

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- 070RC**

**DAGUPAN ELECTRIC CORPORATION (DECORP)**

Applicant.

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**APPLICATION**

COMES NOW, Applicant Dagupan Electric Corporation (DECORP) 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 Veria II Building, AB Fernandez West, Dagupan City where it may be served with summons and other legal processes, represented in this instance by its President, Isabelita L. Llames, of legal age, Filipino, married and with office address at Veria I Bldg., 62 West Avenue, Quezon City. Herein applicant is the exclusive franchise holder issued by Congress of the Philippines/National Electrification Commission to operate an electric light and power services in the Cities and Municipalities of Dagupan, Calasiao, San Fabian, Sta. Barbara, San Jacinto, Manaoag, Barangays Cruz and Bolingit of San Carlos, all in the Province of Pangasinan.

2. Applicant entered Performance-Based Regulation at the 2nd 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 ("ERC") 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. 2006-042RC) on August 30, 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. Applicant's actual capital investment performance beginning July 1, 2007 up to June 30, 2010 is almost equal to the forecast Capital Expenditure as approved in the Final Determination. Applicant was able to implement its capital expenditure programs enabling it to meet the actual load growth while maintaining satisfactory levels in PIS and GSL threshold levels. Applicant was able to implement its approved residual as well as major projects, to wit::

- 20/25MVA transformer at San Jacinto Substation – commissioned in May 2007 and it now provides reliability in substation capacity for San Fabian, San Jacinto, and Manaoag customers of the Applicant.
- Acquired a total of 15 units of reclosers and 171 units of Fault Passage Indicators for the improvement of Applicant's Network Performance indices and Guaranteed Service Levels.
- The Applicant paid TransCo's Labrador-Calasiao 69kV line in November 2008 upon ERC'S approval of the Deed of Absolute Sale and subsequently signed by both parties on January 16, 2009. Turnover of operation and maintenance of the line from NGCP to Applicant took effect on March 25, 2009.
- Dagupan 20/25MVA Substation with its 4x13.8kV feeders and its accompanying 69kV sub-transmission line was commissioned on May 25, 2010 and now serves the Central Business District of Dagupan City.

This was notwithstanding the capital expenditures incurred for the replacement of damaged electric facilities caused by major typhoons Cosme and Pepeng.

3b Meter test equipments were purchased together with a Nissan Urvan vehicle, which was converted to a mobile meter laboratory. This is to improve the ability to respond to customers request for on-site meter testing as well as to conduct random field testing of customer metering equipment and facilities.

There was a major replacement of meter reading devices, which are way beyond their asset lives and meter reading efficiencies were greatly affected. The replacement resulted to a better quality of meter reading data acquisition and timeliness of meter reading.

All Bulk Power and General Power Retail Service customers were installed with TOU capable meters in preparation for implementation of TOU rates and open access.

3c. Applicant's network performance indices (reliability indices, voltage regulation, system losses) for the Second Regulatory Period up to June 30, 2010 were all meeting or exceeding the target levels except for the Customer Average Interruption Duration Index (CAIDI) which fell to below target levels due to interruptions formerly charged to NGCP now being part of measurement of Applicant's reliability.

3d. Applicant's performance indices (time to process application and time to connect) showed a performance level equivalent to A, which represents a very satisfactory performance.

3e. Applicant's performance for the Second Regulatory Period against the Guaranteed Service Level scheme was very satisfactory with breaches amounting to only 742 violations as against the 24,600 allowed breaches for the Regulatory Years 2007 to 2010

