

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. 2010-064RC

**CAGAYAN ELECTRIC POWER AND
LIGHT COMPANY, INC (CEPALCO)**

Applicant.

APPLICATION

COMES NOW, applicant CEPALCO 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 office at 44 Toribio Chavez St., Cagayan de Oro City where it may be served with summons and other legal processes, represented in this instance by its President and Chief Operating Officer, Mrs. Consuelo G. Tion, of legal age, Filipino, Married and with office address also at 44 Toribio Chavez St., Cagayan de Oro City. Herein applicant is the exclusive franchise holder issued by Congress of the Philippines to operate an electric light and power services in the City of Cagayan de Oro and the municipalities of Tagoloan, Villanueva and Jasaan, all in the Province of Misamis Oriental.
2. Applicant entered Performance-Based Regulation at the First Regulatory Period, as part of the First Entry Group. Applicant's revenue application for the Second Regulatory Period under Performance-Based Regulation was lodged to the Energy Regulatory Commission (Commission) on August 31, 2006 and following due consideration, was finally approved under the Commission's Final Determination on the Price Control Arrangements for the Second Regulatory Period (ERC Case No 2006-041) on September 12, 2007.

3. The Second Regulatory Period commenced on July 1, 2007. During this period, up to the date of this Application, Applicant has operated its electricity distribution network efficiently and in accordance with the Commission's rules and guidelines.

3a. For the 2nd Regulatory Period, total Capital Expenditures were below the ERC-approved level by P161 million or 15 percentage points. On an annual basis, actual expenditure was lower by an average of P127 million in RYs 2007-2009 and higher by P221 million in RY 2010. The higher actual CAPEX in RY 2010 was mainly due to the delay in the implementation of various line and substation related projects.

Some key projects implemented during the 2nd regulatory period were as follows:

- Putting up of SCADA communication facilities and upgrading of substations, replacement or refurbishment of substation equipments to serve load growth, ensure system reliability and meet performance targets,
- Installation of automatic voltage regulators, replacement of cut-outs, arresters to improve system reliability in compliance to distribution code,
- Acquisition of ICT related equipment and system such as the replacement of the company's Customer Information Management System and purchase of tablet portable computers for Work Management System,
- Acquisition of bucket trucks to improve quality service to customers and serve load growth,
- Putting in place of service centers to serve load growth and to decongest the increasing number of paying customers.

3b. Average annual historical Operating and Maintenance expenditures (O&M) for the regulatory years 2008 to 2010 is PhP 244.3 million or only 0.2% higher than the average annual approved O&M for the same period of PhP 243.7 million. O&M programs were undertaken to meet Company's obligation to serve load growth, to maintain the existing facilities/system and personnel resources in order to maintain or improve service reliability, to meet system and service performance targets, and to ensure compliance with the regulatory requirements. New customer service programs were also embarked during this period, which include among others the provision of 24-hour service for Cepalco District Office

serving the eastern-area, the new west-bound Service Center in Carmen, and the Puntod Service Center to serve the northern area.

- 3c. CEPALCO was able to hit Level A performance in all network performance indices for the regulatory years 2008 – 2010. This means that for the said Regulatory Years, CEPALCO customers enjoyed the lowest frequency and duration of planned and unplanned service interruptions.
- 3d. CEPALCO was able to hit Level A performance in all service performance indices for the regulatory years 2008 – 2010. This means that for the said regulatory years, CEPALCO customers enjoyed faster processing of service applications and in the actual electric service connection to premises.
- 3e. For GSL performance, CEPALCO paid a total refund of P674,384.00 to 5,953 customers who were affected by few instances when CEPALCO's performance were below the guaranteed service levels.
4. Applicant will continue operating under Performance-Based Regulation, entering the Third Regulatory Period at the first 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 Third Regulatory Period described in the amended Rules for setting Distribution Wheeling Rates (RDWR) for Privately Owned Distribution Utilities entering Performance Based Regulation (First Entry Point) issued by the Commission on December 1, 2009. This Third Regulatory Period commences on July 1, 2011 and terminates on June 30, 2015.
- 4a. 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 Third Regulatory Period.
5. 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 2011 to June 2015 Regulatory Period for Privately Owned Distribution Utilities subject to Performance Based Regulation, dated December 1, 2009 (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-GroupA-3rd Period-V1.0.xls (Price-Cap Model) that was provided to the applicant by the Commission.

6. 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.
- 6a. Included in the proposed Annual Revenue Requirement are allowances for under- or over-recoveries carried over from the Second Regulatory Period and provision for an efficiency carry-over as described in the afore-mentioned RDWR. These values have been calculated as instructed by the Commission in the afore-mentioned Position Paper, and are also set out below.

Table 1. Annual Revenue Requirement as per Building Block approach

Building Block	Proposed revenue requirement per Regulatory Year (PhP)			
	2012	2013	2014	2015
Operating and maintenance expenditure	407,943,669	438,827,742	465,120,071	483,303,988
Taxes, levies & duties (other than corporate tax)	9,259,539	2,507,728	3,392,037	3,919,144
Regulatory depreciation	232,572,964	262,701,057	286,719,597	302,509,657
Return on capital	689,399,175	753,837,702	800,759,059	816,263,089
Revenue Requirement Subtotal	1,339,175,347	1,457,874,229	1,555,990,763	1,605,995,878
Allowance for under/over recovery	145,119,419	148,419,640	155,395,363	162,698,945
Allowance for regulatory intervention	0	0	0	0
Efficiency carry-over	0	0	0	0
TOTAL REVENUE REQUIREMENT	1,484,294,766	1,606,293,869	1,711,386,127	1,768,694,823

Note : All values are in nominal terms

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

- 6b. Corporate income tax has been discontinued as a building block for the Second and Third Regulatory Periods 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 June 22, 2009.

