

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 FOR THE THIRD  
REGULATORY PERIOD (2011 TO  
2015) IN ACCORDANCE WITH THE  
PROVISIONS OF THE RULES FOR  
SETTING DISTRIBUTION WHEELING  
RATES (RDWR), AS AMENDED.**

**ERC CASE NO. 2010-\_\_\_\_\_ RC**

**MANILA ELECTRIC COMPANY,**  
*Applicant.*  
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**APPLICATION**

Applicant **MANILA ELECTRIC COMPANY (MERALCO)** through the undersigned counsel, and unto this Honorable Commission, most respectfully states that:

1. Applicant is a corporation duly organized and existing under the laws of the Philippines, with principal office at Lopez Building, MERALCO Center, Ortigas Avenue, Pasig City. It may be served with summons and other legal processes through its counsel at the address indicated herein.

2. Applicant is a grantee of a legislative franchise (Republic Act No. 9209) authorizing it to construct, operate and maintain a distribution system for the conveyance of electric power to the end-users in the cities/municipalities of Metro Manila, Bulacan, Cavite, Rizal and certain cities/municipalities/barangays in Batangas, Laguna, Quezon and Pampanga.

## **I. BACKGROUND – SECOND REGULATORY PERIOD**

3. Applicant entered Performance-Based Regulation (PBR) at the Second Regulatory Period as part of the First Entry Group. The Second Regulatory Period commenced on 1 July 2007 and will terminate on 30 June 2011.

4. Applicant's revenue application for the Second Regulatory Period under PBR was filed before the Honorable Commission on 1 September 2006 (ERC Case No. 2006-045 RC) and approved, with modification, in a Decision dated 30 August 2007, attaching thereto the Honorable Commission's Final Determination on the Price Control Arrangements for the Second Regulatory Period.

5. From the commencement of the Second Regulatory Period up to the date of this Application, Applicant has operated its electricity distribution network efficiently and in accordance with the Honorable Commission's rules and guidelines.

### **a. Capital Investment**

During the Second Regulatory Period, Applicant embarked on the Capital Expenditure (CAPEX) Program approved under the Final Determination. The approved CAPEX program and the emergency CAPEX projects,<sup>1</sup> which Applicant was constrained to undertake, served to maintain the integrity and efficiency of Applicant's distribution system, while providing additional capacity to meet existing and future demand.

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<sup>1</sup> These emergency projects were duly approved by the Honorable Commission in its Decision dated 19 April 2010 in ERC Case No. 2009-068 MC.

From July 2007 up to May 2010, Applicant completed the following major projects:<sup>2</sup>

- (a) Development of four (4) new substations with a total additional capacity of 499 MVA;
- (b) Expansion of sixteen (16) existing substations with a total additional capacity of 1,040 MVA;
- (c) Construction of one (1) 115kV sub-transmission line
- (d) Construction of fifty-two (52) new distribution feeders related to various substation projects;
- (e) Replacement of two (2) defective power transformers; and
- (f) SCADA Distribution Automation System and Network Control.

For the remainder of the Second Regulatory Period, Applicant expects to complete the following major projects:

- (a) Development of six (6) new substations with a total additional capacity of 1,382 MVA;
- (b) Construction of sixteen (16) new distribution feeders related to the substation projects; and
- (c) Construction of three (3) new sub-transmission lines and uprating of one (1) existing sub-transmission line.

## **b. Operating Performance**

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<sup>2</sup> The enumeration includes projects duly approved by the Honorable Commission in its Decision dated 19 April 2010 in ERC Case No. 2009-068 MC, which were constructed to meet emergency conditions. See note 1.

Applicant's operating and maintenance expenditure (OPEX) during the Second Regulatory Period showed operational efficiencies and productivity improvements.

**c. System Performance**

The approved CAPEX in the Second Regulatory Period allowed the Applicant to augment the capacity of its network to meet demand growth and connect new customers and to improve the quality, efficiency, and reliability of its electric service.

Interruption Frequency Rate (IFR) has reached a low of 6.01 times in 2009, from 7.77 times in 2007. The average duration of forced interruptions a customer experienced, measured in Cumulative Interruption Time (CIT), also dropped from 4.79 hours in 2007 to 4.17 hours in 2009 - equivalent to around 13% improvement.

Likewise, system loss levels dropped during the Second Regulatory Period. For the second straight year, system loss levels were below the 9.5% cap prescribed under Republic Act No. 7832.

**d. Performance against Price-Linked Performance Indices**

During the first three years of the Second Regulatory Period, Applicant exceeded the targets for four (4) (*i.e.* Cumulative Interruption Time (pre-arranged), Voltage Violation Probability, System Loss and Call Center Performance) out of its eight (8) performance indicators. Likewise, Applicant's performance for the rest of its indicators (*i.e.*, IFR, Forced CIT, Time to Process Applications, and Time to Connect Premises) was well within the standards set under the Final Determination.

#### **e. GSL Scheme**

The Guaranteed Service Level (GSL) scheme requires the Applicant to provide pay-outs to directly compensate a customer if certain service delivery performance standards are not met.

Applicant's over-all performance in the GSL indicators during the Second Regulatory Period improved substantially. This was brought about by increased awareness by the Distribution Utility personnel of the impact on the GSLs of customer service initiatives, improvements in the IFR and CIT, as well as the reduction of the secondary distribution line outages due to pilferage. Supporting information systems were likewise developed to provide line organizations with regular reports on the GSL levels.

Although there was general improvement in performance, certain service level commitments were not met, which necessarily resulted in GSL payouts. For the entitled customers, the Applicant had already provided their corresponding GSL payout. Thus, for RY2008, the GSL payout was started in September 2009 while for RY2009, the payout was started in March 2010. Total pay-outs amounted to Php99.9 M and Php66.0 M for RY2008 and RY 2009, respectively.

## **II. THE INSTANT APPLICATION – THIRD REGULATORY PERIOD**

6. Applicant will continue operating under PBR, entering the Third Regulatory Period as part of the First Entry Group.<sup>3</sup> This Third Regulatory Period will commence on 1 July 2011 and terminate on 30 June 2015.

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<sup>3</sup> The entry group was originally described in Annex B of ERC Resolution No. 12-02 Series of 2004 entitled, "Adopting a Methodology for Setting Distribution Wheeling Rates", dated 10 December 2004, and later amended by the Honorable Commission to provide for four entry points.

7. The filing of this Application for the approval of the Annual Revenue Requirement (ARR) and Performance Incentive Scheme (PIS) required for the Third Regulatory Period is in accordance with the Honorable Commission's Amended Rules for Setting Distribution Wheeling Rates for Privately Owned Distribution Utilities entering Performance Based Regulation - First Entry Group: Third Regulatory Period (Amended RDWR), the implementing guidelines 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 (Position Paper), both dated 1 December 2009 and its financial spreadsheet model titled "Commission-MODEL-GroupA-3rd Period-V1.0.xls (Price-Cap Model)".

a. Applicant proposes that the Annual Revenue Requirement and Performance Incentive Scheme values approved form the basis of the X-factor, P<sub>0</sub>-factor and the Maximum Annual Prices that will apply to Applicant and on which it will base its rate setting for the Third Regulatory Period.

### **The Annual Revenue Requirement (ARR)**

8. Under the Amended RDWR,<sup>4</sup> the ARR is composed of the following financial Building Blocks:

- Return 'on' Capital
- Operating and Maintenance Expenditures
- Taxes other than Corporate Income Tax
- Regulatory Depreciation
- Corporate Income Tax

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<sup>4</sup> Amended RDWR, Article 4.7.1.

a. For this Application, the Corporate Income Tax component of the Building Block is set to zero.

b. As prescribed under the Amended RDWR,<sup>5</sup> included in the proposed Annual Revenue Requirement are allowances for under- or over-recoveries carried over from the Second Regulatory Period, allowances for regulatory interventions imposed by the Honorable Commission during the Second Regulatory Period, where applicable, and provision for an efficiency carry-over calculated in accordance with pertinent rules and regulations.

c. The proposed ARR for each Regulatory Year based on the Building Block computation under the Amended RDWR is set forth below:

**Table 1. Annual Revenue Requirement as per Building Block approach<sup>6</sup>**

Building Block	Proposed Revenue Requirement per Regulatory Year (Nominal PhP)			
	2012	2013	2014	2015
Operating Maintenance and Expenditure	16,511,603,512	18,013,813,375	19,641,402,246	21,453,829,482
Other Taxes, Levies & Duties	605,040,958	560,903,077	704,685,126	664,452,324
Regulatory Depreciation	6,239,990,531	6,823,430,225	7,300,936,772	7,612,885,418
Return on Capital	23,874,567,586	24,665,247,095	25,289,160,006	25,815,800,700
<b>Revenue Requirement Subtotal</b>	<b>47,231,202,586</b>	<b>50,063,393,772</b>	<b>52,936,184,151</b>	<b>55,546,967,924</b>
Allowance for Under/Over Recovery	4,777,417,926	4,876,747,498	5,105,954,630	5,345,934,498
Allowance for Regulatory Intervention	-	-	-	-
Efficiency Carry Over	-	-	-	-
<b>TOTAL REVENUE REQUIREMENT</b>	<b>52,008,620,512</b>	<b>54,940,141,270</b>	<b>58,042,138,781</b>	<b>60,892,902,421</b>

9. The afore-mentioned Annual Revenue Requirement is based on a proposed rolled-forward value of Applicant's Regulatory Asset Base (RAB). Pursuant to the instructions issued by the Honorable Commission in its letter

<sup>5</sup> Amended RDWR, Article 6.4.2.

