-	-	-	-	-
Tools, Shop and Garage Equipment	-	-	-	-	-
Laboratory Equipment	-	-	-	-	-
Information Systems Equipment (non-network)	-	-	-	-	-
Power-operated Equipment	-	-	-	-	-
Communication Plant and Equipment	-	-	-	-	-
Miscellaneous Equipment	-	-	-	-	-
B3 Distribution Connection Services Assets – Materials and supplies (including spares)	-	-	-	-	-
Subtotal B	9,395,878	10,446,611	10,862,823	11,365,536	11,857,138
C REGULATED RETAIL SERVICES ASSETS					
C Regulated Retail Services Assets					
Meters, Instruments & Metering Transformers (Consumer Consumption Metering)	30,553,406	34,564,491	37,837,079	41,538,024	45,279,144
Land and land rights	-	-	-	-	-
Structures and improvements	-	-	-	-	-
Office Furniture and Equipment	-	-	-	-	-
Transportation Equipment	-	-	-	-	-
Stores Equipment	-	-	-	-	-
Tools, Shop and Garage Equipment	-	-	-	-	-
Laboratory Equipment	-	-	-	-	-
Information Systems Equipment	2,818,863	11,275,453	11,275,453	11,275,453	11,275,453
Communication Plant and Equipment	-	-	-	-	-
Miscellaneous Equipment	-	-	-	-	-
Subtotal C	33,372,269	45,839,944	49,112,532	52,813,476	56,554,597
TOTAL	303,547,792	338,272,698	349,964,397	373,005,532	402,865,075

13a. The afore-mentioned depreciation is calculated on a straight-line basis, based on the standard asset lives approved by the Commission where these are available.

14. For the Second Regulatory Period, no Corporate Income Tax will be included in the afore-mentioned calculation of the Annual Revenue Requirement.

15. Forecast sales of energy, including sales to Applicant itself, is forecast as follows:

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

	2010	2011	2012	2013	2014
Energy consumption (MWh)	1,453,981	1,519,909	1,573,017	1,626,125	1,679,232

16. The estimates of the afore-mentioned energy sales are based on the following forecast coincident, annual, sustained peak demand on the whole distribution network:

Table 10. Summary of forecast peak demand (per Regulatory Year)

	2010	2011	2012	2013	2014
Demand (MW)	271,605	283,920	293,038	303,762	313,682

17. The estimated price-path for the Second Regulatory Period that was determined using the afore-mentioned proposed Allowed Annual Revenue and an assumed zero X-factor and P_0 -factor is demonstrated below:

Table 11. Assumed Maximum Annual Prices for the Second Regulatory Period

	2011 Regulatory year	2012 Regulatory year	2013 Regulatory year	2014 Regulatory year
Maximum Annual Price (PhP/kWh)	1.279	1.518	1.799	2.133

- 17a. The Applicant recognizes that the Commission 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 Commission deems necessary. As part of its consideration the Commission 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.
18. 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 12. Comparison of estimated rates with current rates (illustrative only)