7. 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 March 31, 2010, as estimated by the Applicant in accordance with the Commission instruction issued on April 12, 2010, suitably amended to a March 31, 2011 value in accordance with the method described in the RDWR. The Applicant notes that the March 31, 2010 value of the Regulatory Asset Base used in this Application is an interim value only. This value will be updated not later than July 31, 2010, applying the Commission’s Valuation Handbook for Optimized Depreciated Replacement Cost Valuation of System Fixed Assets of Privately Owned Distribution Utilities Operating Under Performance-Based Regulation (Third Regulatory Period), which at the date of this Application, is still subject to public consultation.

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

ITEM	PhP for Regulatory Year			
	2012	2013	2014	2015
Opening value of RAB	4,384,275,080	4,761,611,526	5,239,856,405	5,384,236,164
plus Capital Expenditure	609,909,410	740,945,936	431,099,357	362,930,548
minus Regulatory Depreciation on asset base at start of Third Regulatory Period	214,741,551	212,141,577	211,860,150	211,303,217
minus Regulatory Depreciation on capital expenditure incurred during the Third Regulatory Period	17,831,413	50,559,480	74,859,447	91,206,440
Closing value of RAB	4,761,611,526	5,239,856,405	5,384,236,164	5,444,657,055
AVERAGE VALUE OF RAB	4,572,943,303	5,000,733,965	5,312,046,284	5,414,446,610

8. 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 3. Input values provided by the Commission

Parameter	Date instructed by Commission	Preliminary value adopted
Construction work in progress factor (CWIP factor)	5/19/2010	For substation projects : 4.20% For other projects : 2.98%
P ₀ -factor	5/19/2010	0 PhP/kWh
X-factor	5/19/2010	0
Working-capital proportion	5/19/2010	4.9%

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

9. In calculating the afore-mentioned Annual Revenue Requirement for the Third 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 4a. Forecast Change in the Consumer Price Index for the Philippines

	2010	2011	2012	2013	2014	2015
Calendar Year	3.50%	4.50%	4.60%	4.70%	4.70%	4.70%
Regulatory Year		4.55%	4.55%	4.65%	4.70%	4.70%
Data source :	EIU					

Table 4b. Forecast Change in the Consumer Price Index for the United States of America

	2010	2011	2012	2013	2014	2015
Calendar Year	1.60%	1.30%	1.90%	2.50%	2.80%	2.80%
Regulatory Year		1.45%	1.60%	2.20%	2.65%	2.80%
Data source :	EIU					

Table 4c. Forecast PhP/US\$ Exchange Rate (average for the year)

Quarter ending	2010	2011	2012	2013	2014	2015
Calendar Year	48.00	47.50	47.00	46.80	46.60	46.60
Regulatory Year		47.75	47.25	46.90	46.70	46.60
Data source :	EIU					

- 9a. For the purposes of the initial and subsequent annual price resets during the Third 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.
10. The afore-mentioned Annual Revenue Requirement is in part based on a proposed rate of return of 15.01% 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 third

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 Third Regulatory Period for the first entry group and that this may differ from the figure used in this Revenue Application.

11. 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.
12. The proposed Capital Expenditure included in the afore-mentioned calculation of the Rolled-forward Regulatory Asset Base is as demonstrated below:

Table 5. Proposed Capital Expenditure (per regulatory year)

ITEM	NOMINAL PESO				
	2011	2012	2013	2014	2015
A. Regulated Distribution Services Assets					
A1 Regulated Distribution Service Assets - Network Asset					
Land and Land Rights (Distribution Purposes)	265,390	246,326	17,320,514	1,397,188	282,445
Structures and Improvements (Distribution Purposes)	0	0	19,308,906	1,207,629	0
Station Equipment	0	0	0	0	0
Power transformers	3,288,114	0	51,427,052	0	0
Switchgear	0	2,199,090	8,904,334	4,454,554	0
Protective equipment	0	4,504,138	33,861,801	16,874,483	0
Metering & control equipment	2,761,402	2,647,624	22,350,354	9,622,750	0
Communications equipment	0	29,542,556	29,870,776	5,054,309	7,853,918
Other station equipment	0	1,443,784	3,021,175	1,138,728	0
Poles, Towers and Fixtures – Distribution	81,392,584	79,974,594	100,669,502	94,809,574	101,042,063
Overhead Conductors and Devices – Distribution	53,011,221	64,529,503	109,154,879	76,449,796	83,124,460
Underground Conduits – Distribution	0	0	0	0	0
Underground Conductors and Devices – Distribution	0	0	0	0	0
Distribution Transformers	19,836,026	29,558,314	44,677,489	34,550,604	36,454,552
Power Conditioning Equipment	0	46,917,835	40,770,915	43,600,228	13,527,086
Meters, Metering Instruments & Metering Transformers – Distribution	0	0	0	0	0
Information technology equipment (distribution)	0	116,013,492	26,069,423	20,424,170	13,536,728
Regulated Entity Property on Consumer's Premises	0	0	0	0	0
Street Lights and Signal Systems	749,614	788,743	825,025	863,801	904,400
Submarine Cables	0	0	0	0	0
A2 Regulated Distribution Service Assets - Non-network Fixed Assets					
Land and Land Rights (non-network)	26,787,377	0	0	0	0
Structures and Improvements (non-network)	49,607,136	668,874	23,378,713	0	0