<sup>6</sup> The meaning and application of these parameters are as described in the Amended RDWR.

dated 12 April 2010<sup>7</sup> and consistent with the method described in Article 4.9 of the Amended RDWR, the estimated opening value of the Regulatory Asset Base for RY 2011 is based on the value of the Regulatory Asset Base on 31 March 2010 adjusted to the 30 June 2011 value.

10. Further, as instructed in the Commission's letter dated 12 April 2010, the 31 March 2010 value of the Regulatory Asset Base used in this Application is an interim value only, to be updated not later than 31 July 2010, applying the Honorable 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 as of the date of this Application, is still subject to public consultation.

The Regulatory Asset Base likewise includes assets put in service during the Second Regulatory Period and approved by this Honorable Commission in its Decision dated 19 April 2010 in ERC Case No. 2009-068 MC,<sup>8</sup> as well as a 25% contingency margin as prescribed by the Honorable Commission for purposes of the reset filing.

**Table 2. Summary of proposed Rolled-forward Regulatory Asset Base**

Item	Rolled-forward Regulatory Asset Base (Nominal PhP)			
	2012	2013	2014	2015
Opening Value of RAB	155,241,323,783	161,256,029,889	165,629,477,092	169,409,822,803
Capital Expenditure (with CWIP)	12,254,696,637	11,196,877,427	11,081,282,484	10,672,119,620
Regulatory Depreciation	(6,239,990,531)	(6,823,430,225)	(7,300,936,772)	(7,612,885,418)

<sup>7</sup> A copy of the letter dated 12 April 2010 is attached hereto as Annex "B" and made an integral part hereof.

<sup>8</sup> Entitled, "*In the Matter of the Application for Authority to Implement the Following Electric Capital Projects: (1) Replacement of Power Transformer Bank no. 1 at Sta. Mesa Substation; (2) Replacement of Power Transformer Bank no. 5 at Balintawak Substation (3) Uprating of Power Transformer Bank no. 1 at Sta. Rosa substation; (4) Expansion of the First Philippine Industrial Park (FPIP) 115kV – 34.5kV Substation, and (5) Construction of Laguna International Industrial Park-ROHM Electronics Philippines, Inc. (LIIP-ROHM) 115kV Line, with Prayer for Provisional Authority.*"

Closing Value of RAB	161,256,029,889	165,629,477,092	169,409,822,803	172,469,057,005
<b>AVERAGE VALUE OF RAB</b>	<b>158,248,676,836</b>	<b>163,442,753,490</b>	<b>167,519,649,947</b>	<b>170,939,439,904</b>

11. For the calculation of the above-mentioned Annual Revenue Requirement and rolled-forward Regulatory Asset Base, and pursuant to the instruction of the Honorable Commission, Applicant has applied the following 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 <sub>0</sub> -factor	5/19/2010	0.000 PhP/kWh
X-factor	-	0.0095
Working-capital proportion	5/19/2010	4.90%

12. In calculating the afore-mentioned Annual Revenue Requirement for the Third Regulatory Period, 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 as follows:<sup>9</sup>

**Table 4a. Forecast Change in the Consumer Price Index for the Philippines**

	2010	2011	2012	2013	2014	2015
<b>Calendar Year</b>	5.0%	4.5%	4.6%	4.7%	4.7%	4.7%
<b>Regulatory Year</b>		5.3%	4.0%	4.7%	4.7%	4.7%
<b>Data Source</b>	Meralco's Market Aggregate Forecast, March 2010					

**Table 4b. Forecast Change in the Consumer Price Index for the USA**

	2010	2011	2012	2013	2014	2015
<b>Calendar Year</b>	1.8%	1.5%	2.0%	2.5%	2.5%	2.5%
<b>Regulatory Year</b>		1.6%	1.6%	2.3%	2.5%	2.5%
<b>Data Source</b>	Meralco's Market Aggregate Forecast, March 2010					

<sup>9</sup> The figures provided are for calendar years, which were then converted to regulatory years.

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

	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>
<b>Calendar Year</b>	48.0	47.5	47.0	46.8	46.6	46.6
<b>Regulatory Year</b>		48.4	47.3	46.9	46.7	46.6
<b>Data Source</b>	Meralco's Market Aggregate Forecast, March 2010					

a. For purposes of the initial and subsequent annual price resets during the Third Regulatory Period as required under the Amended RDWR, Applicant will update the afore-mentioned Consumer Price Indices and foreign exchange rates using actual values.

13. The afore-mentioned Annual Revenue Requirement is partly 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 approved by the Honorable Commission in its Final Determination on the price control arrangements for utilities entering Performance Based Regulation at the Third Entry Point. However, the Commission will revise the actual Weighted Average Cost of Capital that will apply to its Final Determination of the price control arrangements for the Third Regulatory Period for the First Entry Group and this may differ from the figure used in this Application.

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

15. The proposed Capital Expenditure included in the afore-mentioned calculation of the rolled-forward Regulatory Asset Base is as follows:

**Table 5a. Proposed Capital Expenditure per Regulatory Year  
(PhP, Nominal)**

<b>CAPEX Category and Sub-category</b>				
	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>
<b>A REGULATED DISTRIBUTION SERVICES ASSETS</b>				
<b>A1. Regulated Distribution Services Assets - Network Assets</b>				
Land and Land Rights (Distribution Purposes)	26,797,793	244,067,426	1,759,060	1,841,735
Structures and Improvements (Distribution Purposes)	159,609,885	133,073,167	176,978,304	198,062,100
Station Equipment	-	-	-	-
Power transformers	829,202,157	722,225,067	489,609,339	768,998,613
Switchgear	443,611,486	283,591,153	428,668,910	507,696,857
Protective equipment	141,049,416	191,199,254	160,653,715	182,938,914
Metering & control equipment	395,172,674	355,470,001	384,351,531	415,660,302
Communications equipment	143,708,693	88,661,193	39,584,944	93,451,717
Other station equipment	96,420,445	208,807,406	109,636,326	123,793,205
Poles, Towers and Fixtures - Distribution	1,644,122,136	1,528,303,119	1,773,125,624	1,624,396,210
Overhead Conductors and Devices - Distribution	753,496,718	577,059,924	680,625,402	651,512,006
Underground Conduits - Distribution	175,160,595	142,068,848	163,780,195	159,052,273
Underground Conductors and Devices - Distribution	167,416,191	70,035,555	106,245,625	80,182,213
Distribution Transformers	1,743,555,487	1,865,528,054	1,970,013,201	1,955,175,596
Power Conditioning Equipment	90,603,478	93,965,127	95,925,174	99,915,526
Meters, Metering Instruments & Metering Transformers - Distribution	3,706,281	3,872,492	4,989,808	5,098,918
Information technology equipment (Distribution)	676,957,519	799,375,720	257,259,145	115,355,270
Regulated Entity Property on Consumer's Premises	-	-	-	-
Street Lights and Signal Systems	141,861,555	148,312,734	154,127,133	176,649,292
Submarine Cables	-	-	-	-
<b>A2. Regulated Distribution Services Assets - Non-Network Assets</b>				
Land and Land Rights (Non-Network)	569,393,243	-	-	-
Structures and Improvements (Non-Network)	399,494,192	132,677,116	151,505,294	109,223,682