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, P<sub>0</sub>-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; allowances for regulatory interventions imposed by the Commission during the Second Regulatory Period **[where applicable]**; 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	167,231,115	175,427,019	184,355,687	193,433,795

expenditure				
Taxes, levies & duties (other than corporate tax)	3,948,805	2,516,656	3,261,097	3,109,375
Regulatory depreciation	82,373,535	88,936,110	98,796,528	103,049,827
Return on capital	300,234,253	318,811,678	338,532,017	360,064,925
<b>Revenue Requirement Subtotal</b>	<b>553,787,709</b>	<b>585,691,463</b>	<b>624,945,329</b>	<b>659,657,921</b>
Allowance for under/over recovery	26,914,107	27,526,171	28,819,901	30,174,437
Allowance for regulatory intervention	64,543,744	67,512,756	70,685,856	74,008,091
Efficiency carry-over	(5,141,122)	(1,040,252)		
<b>TOTAL REVENUE REQUIREMENT</b>	<b>640,104,437</b>	<b>679,690,138</b>	<b>724,451,086</b>	<b>763,840,450</b>

Note : All values are in nominal terms

The meaning and application of these parameters are as described in the aforementioned 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	1,925,248,357	2,060,685,906	2,172,094,623	2,322,696,171
plus Capital Expenditure	217,811,084	200,344,827	249,398,075	238,606,653
minus Regulatory Depreciation on asset base at start of Third Regulatory Period	69,081,879	66,582,952	65,345,336	65,509,430
minus Regulatory Depreciation on capital expenditure incurred during the Third Regulatory Period	13,291,656	22,353,158	33,451,191	37,540,398
Closing value of RAB	2,060,685,906	2,172,094,623	2,322,696,171	2,458,252,997
<b>AVERAGE VALUE OF RAB</b>	1,992,967,132	2,116,390,265	2,247,395,397	2,390,474,584

Note : All values are in nominal terms

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 <sub>0</sub> -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 aforementioned 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		4.5%	4.5%	4.6%	4.7%	4.7%
Data source :	National Statistics Office of the Phils					

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

	2010	2011	2012	2013	2014	2015
Calendar Year						
Regulatory Year		1.4%	1.6%	2.2%	2.6%	2.8%
Data source :	US Bureau of Labour Statistics					

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

Quarter ending	2010	2011	2012	2013	2014	2015
Calendar Year						
Regulatory Year		47.75	47.25	46.90	46.70	46.60
Data source :	Bangko Sentral ng Pilipinas					

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)**

Capex Category	NOMINAL PESO			
	2012	2013	2014	2015
<b>A. Regulated Distribution Services Assets</b>				
<b>A1. Regulated Distribution Services Assets -Network Assets</b>				
Land and Land Rights (Distribution Purposes)				
Structures and Improvements (Distribution Purposes)		152,943.53		
Station Equipment		36,010,850.16		
Power transformers		2,556,696.70	5,284,237.71	
Switchgear		7,756,021.67	19,007,258.26	
Protective equipment		7,699,213.17	11,861,996.85	
Metering & control equipment		0.00	7,569,675.66	
Communications equipment		1,124,422.34	6,266,112.38	
Other station equipment				
Poles, Towers and Fixtures - Distribution	40,288,559.01	44,840,860.68	80,175,053.44	119,622,426.40
Overhead Conductors and Devices - Distribution	17,082,453.63	17,490,200.20	28,460,832.93	37,362,798.52
Underground Conduits - Distribution				
Underground Conductors and Devices - Distribution				
Distribution Transformers	18,555,500.76	19,867,266.62	21,437,471.10	23,639,297.08
Power Conditioning Equipment	568,092.51	594,224.77	12,391,041.69	434,263.03
Meters, Metering Instruments & Metering Transformers - Distribution				
Information technology equipment (distribution)				
Regulated Entity Property on Consumer's Premises				
Street Lights and Signal Systems	884,564.11	925,254.06	1,453,111.51	1,014,271.83
Submarine Cables				
<b>A2 Regulated Distribution Services Assets -Non network fixed assets</b>				
Land and Land Rights (non-network)				
Structures and Improvements (non-network)	4,161,488.73	2,528,646.57	2,090,126.02	
Office Furniture and Equipment	471,306.18	108,798.35	124,414.75	155,920.79
Transportation Equipment	2,371,321.85	5,879,103.28	4,242,955.82	6,136,166.89
Stores Equipment	1,704,663.28			
Tools, Shop and Garage Equipment				
Laboratory Equipment	10,284,952.48			
Information Systems Equipment (non-network)	171,746.68	184,657.74	41,802.52	98,476.29
Power-operated Equipment	20,993,593.85			
Communication Plant and Equipment	246,105.36	291,359.97	188,111.34	229,778.00
Miscellaneous Equipment				
<b>A3 Regulated Distribution Services Assets -Materials and Supplies including Spares</b>	19,642,220.20	21,006,182.92	22,391,646.95	24,040,464.15
<b>A4 Regulated Distribution Services Assets - Transferred subtransmission assets</b>	15,241,100.47			
<b>Sub total A</b>	<b>152,667,669.09</b>	<b>169,016,702.74</b>	<b>222,985,848.92</b>	<b>212,733,862.97</b>
B Distribution Connection Services Assets				