ITEM	NOMINAL PESO				
	2011	2012	2013	2014	2015
CAPEX Category					
Office Furniture and Equipment	6,652,181	3,731,139	5,960,797	3,315,770	3,007,852
Transportation Equipment	40,920,606	1,677,687	1,684,846	0	1,722,836
Stores Equipment	0	0	0	0	0
Tools, Shop and Garage Equipment	323,420	918,504	636,907	350,365	178,207
Laboratory Equipment	0	0	0	0	0
Information Systems Equipment (non-network)	9,035,125	54,544,009	14,517,685	21,414,701	11,333,261
Power-operated Equipment	0	0	0	0	0
Communication Plant and Equipment	12,669,123	1,505,575	17,536,153	561,702	856,253
Miscellaneous Equipment	36,302	0	194,581	552,971	609,433
A3 Regulated Distribution Services Assets – Materials and supplies (including spares)	0	0	0	0	0
A4 Regulated Distribution Services Assets – Transferred Subtransmission Assets	30,971,436	0	0	0	0
Sub-total A	338,307,057	441,411,787	572,141,827	336,643,326	274,433,494
B Distribution Connection Services Assets					
B1 Distribution Connection Services Assets – Network assets					
Poles, Towers and Fixtures (Customer)	0	0	0	0	0
Overhead Conductors and Devices (Customer)	5,268,216	8,225,693	7,098,301	5,679,759	6,214,445
Underground Conduits (Customer)	0	0	0	0	0
Underground Conductors and Devices (Customer)	0	0	0	0	0
Line Transformers (Customer)	0	0	0	0	0
Information Systems Equipment (Connection)	0	0	0	0	0
B2 Distribution Connection Services Assets – Non-network fixed assets					
Land and Land Rights (non-network)	9,846,489	0	0	0	0
Structures and Improvements (non-network)	18,234,564	25,551	8,593,535	0	0
Office Furniture and Equipment	1,003,950	1,170,511	2,345,913	1,172,395	1,283,358
Transportation Equipment	755,902	606,363	1,384,790	0	633,279
Stores Equipment	0	0	0	0	0
Tools, Shop and Garage Equipment	1,036,179	449,461	304,508	485,923	329,891
Laboratory Equipment	0	0	0	0	0
Information Systems Equipment (non-network)	3,195,814	19,292,763	5,135,051	7,574,595	4,008,688
Power-operated Equipment	0	0	0	0	0
Communication Plant and Equipment	4,649,391	501,009	6,427,425	198,680	302,865
Miscellaneous Equipment	13,241	0	68,825	195,591	215,562
B3 Distribution Connection Services Assets – Materials and supplies (including spares)	0	0	0	0	0
Sub-total B	44,003,747	30,271,351	31,358,347	15,306,943	12,988,089
C Regulated Retail Services Assets					
Meters, Instruments & Metering Transformers (Consumer Consumption Metering)	51,658,650	88,028,532	95,847,725	61,223,391	63,272,031
Land and land rights	16,908,762	0	0	0	0

ITEM	NOMINAL PESO				
	2011	2012	2013	2014	2015
CAPEX Category					
Structures and improvements	31,313,080	4,301,451	14,757,141	0	0
Office Furniture and Equipment	6,350,739	6,148,173	4,557,673	2,975,920	2,767,166
Transportation Equipment	1,298,064	1,078,284	1,160,604	0	1,087,491
Stores Equipment	0	0	0	0	0
Tools, Shop and Garage Equipment	280,848	986,839	382,189	374,135	371,955
Laboratory Equipment	0	0	0	0	0
Information Systems Equipment	5,937,420	35,843,519	9,540,276	14,072,641	7,447,637
Communication Plant and Equipment	7,984,109	1,839,474	11,072,285	369,122	562,685
Miscellaneous Equipment	23,107	0	127,869	133,878	0
Sub-total C	121,754,776	138,226,272	137,445,762	79,149,088	75,508,965
TOTAL	504,065,581	609,909,410	740,945,936	431,099,357	362,930,548

12a. The above-mentioned proposed Capital Expenditure for the years 2011 – 2015 post an average nominal values of P530 million or 32% higher than the capital expenditures for regulatory year 2010. Of which, an average increase of 51 million is due to inflation which is projected to hit an average of 5% per annum.

Capital investment amounting to an annual average of P394 million is needed to cater to load growth that shall propel the socio-economic development within the franchise area. This includes construction of new substations, implementation of modernization projects and upgrading of the distribution system and acquisition and development of ICT infrastructures and systems.

An annual average of P85 million is needed for the renewal or refurbishment of the existing distribution system and assets in order to maintain and improve system reliability and service quality, and meet performance targets.

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

Table 6. Proposed Operating & Maintenance Expenditure (per regulatory year)