<b>CAPEX Category and Sub-category</b>				
	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>
Office Furniture and Equipment	14,144,696	14,798,302	15,495,366	16,225,264
Transportation Equipment	257,866,851	310,952,892	326,460,456	367,905,789
Stores Equipment	-	-	-	-
Tools, Shop and Garage Equipment	117,253,622	105,006,314	105,593,967	109,937,432
Laboratory Equipment	69,849,011	46,258,372	22,701,886	23,724,863
Information Systems Equipment (Non-Network)	184,722,848	241,413,979	340,556,634	100,328,217
Power-operated Equipment	-	-	-	-
Communication Plant and Equipment	70,400,455	56,017,339	48,726,932	24,039,085
Miscellaneous	7,191,202	4,479,075	2,495,088	1,269,288
<b>A3. Regulated Distribution Services Assets</b>				
Materials and supplies (including spares)	110,932,373	21,901,770	22,527,786	23,292,105
<b>A4. Regulated Distribution Services Assets</b>				
Transferred subtransmission assets	-	-	-	-
<b>Subtotal A</b>	<b>9,433,701,002</b>	<b>8,389,121,398</b>	<b>8,033,396,844</b>	<b>7,935,726,474</b>
<b>B DISTRIBUTION CONNECTION SERVICES ASSETS</b>				
<b>B1. Distribution Connection Services Assets - Network Assets</b>				
Poles, Towers and Fixtures (Customer)	3,016,086	3,154,824	3,303,099	3,458,342
Overhead Conductors and Devices (Customer)	513,065,417	538,762,728	564,107,110	570,600,028
Underground Conduits (Customer)	-	-	-	-
Underground Conductors and Devices (Customer)	69,959,468	75,306,579	80,745,708	86,500,786
Line Transformers (Customer)	129,635,343	140,370,997	151,762,038	163,895,864
Information Systems Equipment (Connection)	-	-	-	-
<b>B2. Distribution Connection Services Assets - Non-Network Fixed Assets</b>				
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	-	-	-	-

<b>CAPEX Category and Sub-category</b>				
	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>
Information Systems Equipment (non-network)	8,402,145	10,123,946	24,984,655	2,018,616
Power-operated Equipment	-	-	-	-
Communication Plant and Equipment	-	-	-	-
Miscellaneous Equipment	-	-	-	-
<b>B3. Distribution Connection Services Assets</b>				
Materials and supplies (including spares)	-	-	-	-
<b>Subtotal B</b>	<b>724,078,459</b>	<b>767,719,072</b>	<b>824,902,610</b>	<b>826,473,636</b>
<b>C REGULATED RETAIL SERVICES ASSETS</b>				
Meters, Instruments & Metering Transformers (Consumer Consumption Metering)	993,412,045	1,182,773,166	1,233,332,679	1,284,080,128
Land and land rights	67,996,204	29,121,650	60,980,734	15,961,707
Structures and improvements	251,539,464	249,459,241	248,606,281	147,121,626
Office Furniture and Equipment	9,620,769	9,615,736	10,304,065	10,296,484
Transportation Equipment	7,826,567	7,614,427	4,428,781	5,911,662
Stores Equipment	-	-	-	-
Tools, Shop and Garage Equipment	-	-	-	-
Laboratory Equipment	24,076,189	18,219,862	25,997,363	3,828,365
Information Systems Equipment	435,037,331	253,779,417	375,373,831	172,705,393
Communication Plant and Equipment	35,205,662	41,837,261	7,724,064	2,408,315
Miscellaneous Equipment	-	-	-	-
<b>Subtotal C</b>	<b>1,824,714,231</b>	<b>1,792,420,760</b>	<b>1,966,747,798</b>	<b>1,642,313,681</b>
<b>TOTAL</b>	<b>11,982,493,692</b>	<b>10,949,261,231</b>	<b>10,825,047,252</b>	<b>10,404,513,791</b>

**Table 5b. Proposed Capital Expenditure per Regulatory Year  
(PhP, Nominal with CWIP Factor)**

<b>CAPEX Category and Sub-category</b>				
	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>
<b>A REGULATED DISTRIBUTION SERVICES ASSETS</b>				
<b>A1. Regulated Distribution Services Assets - Network Assets</b>				
Land and Land Rights (Distribution Purposes)	26,797,793	244,067,426	1,759,060	1,841,735
Structures and Improvements (Distribution Purposes)	164,366,259	137,038,748	182,252,257	203,964,350
Station Equipment	-	-	-	-
Power transformers	864,028,648	752,558,520	510,172,931	801,296,555

<b>CAPEX Category and Sub-category</b>				
	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>
Switchgear	462,243,169	295,501,981	446,673,004	529,020,124
Protective equipment	146,973,491	199,229,622	167,401,171	190,622,349
Metering & control equipment	411,769,927	370,399,741	400,494,295	433,118,034
Communications equipment	149,744,458	92,384,963	41,247,511	97,376,689
Other station equipment	100,470,103	217,577,317	114,241,052	128,992,520
Poles, Towers and Fixtures - Distribution	1,693,116,976	1,573,846,551	1,825,964,767	1,672,803,217
Overhead Conductors and Devices - Distribution	775,950,920	594,256,310	700,908,039	670,927,064
Underground Conduits - Distribution	180,380,381	146,302,499	168,660,845	163,792,031
Underground Conductors and Devices - Distribution	172,405,194	72,122,615	109,411,744	82,571,643
Distribution Transformers	1,795,513,441	1,921,120,790	2,028,719,594	2,013,439,829
Power Conditioning Equipment	93,303,462	96,765,288	98,783,745	102,893,009
Meters, Metering Instruments & Metering Transformers - Distribution	3,816,728	3,987,892	5,138,504	5,250,866
Information technology equipment (Distribution)	676,957,519	799,375,720	257,259,145	115,355,270
Regulated Entity Property on Consumer's Premises	-	-	-	-
Street Lights and Signal Systems	146,089,029	152,732,454	158,720,122	181,913,441
Submarine Cables	-	-	-	-
<b>A2. Regulated Distribution Services Assets - Non-Network Assets</b>				
Land and Land Rights (Non-Network)	569,393,243	-	-	-
Structures and Improvements (Non-Network)	411,399,119	136,630,894	156,020,152	112,478,548
Office Furniture and Equipment	14,144,696	14,798,302	15,495,366	16,225,264
Transportation Equipment	257,866,851	310,952,892	326,460,456	367,905,789
Stores Equipment	-	-	-	-
Tools, Shop and Garage Equipment	117,253,622	105,006,314	105,593,967	109,937,432
Laboratory Equipment	69,849,011	46,258,372	22,701,886	23,724,863
Information Systems Equipment (Non-Network)	184,722,848	241,413,979	340,556,634	100,328,217
Power-operated Equipment	-	-	-	-

<b>CAPEX Category and Sub-category</b>				
	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>
Communication Plant and Equipment	70,400,455	56,017,339	48,726,932	24,039,085
Miscellaneous	7,191,202	4,479,075	2,495,088	1,269,288
<b>A3. Regulated Distribution Services Assets</b>				
Materials and supplies (including spares)	110,932,373	21,901,770	22,527,786	23,292,105
<b>A4. Regulated Distribution Services Assets</b>				
Transferred subtransmission assets	-	-	-	-
<b>Subtotal A</b>	<b>9,677,080,917</b>	<b>8,606,727,374</b>	<b>8,258,386,054</b>	<b>8,174,379,318</b>
<b>B DISTRIBUTION CONNECTION SERVICES ASSETS</b>				
<b>B1. Distribution Connection Services Assets - Network Assets</b>				
Poles, Towers and Fixtures (Customer)	3,105,965	3,248,837	3,401,531	3,561,401
Overhead Conductors and Devices (Customer)	528,354,766	554,817,857	580,917,502	587,603,908
Underground Conduits (Customer)	-	-	-	-
Underground Conductors and Devices (Customer)	72,044,260	77,550,715	83,151,930	89,078,509
Line Transformers (Customer)	133,498,477	144,554,052	156,284,547	168,779,961
Information Systems Equipment (Connection)	-	-	-	-
<b>B2. Distribution Connection Services Assets - Non-Network Fixed Assets</b>				
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)	8,402,145	10,123,946	24,984,655	2,018,616
Power-operated Equipment	-	-	-	-
Communication Plant and Equipment	-	-	-	-
Miscellaneous Equipment	-	-	-	-
<b>B3. Distribution Connection Services Assets</b>				
Materials and supplies (including spares)	-	-	-	-
<b>Subtotal B</b>	<b>745,405,613</b>	<b>790,295,407</b>	<b>848,740,165</b>	<b>851,042,396</b>
<b>C REGULATED RETAIL SERVICES ASSETS</b>				