B1 Distribution Connection Service Assets -Network Assets				
Poles, Towers and Fixtures (Customer)				
Overhead Conductors and Devices (Customer)	3,743,800.85	3,916,015.69	4,065,809.34	4,292,771.64
Underground Conduits (Customer)				
Underground Conductors and Devices (Customer)				
Line Transformers (Customer)				
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)	1,866,037.16	1,264,323.29		
Office Furniture and Equipment	264,042.16	31,441.72	57,112.69	57,444.50
Transportation Equipment	2,462,335.83	1,717,068.85	1,797,771.09	2,823,399.49
Stores Equipment	136,640.94			
Tools, Shop and Garage Equipment				
Laboratory Equipment				
Information Systems Equipment (non-network)	119,267.47	19,963.00	20,901.26	32,825.43
Power-operated Equipment				
Communication Plant and Equipment	108,738.86	59,889.00	62,703.78	98,476.29
Miscellaneous Equipment				
<b>B3 Distribution Connection Services Assets - Materials and Supplies (including spares)</b>	1,235,351.62	1,330,671.08	1,428,592.30	1,532,425.79
<b>Sub total B</b>	9,936,214.88	8,339,372.62	7,432,890.47	8,837,343.15
<b>C Regulated Retail Services Assets</b>				
<b>C Regulated Retail Services Assets</b>				
Meters, Instruments & Metering Transformers (Consumer Consumption Metering)	20,491,964.90	21,239,444.67	18,979,336.05	17,035,446.88
Land and land rights				
Structures and improvements				
Office Furniture and Equipment	17,100.24			
Transportation Equipment	21,888,302.65	849,625.25		
Stores Equipment				
Tools, Shop and Garage Equipment	12,041,634.73	899,682.14		
Laboratory Equipment				
Information Systems Equipment	260,992.36			
Communication Plant and Equipment	507,205.15			
Miscellaneous Equipment				
<b>Sub total C</b>	55,207,200.02	22,988,752.05	18,979,336.05	17,035,446.88
<b>TOTAL</b>	217,811,083.99	200,344,827.42	249,398,075.44	238,606,653.00

12a. The above-mentioned proposed Capital Expenditure is increased from current levels for the following reasons:

The increases reflect new capital expenditure required to meet growing energy demand, increased customer numbers, service quality and performance measurement improvements and the replacement of ageing or obsolete equipment.