	Current Rates	Illustrative Rates (2011)	Illustrative Rates (2012)	Illustrative Rates (2013)	Illustrative Rates (2014)
Customer Class					
Residential					
Distribution (PhP/kWh)	1.1982	2.0319	2.0763	2.1445	2.2515
Supply (PhP/kWh)	0.1716	0.2910	0.2974	0.3072	0.3225
Metering (PhP/kWh)	0.2249	0.3835	0.3920	0.4050	0.4253
Metering (PhP/customer/month)	5.00	5.00	5.00	5.00	5.00
Inter-class cross-subsidy (PhP/kWh)	-	-	-	-	-
Total PhP/kWh	1.5947	2.7065	2.7657	2.8566	2.9993
Total PhP/customer/month	5.00	5.00	5.00	5.00	5.00
Average PhP/kWh distribution wheeling rate	1.5974	2.7089	2.7682	2.8591	3.0017
Secondary Retail (<=20kw)					
Distribution (PhP/kWh)	0.6371	1.1066	1.1241	1.1546	1.2058
Supply (PhP/customer/month)	26.24	56.10	57.07	58.69	61.37
Metering (PhP/customer/month)	161.84	346.06	352.02	362.03	378.56
Inter-class cross-subsidy (PhP/kWh)	-	-	-	-	-
Total PhP/kWh	0.6371	1.1066	1.1241	1.1546	1.2058
Total PhP/customer/month	188.08	346.06	352.02	362.03	378.56
Average PhP/kWh distribution wheeling rate	1.1151	1.9370	1.9676	2.0209	2.1106
Secondary Retail (>20kw&<=750)					
Distribution (PhP/kWh)	0.2390	0.4610	0.4681	0.4807	0.5019
Distribution demand charge (PhP/kW)	58.85	187.76	190.05	194.69	202.08
Supply (PhP/customer/month)	262.36	565.79	566.56	571.84	585.49
Metering (PhP/customer/month)	754.66	1,627.45	1,629.66	1,644.85	1,684.13
Inter-class cross-subsidy (PhP/kWh)	-	-	-	-	-
Total PhP/kWh	0.2390	0.4610	0.4681	0.4807	0.5019
Total PhP/kW	58.85	187.76	190.05	194.69	202.08
Total PhP/customer/month	1,017.02	1,627.45	1,629.66	1,644.85	1,684.13
Average PhP/kWh distribution wheeling rate	0.6059	1.1689	1.1871	1.2189	1.2727
Primary Retail Service (>750kw)					
Distribution (PhP/kWh)	0.1050	0.1573	0.1592	0.1630	0.1697
Distribution demand charge (PhP/kW)	46.86	64.57	64.89	66.56	69.33
Supply (PhP/customer/month)	2,623.59	3,730.70	3,826.65	3,999.67	4,178.20
Metering (PhP/customer/month)	991.45	1,409.82	1,446.08	1,511.46	1,578.93
Inter-class cross-subsidy (PhP/kWh)	-	-	-	-	-
Total PhP/kWh	0.1050	0.1573	0.1592	0.1630	0.1697
Total PhP/kW	46.86	64.57	64.89	66.56	69.33
Total PhP/customer/month	3,615.03	1,409.82	1,446.08	1,511.46	1,578.93
Average PhP/kWh distribution wheeling rate	0.2209	0.3309	0.3350	0.3429	0.3571
Streetlights					
Distribution (PhP/kWh)	0.7005	3.0956	3.2137	3.3698	3.5897
Supply (PhP/customer/month)	26.24	103.88	106.04	109.42	114.77
Metering (PhP/customer/month)	-	-	-	-	-
Inter-class cross-subsidy (PhP/kWh)	-	-	-	-	-
Total PhP/kWh	0.7005	3.0956	3.2137	3.3698	3.5897
Total PhP/customer/month	26.24	103.88	106.04	109.42	114.77
Average PhP/kWh distribution wheeling rate	0.7014	3.0997	3.2180	3.3744	3.5946

19. 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 13. Summary of proposed Price-linked Performance Incentive Scheme

Performance index	Units	Weight	Reward		Target	Penalty	
			Level A	Level B	Level C	Level D	Level E
System average interruption frequency index (SAIFI)	Number	0.20	10.47	11.35	12.22	13.1	13.98
Customer average interruption duration index (CAIDI)	Minutes	0.20	70.52	72.81	75.11	77.4	79.68
Planned system average interruption duration index (SAIDI)	Minutes	0.15	198.12	224.58	251.05	277.51	303.98
Probability of voltage levels falling within prescribed limits	%	0.10	2.0%	3.0%	4.0%	5.0%	6.0%
System losses	%	0.05	7%	8.5%	9.5%		
Average time to process applications for Regulated Distribution Services	Days	0.10	9.4	10.23	11.06	11.88	12.71
Average time to connect premises to the Regulated Distribution System	Days	0.10	3.34	4.0	4.66	5.32	5.99
Average time to answer calls at call centre	Seconds	0.10	7.99	9.58	11.18	12.77	14.37

20. 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 14. Summary of proposed Guaranteed Service Level Incentive Scheme

Performance Measure		Threshold Level	Penalty Level (PhP)
GSL1a	Duration of Sustained Interruptions (urban/sub-urban)	20	84.66
GSL1b	Duration of Sustained Interruptions (rural)	25	84.66
GSL2a	No. of Sustained Interruptions (urban/sub-urban)	20	84.66
GSL2b	No. of Sustained Interruptions (rural)	25	84.66
GSL3a	Restoration Time (Urban/Sub-urban)	Within 12 hours	84.66
GSL3b	Restoration Time (Rural)	Within 15 hours	84.66
GSL4a	Time to Connect	Beyond 4 days	84.66

- 20a. 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.
21. 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 Commission Rules of Practice and Procedure, prior to the filing of this Application with the Commission.
22. 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 15. 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.