<b>CAPEX Category and Sub-category</b>				
	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>
Meters, Instruments & Metering Transformers (Consumer Consumption Metering)	993,412,045	1,182,773,166	1,233,332,679	1,284,080,128
Land and land rights	67,996,204	29,121,650	60,980,734	15,961,707
Structures and improvements	259,035,340	256,893,126	256,014,748	151,505,851
Office Furniture and Equipment	9,620,769	9,615,736	10,304,065	10,296,484
Transportation Equipment	7,826,567	7,614,427	4,428,781	5,911,662
Stores Equipment	-	-	-	-
Tools, Shop and Garage Equipment	-	-	-	-
Laboratory Equipment	24,076,189	18,219,862	25,997,363	3,828,365
Information Systems Equipment	435,037,331	253,779,417	375,373,831	172,705,393
Communication Plant and Equipment	35,205,662	41,837,261	7,724,064	2,408,315
Miscellaneous Equipment	-	-	-	-
<b>Subtotal C</b>	<b>1,832,210,107</b>	<b>1,799,854,646</b>	<b>1,974,156,265</b>	<b>1,646,697,905</b>
<b>TOTAL</b>	<b>12,254,696,637</b>	<b>11,196,877,427</b>	<b>11,081,282,484</b>	<b>10,672,119,620</b>

a. The above-mentioned proposed Capital Expenditures represent an increase from current levels for the following reasons:

i. The proposed Capital Expenditures are necessary to meet expected increases in peak demand following increases in customer count and energy consumption in Applicant's franchise area; to replace and refurbish aging, obsolete, and overloaded facilities; and to comply with regulatory requirements as embodied in the EPIRA, the Philippine Grid Code, the Philippine Distribution Code, and other relevant rules and regulations with emphasis on maintaining the integrity, reliability and efficiency of the electric system, and for the continuous improvement in service quality and performance measurement for the benefit of the consumers.

*Operating & Maintenance Expenditure*

16. The proposed Operating & Maintenance Expenditures included in the afore-mentioned calculation of the Annual Revenue Requirement is provided as follows:

**Table 6. Proposed Operating & Maintenance Expenditure (per Regulatory Year)**

OPEX Category and Sub-category	Nominal PhP				
	2011	2012	2013	2014	2015
<b>A REGULATED DISTRIBUTION SERVICES</b>					
<b>A1. Distribution: Operation</b>					
Operation supervision & engineering	158,712,558	176,089,930	195,533,003	217,341,689	241,594,742
Contractor services	297,409,720	332,690,802	353,087,273	380,037,815	406,490,677
Load dispatching	269,443,837	293,545,352	320,174,360	349,655,847	381,967,422
Structures	-	-	-	-	-
Substations	51,010,347	56,458,343	62,572,352	69,449,010	77,141,868
Overhead conductors & devices	394,777,518	436,184,536	482,738,863	534,949,914	592,777,016
Underground cables & devices	-	-	-	-	-
Streetlighting and signal systems	4,775,603	5,286,955	5,858,350	6,489,953	7,195,547
Metering (distribution network)	3,394,786	3,637,091	3,903,626	4,236,520	4,619,565
Rents	38,343,712	44,076,097	50,713,957	58,407,264	67,267,646
Information technology (distribution network)	42,477,536	47,600,233	52,711,294	58,600,610	65,029,411
Miscellaneous	118,266,298	131,215,225	145,703,431	161,954,399	180,026,811
<b>A2. Distribution: Maintenance</b>					
Maintenance supervision & engineering	136,157,985	151,065,866	167,745,892	186,455,355	207,261,817
Contractor services	316,391,575	353,924,434	376,363,098	405,326,674	434,812,920
Structures	1,411,043	1,500,758	1,609,827	1,741,034	1,908,420
Substations	245,180,297	265,919,741	289,943,577	317,725,975	350,646,097
Overhead lines & Devices	284,981,447	314,099,093	345,687,961	380,656,741	420,952,312
Underground cables & devices	21,868,952	23,470,087	25,138,904	26,925,802	28,811,524
Streetlighting and signal systems	12,885,797	13,869,627	14,942,859	15,801,625	16,875,188
Distribution transformers	12,866,095	13,972,131	15,174,607	16,493,303	17,914,015
Information technology (distribution network)	9,116,157	10,201,232	11,300,934	12,563,255	13,944,836

OPEX Category and Sub-category	Nominal PHP				
	2011	2012	2013	2014	2015
Metering (distribution network)	1,398,482	1,495,978	1,603,097	1,737,835	1,893,195
Miscellaneous	126,241,105	139,680,713	154,033,932	170,102,891	188,688,725
<b>A3. Administrative &amp; General</b>					
Company Management Costs	265,617,320	293,949,904	325,682,147	361,254,538	400,785,531
Admin & general salaries	411,623,665	456,692,167	507,118,101	563,679,292	626,579,989
Office supplies & expenses	118,691	131,671	146,195	162,485	180,601
Information technology (admin & general)	202,501,731	225,849,862	247,202,441	274,537,248	307,369,467
Outside services employed	82,885,309	92,586,662	100,901,105	112,028,986	125,699,814
Property insurance	121,354,111	129,179,052	141,562,597	153,818,116	167,118,710
Injuries & damages	288,999	302,004	315,896	330,743	346,288
Employee pension & benefits	707,375,212	728,015,297	789,092,544	828,531,604	874,458,513
Regulatory liaison & compliance	119,522,935	124,901,704	130,647,444	136,788,166	143,217,534
Rents	3,032	3,485	4,010	4,619	5,319
Maintenance of office & general plant	135,078,498	147,510,532	157,324,801	168,091,770	184,387,570
Officers allowance & benefits	2,302,660	2,554,481	2,836,249	3,152,292	3,503,745
Travel	27,396,568	29,625,717	32,066,899	34,742,420	37,641,175
Training	51,487,074	54,529,175	57,814,835	61,367,300	65,152,043
Water and Electricity	414,972,116	447,124,826	484,215,725	529,926,505	573,942,402
Miscellaneous	553,468,826	613,997,545	681,724,473	757,689,706	842,166,627
<b>A4. WESM compliance (applicable to Regulated Distribution Services)</b>					
Market fees	-	-	-	-	-
Registration fees	-	-	-	-	-
Metering fees	-	-	-	-	-
Billing & settlement fees	-	-	-	-	-
Administration fees	-	-	-	-	-
Costs for the PEM board, committees & working groups	469,530	490,658	513,229	537,350	562,606
Market management software & upgrades	-	-	-	-	-
Provision and maintenance of security	-	-	-	-	-
<b>Subtotal A</b>	<b>5,643,577,126</b>	<b>6,163,428,962</b>	<b>6,735,709,889</b>	<b>7,363,296,650</b>	<b>8,060,937,691</b>
<b>B DISTRIBUTION CONNECTION SERVICES</b>					
<b>B1. Connection Services: Operation</b>					
Operation supervision & engineering	375,259,646	416,346,667	462,317,829	513,882,242	571,226,110
Contractor services	281,734,525	301,562,817	323,059,406	346,380,858	371,348,455