Opex Category and Sub-category	Nominal PhP				
	2011	2012	2013	2014	2015
A REGULATED DISTRIBUTION SERVICES					
A1 Distribution: Operation					
Operation supervision & engineering	4,380,909	4,241,700	9,032,295	7,668,142	8,094,932
Contractor services	295,531	325,049	343,246	363,268	383,304
Load dispatching	1,721,120	1,862,676	1,891,035	1,987,553	2,120,994
Structures	0	0	0	0	0
Substations	1,619,878	1,753,107	1,779,798	1,870,638	1,996,229
Overhead conductors & devices	3,614,505	3,916,665	4,047,965	4,261,421	4,514,788
Underground cables & devices	0	0	0	0	0
Streetlighting and signal systems	862,283	928,829	962,197	1,010,424	1,064,805
Metering (distribution network)	0	0	0	0	0
Rents	0	0	0	0	0
Information technology (distribution network)	4,847,739	6,596,215	7,033,260	7,428,160	7,870,097
Miscellaneous	736,386	794,422	814,107	854,846	907,220
A2 Distribution: Maintenance					
Maintenance supervision & engineering	2,429,996	2,637,144	2,760,827	2,902,708	3,052,972
Contractor services	2,512,013	2,762,918	2,917,595	3,087,774	3,258,088
Structures	5,018,361	5,478,747	5,730,850	6,045,631	6,385,106
Substations	1,174,524	1,210,445	1,340,486	1,317,475	1,436,752
Overhead lines & Devices	10,170,959	11,315,985	13,470,841	12,645,864	13,411,688
Underground cables & devices	0	0	0	0	0
Streetlighting and signal systems	0	0	0	0	0
Distribution transformers	4,042,688	4,313,653	4,517,940	4,771,588	5,047,812
Information technology (distribution network)	1,596,898	1,829,285	1,912,685	2,002,120	2,096,633
Metering (distribution network)	747,959	776,565	811,954	849,878	889,951
Miscellaneous	0	0	0	0	0
A3 Administrative & General					
Company Management Costs	5,600,073	6,051,603	6,643,757	7,301,773	8,028,360
Admin & general salaries	11,689,813	12,564,215	13,307,950	14,135,114	14,969,160
Office supplies & expenses	7,787,958	7,498,955	7,480,573	7,962,372	8,301,850
Information technology (admin & general)	246,123	281,943	294,797	308,581	323,148
Outside services employed	11,601,833	13,455,936	15,007,236	16,131,720	17,063,716
Property insurance	2,482,156	2,818,650	3,027,623	3,280,752	3,424,069
Injuries & damages	0	0	0	0	0
Employee pension & benefits	41,114,687	42,334,863	43,666,494	48,907,375	48,480,869
Regulatory liaison & compliance	4,369,216	4,989,950	5,739,087	4,236,925	4,436,698
Rents	938,890	1,267,148	1,352,653	1,411,241	1,495,971
Maintenance of office & general plant	1,476,802	1,797,660	2,072,769	1,982,218	1,838,215
Officers allowance & benefits	4,607,463	4,794,337	5,136,600	5,377,151	5,626,053
Travel	468,813	647,964	715,947	837,133	946,234
Training	3,799,315	4,701,259	4,827,315	4,820,747	5,048,047
Water and Electricity	684,709	19,097,913	20,210,082	21,298,473	22,342,374
Miscellaneous	68,402	70,553	74,206	80,062	86,683
Market fees	0	0	0	0	0
Registration fees	0	0	0	0	0
Metering fees	0	0	0	0	0
Billing & settlement fees	0	0	0	0	0
Administration fees	0	0	0	0	0
Costs for the PEM board,	0	0	0	0	0

Opex Category and Sub-category	Nominal PhP				
	2011	2012	2013	2014	2015
committees & working groups					
Market management software & upgrades costs recovery	0	0	0	0	0
Provision and maintenance of security	0	0	0	0	0
Sub-total A	142,708,001	173,116,354	188,924,169	197,139,127	204,942,819
B. DISTRIBUTION CONNECTION SERVICES					
B1 Connection Services: Operation					
Operation supervision & engineering	913,941	983,859	1,024,273	1,072,891	1,124,682
Contractor services	2,987,345	3,026,274	3,165,517	3,358,491	3,564,718
Structures	202,485	219,138	222,475	233,830	249,529
Substations	0	0	0	0	0
Overhead lines & devices	404,969	438,277	444,949	467,660	499,057
Underground cables & devices	0	0	0	0	0
Consumer installations	1,953,518	2,081,389	2,168,586	2,276,381	2,391,286
Information technology (connection assets)	359,893	412,269	431,065	451,221	472,521
Miscellaneous	0	0	0	0	0
B2 Connection Services: Maintenance					
Maintenance supervision & engineering	779,272	838,234	872,718	914,290	958,576
Contractor services	423,303	455,523	474,248	496,795	520,815
Structures	0	0	0	0	0
Substations	26,970	25,516	26,092	28,399	32,571
Overhead conductors & devices	1,132,165	1,193,372	1,242,513	1,307,907	1,381,930
Underground cables & devices	0	0	0	0	0
Consumer installations	2,289,780	2,460,538	2,561,958	2,684,558	2,815,173
Distribution transformers	307,932	328,547	342,274	359,183	377,206
Information technology (connection assets)	345,140	394,751	412,756	432,076	452,496
Miscellaneous	0	0	0	0	0
B3 Administrative & General					
Admin & general salaries	3,822,525	4,107,167	4,390,628	4,704,980	5,035,425
Office supplies & expenses	1,505,393	1,449,747	1,445,880	1,539,062	1,605,762
Information technology (admin & general)	1,023,736	1,440,963	1,541,717	1,630,789	1,731,249
Outside services employed	2,541,407	3,012,871	3,418,260	3,666,897	3,880,736
Property insurance	476,408	540,992	581,101	629,684	657,192
Injuries & damages	0	0	0	0	0
Employee pension & benefits	12,373,339	13,102,576	13,466,358	15,172,579	14,747,818
Regulatory liaison & compliance	838,597	957,736	1,101,520	813,206	851,549
Rents	105,463	165,304	177,108	181,318	189,868
Maintenance of office & general plant	299,891	346,571	399,572	400,109	354,790
Officers allowance & benefits	936,240	979,559	1,048,638	1,098,091	1,149,663
Travel	90,507	124,060	137,700	161,514	183,044
Training	1,108,079	1,446,908	1,497,935	1,525,478	1,597,405
Water and Electricity	175,773	5,975,750	6,339,082	6,697,511	7,024,754
Sub-total B	37,424,071	46,507,891	48,934,923	52,304,899	53,849,813
C REGULATED RETAILS SERVICES					
Administration and General Salaries	17,736,449	19,065,741	20,377,747	21,812,930	23,326,067
Office supplies & expenses	5,913,012	5,682,017	5,831,741	6,144,369	6,407,782
Outside services employed	7,661,479	8,654,029	9,445,711	10,180,066	10,761,155
Property insurance	1,878,061	2,132,661	2,290,775	2,482,299	2,590,736
Injuries & damages	0	0	0	0	0
Employee pension & benefits	40,152,926	40,632,136	42,673,973	48,535,354	46,758,340