Schedule	Information provided
A3.1 A3.2 A3.3	<ul style="list-style-type: none"> - Schedule of assets to be acquired - Value of the assets to be acquired - 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 A5.2 A5.3	<ul style="list-style-type: none"> - Schedule of assets to be disposed of - Value of the assets to be disposed of - 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 A6.2	<ul style="list-style-type: none"> - Assets included in the Original Regulatory Asset Base - 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 A7.2	<ul style="list-style-type: none"> - Assets included in the Original Regulatory Asset Base - 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	- Total real values, in PhP
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
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

Schedule	Information provided
<p>E1</p> <p>E1.1</p> <p>E1.2</p> <p>E2</p> <p>E2.1</p> <p>E2.2</p>	<p>Depreciation of the opening asset base</p> <ul style="list-style-type: none"> - ODRC basis - Historical cost basis <p>Depreciation of the assets forecast to be acquired during the Second Regulatory Period</p> <ul style="list-style-type: none"> - ODRC basis - Historical cost basis
<p>F</p> <p>F1</p> <p>F2</p>	<p>Forecast assets used beyond standard lives</p> <p>Forecast addition to assets used beyond standard lives</p> <p>Forecast removal from assets used beyond standard lives</p>
<p>G</p> <p>G1</p> <p>G1.1</p> <p>G1.2</p> <p>G1.3</p> <p>G1.4</p> <p>G2</p> <p>G3</p> <p>G3.1</p> <p>G3.2</p> <p>G3.3</p> <p>G3.4</p>	<p>Forecast operating & maintenance expenditure</p> <p>Summary of forecast operating & maintenance expenditure</p> <ul style="list-style-type: none"> - Annual expenditure, divided in real PhP and US\$ components - Total annual expenditure, in real PhP - Total annual expenditure, in nominal PhP - Justification for operating & maintenance expenditure forecasts <p>Historical operating & maintenance expenditure</p> <p>Summary of expenditure on taxes (other than corporate income tax), duties and levies</p> <ul style="list-style-type: none"> - Annual expenditure, in real PhP - Annual expenditure, in nominal PhP - Justification for expenditure - Historical taxes, levies & duties
<p>H</p> <p>H1</p> <p>H1.1</p> <p>H1.2</p> <p>H2</p> <p>H2.1</p> <p>H2.2</p> <p>H3</p>	<p>Forecast energy consumption and demand</p> <p>Forecast energy consumption figures (kWh)</p> <ul style="list-style-type: none"> - Breakdown of consumption figures into customer classes - Supporting evidence <p>Forecast energy demand figures (MW)</p> <ul style="list-style-type: none"> - Breakdown of demand figures into customer classes - Supporting evidence <p>Forecast customer numbers, per customer class</p>
<p>I</p>	<p>Regulatory financial statements</p>
<p>J</p> <p>J1</p> <p>J1.1</p> <p>J1.2</p> <p>J1.3</p> <p>J2</p> <p>J2.1</p>	<p>Performance incentive scheme details</p> <p>Price-linked incentive scheme</p> <ul style="list-style-type: none"> - Details of scheme proposed - Proposed target levels - Supporting information & calculations <p>Guaranteed service level scheme</p> <ul style="list-style-type: none"> - Details of scheme proposed

Schedule	Information provided
J2.2 J2.3 J2.4	- Proposed target levels - Proposed penalty levels - Supporting information & calculations
K	Additional information for price-cap model
K1	Contact details for input sheets
K2	2009 Calendar year billing & consumption data (estimate)
K3	Related business revenue for 2009 calendar year (estimate)
K4	Tax losses carried forward from 2009 and 2010 regulatory years (estimate)
K5	Inputs for financial statement projections
L	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
M	Calculation of demonstrative unbundled rates

23. 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, DAVAO LIGHT & POWER CO., INC. ("DLPC") 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 and equitable under the premises are likewise prayed for.

Pasig City, Philippines, June 5, 2009.

J. P. GARCIA & ASSOCIATES
Counsel for Applicant Davao Light & Power Co., Inc.
Unit 902, Ayala Life -FGU Center
Mindanao Avenue, Cebu Business Park
Cebu City

By:

JOAN A. GIDUQUIO-BARON
IBP O.R. No. 754163; January 5, 2009, Cebu City
PTR No. 8510004; January 5, 2009, Cebu City
Roll of Attorneys No. 41829
MCLE Compliance No. I – 0016324
MCLE Compliance No. II - 0015874