OPEX Category and Sub-category	Nominal PHP				
	2011	2012	2013	2014	2015
Structures	-	-	-	-	-
Substations	-	-	-	-	-
Overhead connections & devices	134,203,546	148,339,208	164,120,327	181,781,460	201,373,064
Underground cables & devices	1,639,934	1,807,209	1,993,602	2,201,792	2,432,238
Consumer installations	493,823,029	545,174,079	602,459,527	666,519,843	737,521,512
Information technology (connection assets)	9,156,654	10,162,137	11,275,283	12,532,278	13,936,210
Miscellaneous	84,272,283	93,496,332	103,816,995	115,393,280	128,266,952
<b>B2. Connection Services: Maintenance</b>					
Maintenance supervision & engineering	16,841,722	18,684,759	20,746,925	23,059,966	25,632,220
Contractor services	55,484,127	59,389,064	63,622,551	68,215,422	73,132,482
Structures	-	-	-	-	-
Substations	-	-	-	-	-
Overhead connections & devices	180,604,147	198,861,234	219,193,761	241,891,261	266,999,493
Underground cables & devices	313,610	335,681	359,610	385,570	413,363
Consumer installations	-	-	-	-	-
Distribution transformers	-	-	-	-	-
Information technology (connection assets)	1,395,676	1,548,870	1,718,724	1,910,344	2,124,233
Miscellaneous	50,635,340	56,179,383	62,382,462	69,340,262	77,077,908
<b>B3. Administrative &amp; General</b>					
Admin & general salaries	128,319,231	142,368,850	158,088,590	175,720,931	195,329,544
Office supplies & expenses	22,769	25,260	28,046	31,171	34,646
Information technology (admin & general)	49,827,442	55,572,467	60,826,469	67,552,453	75,631,127
Outside services employed	23,762,237	26,543,500	28,927,153	32,117,385	36,036,649
Property insurance	39,491,725	42,038,161	46,068,083	50,056,341	54,384,694
Injuries & damages	116,756	122,010	127,622	133,621	139,901
Employee pension & benefits	202,107,203	208,004,370	225,455,013	236,723,315	249,845,290
Regulatory liaison & compliance	60,534,026	63,258,177	66,168,186	69,278,239	72,534,481
Rents	165,490	190,231	218,879	252,083	290,324
Maintenance of office & general plant	36,252,178	39,588,670	42,222,609	45,112,233	49,485,677
Officers allowance & benefits	717,829	796,332	884,170	982,693	1,092,255
Travel	8,015,069	8,667,224	9,381,410	10,164,153	11,012,206
Training	13,097,579	13,871,446	14,707,271	15,610,968	16,573,753
Water and Electricity	60,316,943	64,990,397	70,381,626	77,025,770	83,423,560

OPEX Category and Sub-category	Nominal PHP				
	2011	2012	2013	2014	2015
<b>Subtotal B</b>	<b>2,308,110,718</b>	<b>2,517,924,538</b>	<b>2,760,552,131</b>	<b>3,024,255,936</b>	<b>3,317,298,346</b>
<b>C REGULATED RETAIL SERVICES</b>					
Administration and General Salaries	535,297,856	593,907,393	659,484,028	733,039,284	814,838,780
Office supplies & expenses	161,245	178,879	198,610	220,741	245,352
Outside services employed	110,676,738	123,630,953	134,733,228	149,592,285	167,846,940
Property insurance	68,917,518	73,361,335	80,394,004	87,353,965	94,907,429
Injuries & damages	592,928	619,609	648,111	678,573	710,465
Employee pension & benefits	894,401,942	920,499,170	997,724,959	1,047,591,523	1,105,661,295
Regulatory liaison & compliance	195,884,079	204,699,251	214,115,846	224,179,769	234,716,750
Rents	1,191,381	1,244,993	1,302,263	1,363,469	1,427,552
Maintenance of office & general plant	196,664,583	222,036,787	247,473,227	267,521,671	288,124,360
Officers allowance & benefit	2,994,505	3,321,987	3,688,413	4,099,412	4,556,462
Travel	35,069,101	37,922,533	41,047,380	44,472,193	48,182,757
Training	50,477,975	53,460,453	56,681,718	60,164,558	63,875,123
Water and Electricity	206,412,378	222,405,543	240,855,025	263,592,145	285,486,209
Planning, installation and maintenance of consumer metering installations	565,336,410	624,105,733	689,665,553	762,977,433	844,231,443
Consumer Meter Reading Expenses	295,041,399	317,708,588	342,467,923	369,548,250	398,817,402
Information technology (retail related)	299,076,840	333,865,327	364,504,188	404,747,776	453,728,103
Consumer Records, Billing and Collection Expenses	2,336,479,171	2,539,864,408	2,764,149,087	3,011,959,956	3,282,940,657
Bad debts	844,190,274	853,937,439	923,873,933	1,009,931,480	1,113,224,640
Information and Instructional Advertising Expenses	262,664,882	275,282,453	288,829,416	303,387,785	318,741,011
Energy trading expenses (excluding energy purchases)	8,247,765	9,150,810	10,161,202	11,294,527	12,554,877
Miscellaneous consumer services expenses	386,122,677	419,046,368	455,553,243	496,132,866	540,775,839
<b>Subtotal C</b>	<b>7,295,901,647</b>	<b>7,830,250,012</b>	<b>8,517,551,355</b>	<b>9,253,849,660</b>	<b>10,075,593,445</b>
<b>TOTAL</b>	<b>15,247,589,492</b>	<b>16,511,603,512</b>	<b>18,013,813,375</b>	<b>19,641,402,246</b>	<b>21,453,829,482</b>

a. The above-mentioned proposed Operating and Maintenance expenditures represent an increase from current levels for the following reasons:

i. The proposed Operating and Maintenance expenditures (OPEX) are necessary to: (i) maintain the safety, efficiency and reliability of the distribution network; (ii) support the growing asset base; (iii) allow Applicant to deliver services to its customers and support its business operations; and (iv) meet the performance targets under the Performance Incentive Scheme.

ii. The proposed OPEX will support strong growth prospects for the economy with sustained moderate growth in kWh sales throughout the Third Regulatory Period.

iii. Moreover, additional OPEX is needed, not only to meet service performance levels, but also to ensure that Applicant's reliability standards are kept at par with other power distribution utilities serving other countries in the Asian region which are the Philippines' competitors for direct foreign investment. Applicant has to meet customers' increasingly more stringent requirements, particularly those customers whose output are the main drivers of our economic growth and source of export income, such as Business Process Outsourcing companies and the semiconductor industry.

#### *Taxes other than Corporate Income Tax*

17. The proposed expenditure on Taxes, Levies & Duties (other than corporate income tax) included in the afore-mentioned calculation of the Annual Revenue Requirement is provided as follows:

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

Other Taxes, Levies & Duties	Nominal PhP				
	2011	2012	2013	2014	2015
<b>LEVIES</b>					
Regulatory reset expert fees	-	60,949,997	19,259,336	51,428,182	68,643,906
Real Property Tax	261,638,116	453,300,667	474,764,682	498,063,361	522,366,775
Fringe Benefits Tax	2,608,753	2,726,147	2,851,549	2,985,572	3,125,894
Documentary Stamp Tax	31,510,842	59,295,902	33,601,903	120,642,174	36,834,709
<b>Subtotal A</b>	<b>295,757,711</b>	<b>576,272,713</b>	<b>530,477,471</b>	<b>673,119,288</b>	<b>630,971,284</b>
<b>DUTIES</b>					
<b>Subtotal B</b>	-	-	-	-	-
<b>OTHER TAXES</b>					
Business Operation Permits	7,916,202	8,653,554	9,470,204	10,375,477	11,369,017
Environmental Permits	-	829,875	812,046	58,635	30,696
Special Permits	18,417,480	19,273,573	20,131,595	21,119,411	22,068,436
Community Tax	10,759	11,243	11,761	12,313	12,892
<b>Subtotal C</b>	<b>26,344,442</b>	<b>28,768,245</b>	<b>30,425,606</b>	<b>31,565,838</b>	<b>33,481,040</b>
<b>TOTAL</b>	<b>322,102,152</b>	<b>605,040,958</b>	<b>560,903,077</b>	<b>704,685,126</b>	<b>664,452,324</b>

a. The above-mentioned proposed taxes, levies & duties (other than corporate income taxes) expenditures show an increase from current levels due to new and additional impositions initiated by various local government units within Applicant's franchise area such as real property taxes on poles and transformers, revision of existing assessed values of real properties and changes in the schedule of fees and other permits.

### **Regulatory Depreciation**

18. The proposed Regulatory Depreciation, which includes 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 shown below. The values below include depreciation both on the assets which make up Applicant's Regulatory Asset Base at the start of the Third Regulatory Period and those that Applicant proposes to be acquired during the Third Regulatory Period. Additionally, depreciation is calculated on a straight-line

basis, based on the standard asset lives as approved by the Honorable Commission, where these are available.

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

Depreciation Category and Sub-category	Nominal PhP			
	2012	2013	2014	2015
<b>TOTAL</b>	6,239,990,531	6,823,430,225	7,300,936,772	7,612,885,418

*Corporate Income Tax*

19. For the Third Regulatory Period, the Corporate Income Tax is set to zero, thus, has no effect on the rates to consumers.