Opex Category and Sub-category	Nominal PhP				
	2011	2012	2013	2014	2015
Regulatory liaison & compliance	3,305,858	3,775,522	4,342,337	3,205,764	3,356,917
Rents	1,021,083	1,568,552	1,975,885	2,145,813	2,347,350
Maintenance of office & general plant	275,527	186,776	234,452	406,382	268,059
Officers allowance & benefits	4,834,568	5,334,632	5,789,730	5,706,597	6,014,865
Travel	328,338	466,068	514,097	601,722	679,803
Training	3,350,602	4,177,364	4,329,649	4,386,350	4,593,168
Water and Electricity	573,816	17,081,293	18,207,468	19,327,346	20,273,379
Planning, installation and maintenance of consumer metering installations	12,593,212	13,304,297	13,913,077	14,680,728	15,431,736
Consumer Meter Reading Expenses	15,318,423	16,795,978	17,927,640	19,247,383	20,644,964
Information technology (retail related)	5,034,660	6,554,029	6,955,565	7,330,546	7,745,368
Consumer Records, Billing and Collection Expenses	26,633,124	28,275,106	30,387,331	32,569,242	35,033,221
Bad debts	13,621,831	8,711,808	9,108,822	9,534,268	9,983,814
Information and Instructional Advertising Expenses	4,306,521	5,921,416	6,662,648	7,378,885	8,294,632
Energy trading expenses (excluding energy purchases)	0	0	0	0	0
Miscellaneous consumer services expenses	0	0	0	0	0
Sub-total C	164,539,489	188,319,242	200,968,650	215,676,045	224,511,356
TOTAL	344,671,562	407,943,669	438,827,742	465,120,071	483,303,988

13a. The above-mentioned proposed Operating and Maintenance expenditures (O&M) are increased from current levels by an annual average of PhP 159 million or at an average rate of 59% per annum. Of which, PhP 47 million or 30% is due to projected inflation at 5% per year during the period; PhP 37 million or 23% is due to Company's own electricity consumption included as operating expense pursuant to ERC Resolution No. 17, s.2008; and PhP 75 million or 47% as necessary increase due to: expenses incidental to the creation of the Call Center and additional east-bound Service Center in Lapasan; due to increase in number of customers; expenses incidental to increase in assets due to load growth, and to maintain the existing facilities/system and personnel resources in order to improve service reliability, meet system and service performance targets, and ensure compliance with the regulatory requirements.

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

	Nominal PhP				
	2011	2012	2013	2014	2015
Levies	1,640,118	1,495,663	472,171	1,260,809	1,687,748
Duties	0	0	0	0	0
Other taxes	7,323,857	7,763,876	2,035,557	2,131,228	2,231,396
TOTAL	8,963,976	9,259,539	2,507,728	3,392,037	3,919,144

- 14a. The above-mentioned proposed taxes (other than corporate income taxes), levies & duties expenditure are increased from current levels by an annual average of PhP 3.2 million or 133% per annum. Of which, 70% or a total of PhP 10 million is due to penalties for the unpaid Real Property Tax to the Municipality of Tagoloan as per Supreme Court decision under G.R. No. 187870. Imposition of Real Property Taxes on properties, which include Substation and Communication Equipment, and Communication Antenna Tower, located in Tagoloan, Misamis Oriental were questioned by Cepalco with the objective of protecting its customers from increased rates since taxes will be a pass-through cost and considering the first time it will be made to pay Real Property Taxes on these type of properties. While 30% is mainly due to increase in Regulatory Reset Expert Fees and Real Property Taxes.
15. 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 Third 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 Third Regulatory Period, as well as depreciation on those assets proposed to be acquired during the Third Regulatory Period.

Table 8. Summary of proposed Depreciation (per Regulatory Year)

ITEM	PESO				
	2011	2012	2013	2014	2015
Depreciation Category					
A. Regulated Distribution Services Assets					
A1 Regulated Distribution Service Assets - Network Asset					
Land and Land Rights (Distribution Purposes)	0	0	0	0	0
Structures and Improvements (Distribution Purposes)	728,448	895,189	1,111,090	1,339,887	1,352,784
Station Equipment					
Power transformers	6,971,166	8,502,205	9,295,784	10,089,363	10,089,363
Switchgear	5,964,399	7,233,555	7,400,599	7,596,779	7,660,209
Protective equipment	1,849,380	2,353,150	2,929,751	3,675,605	3,915,886
Metering & control equipment	2,632,928	2,735,112	3,113,221	3,585,135	3,722,156
Communications equipment	6,001,932	8,198,742	10,916,819	12,187,290	12,600,013
Other station equipment	706,814	858,685	928,103	990,170	1,006,384