*Energy Forecasts*

20. Sales of energy, including those to Applicant, are forecasted as follows:

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

	2011	2012	2013	2014	2015
<b>Energy Consumption (MWh)</b>	28,828,174	29,863,941	30,938,016	32,061,696	33,190,873

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

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

	2011	2012	2013	2014	2015
<b>Demand (MW)</b>	5,247	5,429	5,631	5,831	6,035

22. The estimated price-path for the Third Regulatory Period, determined using the proposed Annual Revenue Requirement and an assumed zero X-factor and P<sub>0</sub>-factor, is provided below:

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

	2012 RY	2013 RY	2014 RY	2015 RY
<b>Annual Maximum Average Price (PhP/kWh)</b>	1.7056	1.7686	1.8349	1.9036

a. The Honorable Commission will determine the actual X-factor and P<sub>0</sub>-factor after its consideration of this Application and the actual price-path after incorporating such amendments to these proposals as the Honorable Commission deems necessary. Moreover, the Honorable Commission may amend one or more of the parameters on which the calculations of the proposed Annual Revenue Requirement are based. The actual approved price path is therefore likely to differ from that estimated above.

23. Since the Maximum Average Prices (MAP) calculated under PBR are not comparable with unbundled rates, Applicant, for illustrative purposes, has prepared a comparison of its current rates<sup>10</sup> for providing distribution wheeling services with those that would result from the implementation of the aforementioned estimated MAPs, which is presented below:

**Table 12. Comparison of estimated rates with current rates<sup>11</sup> (illustrative only)**

<b>Customer Class</b>	<b>Current Rates</b>	<b>Illustrative Rates (2012)</b>	<b>Illustrative Rates (2013)</b>	<b>Illustrative Rates (2014)</b>	<b>Illustrative Rates (2015)</b>
<b>MAP</b>	<b>1.6464</b>	<b>1.7056</b>	<b>1.7686</b>	<b>1.8349</b>	<b>1.9036</b>

<sup>10</sup> "Current rates" are as proposed in ERC Case No. 2010-027 RC entitled, "*In the Matter of the Application for Approval of: a.) Maximum Average Price (MAP) for the Regulatory Year 2011; and b.) Translation of the Maximum Average Price for Regulatory Year 2011 (RY2011) into a Distribution Rate Structure for its Various Customer Classes, with Prayer for the Issuance of a Provisional Authority.*"

<sup>11</sup> *Ibid.*

Customer Class	Current Rates	Illustrative Rates (2012)	Illustrative Rates (2013)	Illustrative Rates (2014)	Illustrative Rates (2015)
<b>Residential &amp; General Service A (GS-A)</b>					
Distribution (PhP/kWh) Average	1.6192	1.6770	1.7385	1.8034	1.8711
Up to 200 kWh	0.9300	0.9630	0.9982	1.0354	1.0743
201-300 kWh	1.3383	1.3860	1.4368	1.4904	1.5464
301-400	1.7235	1.7851	1.8506	1.9197	1.9917
401 & Over	2.3943	2.4800	2.5712	2.6673	2.7673
Supply (PhP/kWh)	0.6349	0.6577	0.6820	0.7076	0.7341
Supply (PhP/Customer/Month)	21.12	21.88	22.69	23.54	24.42
Metering (PhP/kWh)	0.4546	0.4709	0.4883	0.5066	0.5256
Metering (PhP/Customer/Month)	7.13	7.39	7.66	7.95	8.24
Inter-Class Cross Subsidy (PhP/kWh)	-	-	-	-	-
Total PhP/kWh	2.7087	2.8056	2.9088	3.0176	3.1308
Total PhP/kWh (net of Discount)	2.7085	2.8054	2.9087	3.0175	3.1306
Total PhP/Customer/Month	28.25	29.27	30.35	31.49	32.66
<b>Average PhP/kWh Distribution Wheeling Rate</b>	<b>2.8564</b>	<b>2.9587</b>	<b>3.0676</b>	<b>3.1824</b>	<b>3.3017</b>
<b>General Service B (GS-B)</b>					
Distribution (PhP/kWh)	0.0282	0.0292	0.0303	0.0314	0.0326
Distribution Demand Charge (PhP/kW)	269.75	279.45	289.77	300.63	311.77
Supply (PhP/Customer/Month)	941.60	975.00	1,011.50	1,049.00	1,088.70
Metering (PhP/Customer/Month)	484.20	502.00	520.20	540.00	560.00
Inter-Class Cross Subsidy (PhP/kWh)			-		
Total PhP/kWh	0.0282	0.0292	0.0303	0.0314	0.0326
Total PhP/kW	269.75	279.45	289.77	300.63	311.77
Total	1.3151	1.3624	1.4127	1.4656	1.5200
Total PhP/Customer/Month	1,425.80	1,477.00	1,531.70	1,589.00	1,648.70
<b>Average PhP/kWh Distribution Wheeling Rate</b>	<b>1.9461</b>	<b>2.0161</b>	<b>2.0906</b>	<b>2.1689</b>	<b>2.2497</b>
<b>General Power Medium Secondary (GP Med-Sec)</b>					
Distribution (PhP/kWh)	0.0282	0.0292	0.0303	0.0314	0.0326
Distribution Demand Charge (PhP/kW)	269.75	279.45	289.77	300.63	311.77
Supply (PhP/Customer/Month)	2,153.00	2,230.00	2,313.00	2,399.50	2,489.00
Metering (PhP/Customer/Month)	1,136.00	1,177.00	1,220.50	1,266.00	1,314.00
Inter-Class Cross Subsidy (PhP/kWh)	-	-	-	-	-

<b>Customer Class</b>	<b>Current Rates</b>	<b>Illustrative Rates (2012)</b>	<b>Illustrative Rates (2013)</b>	<b>Illustrative Rates (2014)</b>	<b>Illustrative Rates (2015)</b>
Total PhP/kWh	0.0282	0.0292	0.0303	0.0314	0.0326
Total PhP/kW	269.75	279.45	289.77	300.63	311.77
Total	1.0553	1.0924	1.1319	1.1735	1.2162
Total PhP/Customer/Month	3,289.00	3,407.00	3,533.50	3,665.50	3,803.00
<b>General Power Large Secondary (GP Lrg-Sec)</b>					
Distribution (PhP/kWh)	0.0282	0.0292	0.0303	0.0314	0.0326
Distribution Demand Charge (PhP/kW)	269.75	279.45	289.77	300.63	311.77
Supply (PhP/Customer/Month)	10,950.00	11,345.00	11,763.00	12,204.00	12,660.00
Metering (PhP/Customer/Month)	4,710.00	4,880.00	5,060.00	5,249.00	5,445.00
Inter-Class Cross Subsidy (PhP/kWh)	-	-	-	-	-
Total PhP/kWh	0.0282	0.0292	0.0303	0.0314	0.0326
Total PhP/kW	269.75	279.45	289.77	300.63	311.77
Total	1.0553	1.0924	1.1319	1.1735	1.2162
Total PhP/Customer/Month	15,660.00	16,225.00	16,823.00	17,453.00	18,105.00
<b>Average PhP/kWh Distribution Wheeling Rate (GP-Sec)</b>	<b>1.2218</b>	<b>1.2649</b>	<b>1.3109</b>	<b>1.3591</b>	<b>1.4087</b>
<b>General Power Very Large/Extra Large 34.5 kV &amp; Below (GP-VL/XL)</b>					
Distribution (PhP/kWh)	0.0282	0.0292	0.0303	0.0314	0.0326
Distribution Demand Charge (PhP/kW)	205.18	212.56	220.41	228.67	237.11
Supply (PhP/Customer/Month)	18,160.00	18,815.00	19,510.00	20,240.00	20,997.00
Metering (PhP/Customer/Month)	16,140.00	16,720.00	17,340.00	17,990.00	18,660.00
Inter-Class Cross Subsidy (PhP/kWh)	-	-	-	-	-
Total PhP/kWh	0.0282	0.0292	0.0303	0.0314	0.0326
Total PhP/kW	205.18	212.56	220.41	228.67	237.11
Total PhP/kWh (net of Discount)	0.4755	0.4936	0.5130	0.5332	0.5541
Total PhP/Customer/Month	34,300.00	35,535.00	36,850.00	38,230.00	39,657.00
<b>Average PhP/kWh Distribution Wheeling Rate</b>	<b>0.5124</b>	<b>0.5319</b>	<b>0.5526</b>	<b>0.5744</b>	<b>0.5967</b>
<b>General Power Very Large 115 &amp; 69 kV (GP-VL)</b>					
Distribution (PhP/kWh)	0.0282	0.0292	0.0303	0.0314	0.0326
Distribution Demand Charge (PhP/kW)	165.04	170.97	177.29	183.94	190.70
Supply (PhP/Customer/Month)	18,160.00	18,815.00	19,510.00	20,240.00	20,997.00

<b>Customer Class</b>	<b>Current Rates</b>	<b>Illustrative Rates (2012)</b>	<b>Illustrative Rates (2013)</b>	<b>Illustrative Rates (2014)</b>	<b>Illustrative Rates (2015)</b>
Metering (PhP/Customer/Month)	16,140.00	16,720.00	17,340.00	17,990.00	18,660.00
Inter-Class Cross Subsidy (PhP/kWh)	-	-	-	-	-
<b>Total PhP/kWh</b>	<b>0.0282</b>	<b>0.0292</b>	<b>0.0303</b>	<b>0.0314</b>	<b>0.0326</b>
<b>Total PhP/kW</b>	<b>165.04</b>	<b>170.97</b>	<b>177.29</b>	<b>183.94</b>	<b>190.70</b>
<b>Total PhP/kWh (net of Discounts)</b>	<b>0.2445</b>	<b>0.2562</b>	<b>0.2688</b>	<b>0.2819</b>	<b>0.2954</b>
<b>Total PhP/Customer/Month</b>	<b>34,300.00</b>	<b>35,535.00</b>	<b>36,850.00</b>	<b>38,230.00</b>	<b>39,657.00</b>
<b>Average PhP/kWh Distribution Wheeling Rate</b>	<b>0.2505</b>	<b>0.2624</b>	<b>0.2752</b>	<b>0.2886</b>	<b>0.3023</b>
<b>Government Hospitals, Metered Streetlights &amp; Charitable Institutions</b>					
Distribution (PhP/kWh)	0.9200	0.9530	0.9900	1.0250	1.0640
Supply (PhP/Customer/Month)	372.30	386.00	400.00	415.00	430.00
Metering (PhP/Customer/Month)	351.40	364.00	378.00	391.60	406.00
Inter-Class Cross Subsidy (PhP/kWh)	-	-	-	-	-
<b>Total PhP/kWh</b>	<b>0.9200</b>	<b>0.9530</b>	<b>0.9900</b>	<b>1.0250</b>	<b>1.0640</b>
<b>Total</b>	<b>0.9200</b>	<b>0.9530</b>	<b>0.9900</b>	<b>1.0250</b>	<b>1.0640</b>
<b>Total PhP/Customer/Month</b>	<b>723.70</b>	<b>750.00</b>	<b>778.00</b>	<b>806.60</b>	<b>836.00</b>
<b>Average PhP/kWh Distribution Wheeling Rate</b>	<b>1.1952</b>	<b>1.2382</b>	<b>1.2858</b>	<b>1.3317</b>	<b>1.3819</b>
<b>Flat Streetlights</b>					
Distribution (PhP/lamp)					
125 W Mercury, 70 W HPS or their Equivalent	93.15	96.75	100.08	103.82	107.69
250 W Mercury, 150 W HPS or their Equivalent	186.30	193.50	200.16	207.63	215.37
400 W Mercury, 250 W HPS or their Equivalent	298.08	309.60	320.26	332.21	344.59
400 W HPS or its Equivalent	476.10	494.50	511.52	530.61	550.39
Supply (PhP/lamp)					
125 W Mercury, 70 W HPS or their Equivalent	34.65	36.00	37.22	38.61	40.05
250 W Mercury, 150 W HPS or their Equivalent	69.30	72.00	74.43	77.22	80.10
400 W Mercury, 250 W HPS or their Equivalent	110.88	115.20	119.09	123.55	128.16
400 W HPS or its Equivalent	177.10	184.00	190.21	197.34	204.70
Inter-Class Cross Subsidy (PhP/kWh)	-	-	-	-	-
<b>Total PhP/Lamp</b>					
125 W Mercury, 70 W HPS or their Equivalent	127.80	132.75	137.30	142.43	147.74
250 W Mercury, 150 W HPS or their Equivalent	255.60	265.50	274.59	284.85	295.47

<b>Customer Class</b>	<b>Current Rates</b>	<b>Illustrative Rates (2012)</b>	<b>Illustrative Rates (2013)</b>	<b>Illustrative Rates (2014)</b>	<b>Illustrative Rates (2015)</b>
400 W Mercury, 250 W HPS or their Equivalent	408.96	424.80	439.34	455.76	472.75
400 W HPS or its Equivalent	653.20	678.50	701.73	727.95	755.09
<b>Average PhP/kWh Distribution Wheeling Rate</b>	<b>2.8400</b>	<b>2.9500</b>	<b>3.0510</b>	<b>3.1650</b>	<b>3.2830</b>

### The Performance Incentive Scheme

24. The Amended RDWR prescribes the determination of a Price-Linked Performance Incentive Scheme.<sup>12</sup> According to this Performance Incentive Scheme, Applicant will be rewarded if the service performance levels of its electricity distribution business exceed the target levels as proposed and will be penalized if such service performance levels fall below the proposed targets. The proposed Price-Linked Performance Incentive Scheme is based on the performance measures and performance targets shown 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**

			<b>Penalty</b>		<b>Target</b>		<b>Reward</b>	
<b>Performance index</b>	<b>Units</b>	<b>Weight</b>	<b>Level E</b>	<b>Level D</b>	<b>Level C</b>	<b>Level B</b>	<b>Level A</b>	
System Average Interruption Frequency Index (SAIFI)	Number	0.20	SAIFI is greater than or equal to 9.57	SAIFI is greater than or equal to 8.94 but less than 9.57	SAIFI is greater than 7.66 but less than 8.94	SAIFI is less than or equal to 7.66 but greater than 7.03	SAIFI is less than or equal to 7.03	
Customer Average Interruption Duration Index (CAIDI)	Minutes	0.20	CAIDI is greater than or equal to 197.75	CAIDI is greater than or equal to 185.58 but less than 197.75	CAIDI is greater than 161.24 but less than 185.58	CAIDI is less than or equal to 161.24 but greater than 149.07	CAIDI is less than or equal to 149.07	

<sup>12</sup> Amended RDWR, Articles 4.18 and 8.2.

Planned System Average Interruption Duration Index (SAIDI)	Minutes	0.15	SAIDI is greater than or equal to 318.84	SAIDI is greater than or equal to 282.92 but less than 318.84	SAIDI is greater than 211.08 but less than 282.92	SAIDI is less than or equal to 211.08 but greater than 175.16	SAIDI is less than or equal to 175.16
Probability of voltage levels falling within prescribed limits	%	0.05	PVV is greater than or equal to 6%	PVV is greater than or equal to 5% but less than 6%	PVV is greater than 3% but less than 5%	PVV is less than or equal to 3% but greater than 2%	PVV is less than or equal to 2%
System losses	%	0.1	Not Applicable	Not Applicable	SL is greater than 8.76%	SL is less than or equal to 8.76% but greater than 7.74%	SL is less than or equal to 7.74%
Average time to process applications for Regulated Distribution Services	Days	0.1	TPA is greater than or equal to 14.48 days	TPA is greater than or equal to 12.29 days but less than 14.48 days	TPA is greater than 7.90 days but less than 12.29 days	TPA is less than or equal to 7.90 days but greater than 5.71 days	TPA is less than or equal to 5.71 days
Average time to connect premises to the Regulated Distribution System	Days	0.1	TCP is greater than or equal to 6.89 days	TCP is greater than or equal to 5.78 days but less than 6.89 days	TCP is greater than 3.55 days but less than 5.78 days	TCP is less than or equal to 3.55 days but greater than 2.43 days	TCP is less than or equal to 2.43 days
Average time to answer calls at call centre	Seconds	0.1	CCP is greater than or equal to 24.78 seconds	CCP is greater than or equal to 21.04 seconds but less than 24.78 seconds	CCP is greater than 13.55 seconds but less than 21.04 seconds	CCP is less than or equal to 13.55 seconds but greater than 9.81 seconds	CCP is less than or equal to 9.81 seconds

25. Under the Amended RDWR, Applicant is likewise required to propose a Guaranteed Service Level Performance Incentive Scheme. This Guaranteed Service Level Scheme will directly compensate customers, 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 shown below:

**Table 14. Summary of proposed Guaranteed Service Level Incentive Scheme**

<b>Performance Measure</b>	<b>Threshold</b>	<b>Proposed Penalty Level (PhP)</b>
GSL1: Customer experiencing a total duration of sustained service interruptions in a Regulatory Year that exceeds the threshold	35 hours	372.08
GSL 2: Customer experiencing a number of sustained service interruptions in a Regulatory Year that exceeds the threshold	25 times	372.08
GSL 3: Restoration of supply to a customer after a fault on the secondary distribution network taking longer than the threshold time	15 hours	372.08
GSL 4: Customer connection not provided on the day agreed with the customer	1 day	145.73

a. In accordance with the Amended RDWR and the Price Cap Model issued by this Honorable Commission, the Applicant is entitled to an amount equal to 0.5% of its Annual Revenue Requirement (excluding any provision for under-/over-recovery, regulatory intervention, or efficiency carry-over from the Second Regulatory Period), for the purpose of meeting requirements under the Guaranteed Service Level Scheme.