ITEM	PESO				
	2011	2012	2013	2014	2015
Depreciation Category					
Poles, Towers and Fixtures - Distribution	32,180,115	42,248,553	44,996,537	47,847,393	50,571,594
Overhead Conductors and Devices - Distribution	27,160,735	35,443,261	38,076,895	40,792,825	43,011,915
Underground Conduits - Distribution	0	0	0	0	0
Underground Conductors and Devices - Distribution	0	0	0	0	0
Distribution Transformers	12,103,721	15,769,237	16,896,255	18,054,306	19,042,067
Power Conditioning Equipment	205,010	981,471	2,320,958	3,549,628	4,354,434
Meters, Metering Instruments & Metering Transformers – Distribution	0	0	0	0	0
Information technology equipment (distribution)	0	0	0	0	0
Regulated Entity Property on Consumer's Premises	0	0	0	0	0
Street Lights and Signal Systems	265,197	350,315	374,914	399,514	220,370
Submarine Cables	0	0	0	0	0
A2 Regulated Distribution Services Assets – Non-network fixed assets					
Land and Land Rights (non-network)	0	0	0	0	0
Structures and Improvements (non-network)	1,451,127	2,220,851	2,490,081	2,751,487	2,751,487
Office Furniture and Equipment	3,101,112	4,062,498	4,283,075	4,487,197	4,619,379
Transportation Equipment	7,351,623	11,390,024	11,609,800	11,717,451	11,817,868
Stores Equipment	0	0	0	0	0
Tools, Shop and Garage Equipment	1,447,280	1,819,478	1,855,207	1,876,933	1,780,154
Laboratory Equipment	916,414	1,128,345	1,128,345	1,128,345	1,128,345
Information Systems Equipment (non-network)	6,535,837	13,507,629	19,911,876	23,087,535	25,889,370
Power-operated Equipment	0	0	0	0	0
Communication Plant and Equipment	2,494,853	3,573,290	3,206,002	4,014,311	4,073,241
Miscellaneous Equipment	327,588	372,233	376,584	392,746	416,990
A3 Regulated Distribution Services Assets – Materials and supplies (including spares)	0	0	0	0	0
A4 Regulated Distribution Services Assets – Transferred Subtransmission Assets	0	1,211,311	1,211,311	1,211,311	1,211,311
Sub-total A	120,395,678	164,855,133	184,433,205	200,775,211	211,235,320
B Distribution Connection Services Assets					
B1 Distribution Connection Services Assets – Network assets					
Poles, Towers and Fixtures (Customer)	0	0	0	0	0
Overhead Conductors and Devices (Customer)	2,788,984	3,657,696	3,891,796	4,078,497	4,243,890
Underground Conduits (Customer)	0	0	0	0	0
Underground Conductors and Devices (Customer)	0	0	0	0	0
Line Transformers (Customer)	0	0	0	0	0
Information Systems Equipment (Connection)	0	0	0	0	0
B2 Distribution Connection Services Assets – Non-network fixed assets					
Land and Land Rights (non-network)	0	0	0	0	0

ITEM	PESO				
	2011	2012	2013	2014	2015
Depreciation Category					
Structures and Improvements (non-network)	553,406	837,447	933,834	1,029,921	1,029,921
Office Furniture and Equipment	1,174,159	1,504,386	1,584,227	1,661,729	1,712,951
Transportation Equipment	1,810,954	2,322,267	2,451,272	2,539,751	2,576,662
Stores Equipment	0	0	0	0	0
Tools, Shop and Garage Equipment	588,549	758,581	775,904	793,093	767,986
Laboratory Equipment	358,547	441,464	441,464	441,464	441,464
Information Systems Equipment (non-network)	2,524,018	5,026,901	7,292,147	8,415,410	9,406,447
Power-operated Equipment	0				
Communication Plant and Equipment	961,084	1,363,874	1,196,663	1,492,621	1,513,465
Miscellaneous Equipment	128,136	145,566	147,105	152,822	161,397
B3 Distribution Connection Services Assets – Materials and supplies (including spares)	0	0	0	0	0
Sub-total B	10,887,836	16,058,182	18,714,412	20,605,308	21,854,184
C Regulated Retail Services Assets					
Meters, Instruments & Metering Transformers (Consumer Consumption Metering)	20,868,032	28,460,878	31,822,912	34,583,784	36,662,523
Land and land rights					
Structures and improvements	1,004,788	1,552,379	1,767,694	1,932,699	1,932,699
Office Furniture and Equipment	2,201,689	2,907,392	3,153,129	3,318,614	3,438,627
Transportation Equipment	3,399,499	4,348,886	4,495,106	4,569,262	4,632,047
Stores Equipment	0	0	0	0	0
Tools, Shop and Garage Equipment	1,067,013	1,349,678	1,381,309	1,397,847	1,333,978
Laboratory Equipment	674,781	830,831	830,831	830,831	830,831
Information Systems Equipment	4,742,649	9,401,961	13,610,503	15,697,383	17,538,605
Communication Plant and Equipment	1,771,303	2,533,846	2,215,300	2,726,283	2,765,009
Miscellaneous Equipment	241,072	273,797	276,657	282,376	285,235
Sub-total C	35,970,826	51,659,649	59,553,441	65,339,078	69,420,153
TOTAL	167,254,340	232,572,964	262,701,057	286,719,597	302,509,657

15a. 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.

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

17. Forecast sales of energy, including sales to CEPALCO itself, is forecast as follows:

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

	2011	2012	2013	2014	2015
Energy consumption (MWh)	862,254	892,539	956,780	990,469	1,023,082

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

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

	2011	2012	2013	2014	2015
Demand (MW)	164.61	177.42	192.42	207.42	220.62

19. The estimated price-path for the Third Regulatory Period that was determined using the afore-mentioned proposed Allowed Annual Revenue and an assumed zero X-factor and P₀-factor is demonstrated below:

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

	2012 Regulatory year	2013 Regulatory year	2014 Regulatory year	2015 Regulatory year
Maximum Annual Price (PhP/kWh)	1.6296	1.6883	1.7499	1.8138

- 19a. The applicant recognizes that the Commission will determine the actual X-factor and P₀-factor after its consideration of this application for Allowed Annual Revenue and will determine the actual price-path for the Third 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.
20. 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 (RY 2011 Application)	Illustrative Rates (2012)	Illustrative Rates (2013)	Illustrative Rates (2014)	Illustrative Rates (2015)
Customer Class					
Residential					
Distribution (PhP/kWh)	1.8814	1.9476	2.0847	2.1727	2.2355
Supply (PhP/kWh)	0.5152	0.5333	0.5708	0.5949	0.6121
Metering (PhP/kWh)	0.7146	0.7426	0.7974	0.8324	0.8578
Metering (PhP/customer/month)	5.00	5.00	5.00	5.00	5.00
Total PhP/kWh	3.1111	3.2235	3.4529	3.6000	3.7054
Total PhP/customer/month	5.00	5.0000	5.0000	5.0000	5.0000
Average PhP/kWh distribution wheeling rate	2.9752	3.2556	3.4847	3.6317	3.7368