26. In support of this Application for the approval of its Annual Revenue Requirement and Performance Incentive Scheme, Applicant has attached the following required documents/schedules (Annex "C") as described in the Amended RDWR and the Position Paper:

**Table 15. Supporting Information Attached**

<b>Schedule</b>	<b>Information provided</b>
<b>A</b>	<b>Regulatory Asset Base</b>
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

Schedule	Information provided
	<p>supporting calculations for indexing applied.</p> <p>A3 Assets forecasted to be acquired during the period between the initial valuation date and the start of the Third Regulatory Period, showing the Schedule and Value of said assets to be acquired.</p> <p>A4 Forecasted asset disposal during the period between the initial valuation date and the start of the Third Regulatory Period, showing the Schedule and Value of said assets to be acquired.</p> <p>A4.1 - Forecasted income from the sale of disposed assets</p> <p>A5 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</p> <p>A5.1 - Assets included in the Original Regulatory Asset Base</p> <p>A5.2 - Assets acquired in the lead-up to the Third Regulatory Period</p> <p>A6 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 Assets included in the Original Regulatory Asset Base and those acquired in the lead-up to the Third Regulatory Period</p> <p>A7 Application of the Construction Work In Progress (CWIP) factor to the Regulatory Asset Base as at the start of the Third Regulatory Period.</p> <p>A8 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).</p>
<p><b>B</b></p> <p>B1</p> <p>B2</p> <p>B3</p> <p>B4</p>	<p><b>Financial indices forecasted for Third Regulatory Period</b></p> <p>Philippine quarterly CPI</p> <p>United States quarterly CPI</p> <p>PhP/US\$ quarterly exchange rate</p> <p>180-Day Manila Reference Rate</p>
<p><b>C</b></p> <p>C1</p> <p>C1.1</p> <p>C1.2</p> <p>C1.3</p>	<p><b>Forecasted capital expenditure for the Third Regulatory Period</b></p> <p>Summary of capital expenditure forecasts for each year of the Third Regulatory Period</p> <p>- Real values, divided in PhP and US\$ components</p> <p>- Total real values, in PhP</p> <p>- Total nominal values, in PhP</p>

<b>Schedule</b>	<b>Information provided</b>
C1.4	- Justification for capital expenditure (major and minor projects)
C2	Broken down historical capital expenditure
<b>D</b>	<b>Forecasted disposals during the Third Regulatory Period</b>
D1	Value of assets to be disposed of (based on ODRC register)
D2	Forecasted income from the sale of disposed assets
<b>E</b>	<b>Forecasted depreciation during the Third Regulatory Period</b>
E1	Depreciation of the opening asset base, showing the ODRC and Historical cost basis
E2	Depreciation of the assets forecasted to be acquired during the Third Regulatory Period, showing the ODRC and Historical cost basis
<b>F</b>	<b>Forecasted assets used beyond standard lives</b>
<b>G</b>	<b>Forecasted operating &amp; maintenance expenditure</b>
G1	Summary of forecasted operating & maintenance expenditure
G1.1	- Annual expenditure, divided in real PhP and US\$ components
G1.2	- Total annual expenditure, in real PhP
G1.3	- Total annual expenditure, in nominal PhP
G1.4	- Justification for operating & maintenance expenditure forecasts
G2	Historical operating & maintenance expenditure
G3	Summary of expenditure on taxes (other than corporate income tax), duties and levies
G3.1	- Annual expenditure, in real PhP
G3.2	- Annual expenditure, in nominal PhP
G3.3	- Justification for expenditure
G3.4	- Historical taxes, levies & duties
<b>H</b>	<b>Forecasted energy consumption and demand</b>
H1	Forecasted energy consumption figures (kWh)
H1.1	- Breakdown of consumption figures into customer classes
H1.2	- Supporting evidence
H2	Forecasted energy demand figures (MW) and Supporting Evidence
H3	Forecasted customer numbers, per customer class

<b>Schedule</b>	<b>Information provided</b>
<b>I</b>	<b>Carry-overs from the Second Regulatory Period</b>
I1	Under- or over recovery of revenue to which <i>the regulated entity</i> 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
I2	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 <i>the regulated entity</i> during the Second Regulatory Period.
I3	Efficiency carry-over as described in Article IX of the RDWR
<b>J</b>	<b>Performance incentive scheme details</b>
J1	Price-linked incentive scheme
J1.1	- Details of scheme proposed
J1.2	- Proposed target levels
J1.3	- Actual performance levels against the proposed indices
J1.4	- 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
J2.4	- Proposed penalty levels
J2.5	- Supporting information & calculations
<b>K</b>	<b>Additional information for price-cap model</b> Contact details for input sheets
<b>L</b>	<b>Detailed calculations for Third Regulatory Period</b>  Rolled forward regulatory asset base  Annual revenue requirement  Corporate income tax forecasts  Forecasted price-caps for the opening and subsequent years of the Third Regulatory Period
<b>M</b>	<b>Calculation of demonstrative unbundled rates</b>
<b>N</b>	<b>Overview of performance of the network and the utility during the Second Regulatory Period (to date)</b>

27. Applicant also hereby submits an account of its actual performance as against the approved levels for the Second Regulatory Period and its proposal for the Third Regulatory Period (Schedule O).

28. Considering the foregoing, Applicant most respectfully prays for the approval of this Application to allow it to fulfill its obligations under Performance Based-Regulation and to ensure its continued reliable and efficient operations and provision of its services to the public, in general, and its customers, in particular.

### **PRAYER**

**WHEREFORE**, premises considered, Applicant **MANILA ELECTRIC COMPANY** most respectfully prays, after due notice and hearing, that the instant Application be approved authorizing Applicant to adopt the proposed Annual Revenue Requirements and Performance Incentive Scheme for the Third Regulatory Period.

Other relief just and equitable under the premises are likewise prayed for.

Pasig City, Philippines, 15 June 2010.

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By:

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Republic of the Philippines        )  
Pasig City                                ) S.S.

**VERIFICATION AND CERTIFICATION OF NON-FORUM SHOPPING**

I, **IVANNA G. DELA PEÑA**, Filipino, of legal age and with office address at 12<sup>th</sup> Floor, Lopez Building, Ortigas Avenue, Pasig City, after being sworn to in accordance with law, depose and say, that -

1. I am the First Vice-President and Head of the Regulatory Management Office of Applicant Manila Electric Company;

2. I have been authorized by the Board of Directors of the Applicant to cause the preparation and filing of the instant Application and I have read and understood the allegations contained therein and certify that the same are true and correct based on my personal knowledge and authentic records made available to me in the ordinary course of business of the Applicant;

3. I have been authorized by the Board of Directors to certify that Applicant has not heretofore commenced any other action or proceeding involving the same issues in the Supreme Court, the Court of Appeals, or any other tribunal or agency and to the best of my knowledge, no such action or proceeding is pending in the Supreme Court, the Court of Appeals, or any other tribunal or agency. A copy of the Secretary's Certificate authorizing the undersigned to sign this Verification and Certification is attached as **Annex "A"** of this Application and made an integral part hereof;

4. If I should hereafter learn that a similar action or proceeding has been filed or is pending before the Supreme Court, the Court of Appeals, or any other tribunal or agency, I undertake to report such fact within five (5) days therefrom to this Honorable Commission.

IN WITNESS WHEREOF, I have hereunto affixed my signature this \_\_\_<sup>th</sup> day of June 2010 at Pasig City, Philippines.

\_\_\_\_\_  
**IVANNA G. DELA PEÑA**

SUBSCRIBED AND SWORN to before me this \_\_\_<sup>th</sup> day of June 2010, by affiant who exhibited to me her Driver's License No. N01-87-064310, with expiry date on 15 October 2010.

Doc. No. \_\_\_;  
Page No. \_\_\_;  
Book No. \_\_\_;  
Series of 2010.