	Current Rates (RY 2011 Application)	Illustrative Rates (2012)	Illustrative Rates (2013)	Illustrative Rates (2014)	Illustrative Rates (2015)
Commercial					
Distribution (PhP/kWh)	1.6787	1.7563	1.8854	1.9603	2.0366
Supply (PhP/kWh)	0.1357	0.1420	0.1525	0.1585	0.1647
Metering (PhP/customer/month)	183.99	312.68	337.31	351.81	366.43
Total PhP/kWh	1.8144	1.8983	2.0379	2.1189	2.2013
Total PhP/customer/month	183.99	312.68	337.31	351.81	366.43
Average PhP/kWh distribution wheeling rate	1.9962	2.2091	2.3716	2.4658	2.5617
Industrial					
Distribution (PhP/kWh)	0.2128	0.2023	0.1951	0.1909	0.1917
Distribution demand charge (PhP/kW)	402.90	263.71	260.49	251.66	254.55
Supply (PhP/customer/month)	1,749.33	1,878.38	2,030.91	2,111.73	2,204.14
Metering (PhP/customer/month)	6,377.26	7,095.27	7,671.44	7,976.74	8,325.80
Total PhP/kWh	0.2128	0.2023	0.1951	0.1909	0.1917
Total PhP/kW	402.90	263.71	260.49	251.66	254.55
Total PhP/customer/month	8,126.59	8,973.65	9,702.35	10,088.47	10,529.94
Average PhP/kWh distribution wheeling rate	1.3374	1.3040	1.2580	1.2309	1.2358
Bulk Power (69kV)					
Distribution (PhP/kWh)	0.0929	0.0880	0.0838	0.0878	0.0918
Distribution demand charge (PhP/kW)	266.51	266.80	286.76	298.05	309.42
Supply (PhP/customer/month)	3,031.65	3,478.66	3,606.84	3,870.72	4,144.77
Metering (PhP/customer/month)	25,119.82	28,823.72	29,885.81	32,072.23	34,342.95
Total PhP/kWh	0.0929	0.0880	0.0838	0.0878	0.0918
Total PhP/kW	266.51	266.80	286.76	298.05	309.42
Total PhP/customer/month	28,151.47	32,302.39	33,492.65	35,942.95	38,487.72
Average PhP/kWh distribution wheeling rate	0.8462	0.8100	0.7719	0.8084	0.8456
Bulk Power (138kV)					
Distribution (PhP/kWh)	0.0736	0.0765	0.0840	0.0892	0.0945
Distribution demand charge (PhP/kW)	53.80	59.45	65.38	69.46	73.65
Supply (PhP/customer/month)	4,756.68	3,288.55	3,653.28	3,920.55	4,198.12
Metering (PhP/customer/month)	35,232.44	24,358.09	27,059.60	29,039.26	31,095.24
Total PhP/kWh	0.0736	0.0765	0.0840	0.0892	0.0945
Total PhP/kW	53.80	59.45	65.38	69.46	73.65
Total PhP/customer/month	39,989.12	27,646.64	30,712.87	32,959.81	35,293.36
Average PhP/kWh distribution wheeling rate	0.1744	0.2107	0.2314	0.2456	0.2602
Streetlights					
Distribution (PhP/kWh)	1.3893	1.4505	1.5571	1.6190	1.6820
Supply (PhP/kWh)	0.0092	0.0096	0.0103	0.0107	0.0112
Metering (PhP/customer/month)					

	Current Rates (RY 2011 Application)	Illustrative Rates (2012)	Illustrative Rates (2013)	Illustrative Rates (2014)	Illustrative Rates (2015)
Total PhP/kWh	1.3893	1.4601	1.5675	1.6298	1.6931
Total PhP/customer/month					
Average PhP/kWh distribution wheeling rate	1.3204	1.4601	1.5675	1.6298	1.6931

21. 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. 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	17.91	19.35	20.80	29.48	35.26
Customer average interruption duration index (CAIDI)	Minutes	0.20	48.56	49.06	49.56	52.56	54.56
Planned system average interruption duration index (SAIDI)	Minutes	0.15	206.93	232.12	257.31	408.45	509.21
Probability of voltage levels falling within prescribed limits	%	0.10	4.45%	4.72%	5.00%	6.10%	7.21%
System losses	%	0.05	6.50%	7.50%	8.50%		
Average time to process applications for Regulated Distribution Services	Days	0.10	3.04	3.18	3.33	3.91	4.48
Average time to connect premises to the Regulated Distribution System	Days	0.10	2.33	2.43	2.54	2.95	3.36
Average time to answer calls at call centre	Seconds	0.10	139	154	169	184	199

22. 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	Penalty level (PhP)
Customer experiencing a total duration of sustained service interruptions in a Regulatory Year that exceeds the threshold	30 hours	220.23
Customer experiencing a number of sustained service interruptions in a Regulatory Year that exceeds the threshold	30 hours	220.23
Restoration of supply to a customer after a fault on the secondary distribution network taking longer than the threshold time	12 hours	220.23
Customer connection not provided on the day agreed with the customer	As agreed with customers	220.23 per day of delay

22a. The applicant will be entitled to an additional revenue amount equal to 0.5% of its Annual Revenue Requirement (excluding any provision for under/over-recovery, or regulatory intervention, or efficiency carry-over from the Second Regulatory Period), 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.

23. 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.

24. 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 estimated 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 Third 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 Third Regulatory Period.
A3.1	- Schedule of assets to be acquired
A3.2	- Value of the assets to be acquired

Schedule	Information provided
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 Third 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 Third Regulatory Period, for
A6.1	- Assets included in the Original Regulatory Asset Base
A6.2	- Assets acquired in the lead-up to the Third 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 Third Regulatory Period, for
A7.1	- Assets included in the Original Regulatory Asset Base
A7.2	- Assets acquired in the lead-up to the Third Regulatory Period
A8	Application of the construction work in progress (CWIP) factor to the Regulatory Asset Base as at the start of the Third Regulatory Period.
A9	Summary of the estimated optimized depreciated replacement cost (ODRC) and the depreciated historical cost of the full Regulatory Asset Base as at the start of the Third Regulatory Period (the opening value of the rolled-forward Regulatory Asset Base).
B	Financial indices forecast for Third 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 Third Regulatory Period
C1	Summary of capital expenditure forecasts for each year of the Third 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 Third 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 Third Regulatory Period
E1	Depreciation of the opening asset base
E1.1	- ODRC basis
E1.2	- Historical cost basis

Schedule	Information provided
E2 E2.1 E2.2	Depreciation of the assets forecast to be acquired during the Third Regulatory Period - ODRC basis - Historical cost basis
F F1 F2	Forecast assets used beyond standard lives Forecast addition to assets used beyond standard lives Forecast removal from assets used beyond standard lives
G G1 G1.1 G1.2 G1.3 G1.4 G2 G3 G3.1 G3.2 G3.3 G3.4	Forecast operating & maintenance expenditure Summary of forecast operating & maintenance expenditure - 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 Historical operating & maintenance expenditure Summary of expenditure on taxes (other than corporate income tax), duties and levies - Annual expenditure, in real PhP - Annual expenditure, in nominal PhP - Justification for expenditure - Historical taxes, levies & duties
H H1 H1.1 H1.2 H2 H2.1 H2.2 H3	Forecast energy consumption and demand Forecast energy consumption figures (kWh) - Breakdown of consumption figures into customer classes - Supporting evidence Forecast energy demand figures (MW) - Breakdown of demand figures into customer classes - Supporting evidence Forecast customer numbers, per customer class
I I1 I2 I3	Carry-overs from the Second Regulatory Period Under- or over recovery of revenue to which the regulated entity was entitled in terms of the RDWR, but was unable to recover or return during the first three Regulatory Years of the Second Regulatory Period Regulatory interventions applied by the Commission in its Final Determination on the price-control arrangements that would apply to the electricity distribution wheeling rates for the regulated entity during the Second Regulatory Period. Efficiency carry-over as described in Article IX of the RDWR
J J1 J1.1 J1.2 J1.3	Performance incentive scheme details Price-linked incentive scheme - Details of scheme proposed - Proposed target levels - Actual performance levels against the proposed indices for the five

Schedule	Information provided
J1.4	years prior to this Application - Supporting information & calculations
J2	Guaranteed service level scheme
J2.1	- Details of scheme proposed
J2.2	- Proposed target levels
J2.3	- Actual performance levels against the proposed indices for the five years prior to this Application
J2.5	- Proposed penalty levels
J2.6	- Supporting information & calculations
K	Additional information for price-cap model
K1	Contact details for input sheets
L	Detailed calculations for Third 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 Third Regulatory Period
M	Calculation of demonstrative unbundled rates
N	Overview of performance of the network and the utility during the Second Regulatory Period (to date)

25. 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, CEPALCO 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.

Cagayan de Oro City, Philippines, June 15, 2010.

JOSE EDGARDO Y. UY
1882321, 16 November 2009
Cagayan de Oro City
IBP Lifetime Member No. 08494
Misamis Oriental Chapter
Roll of Attorneys No. 34276
MCLE Compliance No. III-0001117

ISIDRO O. BACULIO, JR.
PTR No. 1610050, 4 January 2010
Cagayan de Oro City
IBP Lifetime Member No. 08493
Misamis Oriental Chapter
Roll of Attorneys No. 38265
MCLE Compliance No. III-0001041

ROEL O. CAMORRO
PTR No. 1882322, 16 November 2009
Cagayan de Oro City
IBP Lifetime Member No. 08495
Misamis Oriental Chapter
Roll of Attorneys No. 53085
MCLE Compliance No. III-0004920

(Counsels for Applicant)

Address: CEPALCO Bldg., 44 Toribio Chaves St., Cagayan de Oro City

VERIFICATION/CERTIFICATION

CONSUELO G. TION, of legal age, Filipino and with office address at Cagayan de Oro City, after having been duly sworn in accordance with law, hereby deposes and states:
That -

1. She is the President and Chief Operating Officer of Cagayan Electric Power and Light Co., Inc. (CEPALCO), who had caused the preparation of the foregoing Application, and she is duly authorized to file the same as per Board Resolution Certification hereto attached as Annex "A".

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

3. CEPALCO 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 Commission within five (5) days therefrom.

IN WITNESS WHEREOF, I have hereunto affixed my signature this ___ day of June 2010 in Cagayan de Oro City, Philippines.

CONSUELO G. TION

SUBSCRIBED AND SWORN to before me this ___ day of June 2010, at Cagayan de Oro City, affiant exhibiting to me her Community Tax Certificate No. **23471850** issued at Cagayan de Oro City on **January 15, 2010**.

Doc. No. _____;
Page No. _____;
Book No. _____;
Series of 2010.

ROEL O. CAMORRO
PTR No. 1882322, 16 November 2009
Cagayan de Oro City
IBP Lifetime Member No. 08495
Misamis Oriental Chapter
Roll of Attorneys No. 53085
MCLE Compliance No. III-0004920