13. The proposed Operating & Maintenance Expenditure included in the aforementioned 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			
	2012	2013	2014	2015
<b>A. Regulated Distribution Services</b>				
<b>A1 Distribution: Operation</b>				
Operation supervision & engineering	2,918,549.63	3,053,246.20	3,196,905.89	3,347,171.18
Contractor services	6,412,588.67	6,707,567.74	7,022,823.43	7,352,896.13
Load dispatching	512,933.79	536,653.28	561,920.13	588,333.38
Structures	0.00	0.00	0.00	0.00
Substations	769,400.69	804,979.92	842,880.19	882,500.07
Overhead conductors & devices	12,406,075.93	12,981,332.07	13,593,076.91	14,232,062.14
Underground cables & devices	0.00	0.00	0.00	0.00
Streetlighting and signal systems	1,378,452.88	1,442,370.23	1,510,341.88	1,581,340.24
Metering (distribution network)	0.00	0.00	0.00	0.00
Rents	31,623.04	33,077.70	34,632.35	36,260.07
Information technology (distribution network)	208,384.75	217,970.45	228,215.06	238,941.16
Miscellaneous	3,439,978.71	3,660,228.70	3,804,446.76	3,996,111.59
<b>A2 Distribution: Maintenance</b>				
Maintenance supervision & engineering	0.00	0.00	0.00	0.00
Contractor services	2,992,541.38	3,130,198.28	3,277,317.60	3,431,351.53
Structures	892,285.94	933,590.54	977,561.25	1,023,512.90
Substations	1,047,812.26	1,096,145.06	1,147,711.17	1,201,656.82
Overhead lines & Devices	10,253,816.74	10,726,799.92	11,231,423.01	11,759,331.50
Underground cables & devices	0.00	0.00	0.00	0.00
Streetlighting and signal systems	3,076,349.64	3,218,079.66	3,369,406.66	3,527,774.04
Distribution transformers	6,045,773.71	6,325,274.39	6,623,056.78	6,934,374.17
Information technology (distribution network)	0.00	0.00	0.00	0.00
Metering (distribution network)	0.00	0.00	0.00	0.00
Miscellaneous	152,195.18	159,196.16	166,678.38	174,512.26
<b>A3 Administrative &amp; General</b>				
Company Management Costs	4,507,579.58	4,714,928.24	4,936,529.86	5,168,546.77
Admin & general salaries	10,945,722.13	11,451,500.33	11,990,527.23	12,554,137.00
Office supplies & expenses	1,328,245.20	1,389,344.48	1,454,643.67	1,523,011.92
Information technology (admin & general)	46,875.65	49,031.93	51,336.43	53,749.24
Outside services employed	3,978,514.80	4,161,526.48	4,357,118.22	4,561,902.78
Property insurance	610,058.58	638,121.27	668,112.97	699,514.28
Injuries & damages	160,314.72	167,689.19	175,570.59	183,822.40
Employee pension & benefits	1,419,655.48	1,491,463.11	1,568,371.02	1,642,084.46
Regulatory liaison & compliance	3,920,763.59	4,101,118.71	4,293,871.29	4,495,683.24
Rents	705,384.75	737,832.45	772,510.58	808,818.57
Maintenance of office & general plant	2,223,315.77	2,326,010.82	2,435,483.10	2,549,961.02
Officers allowance & benefits	53,438.24	55,896.40	58,523.53	61,274.13
Travel	0.00	0.00	0.00	0.00
Training	0.00	0.00	0.00	0.00
Water and Electricity	2,619,411.89	2,811,995.26	3,010,880.63	3,222,028.10
Miscellaneous	1,909,115.08	1,996,934.37	2,090,790.29	2,189,057.43
Market fees	0.00	0.00	0.00	0.00

Registration fees	0.00	0.00	0.00	0.00
Metering fees	0.00	0.00	0.00	0.00
Billing & settlement fees	0.00	0.00	0.00	0.00
Administration fees	0.00	0.00	0.00	0.00
Costs for the PEM board, committees & working groups	0.00	0.00	0.00	0.00
Market management software & upgrades costs recovery	0.00	0.00	0.00	0.00
Provision and maintenance of security	235,181.69	246,000.05	257,562.05	269,667.47
Sub total A	87,202,340.06	91,366,103.37	95,710,228.90	100,291,387.99
<b>B Distribution Connection Services</b>				
<b>B1 Connection Services :Operation</b>				
Operation supervision & engineering	1,003,083.83	1,049,523.68	1,098,956.92	1,150,615.09
Contractor services	0.00	0.00	0.00	0.00
Structures	0.00	0.00	0.00	0.00
Substations	0.00	0.00	0.00	0.00
Overhead lines & devices	385,220.93	402,941.09	421,879.32	441,707.65
Underground cables & devices	0.00	0.00	0.00	0.00
Consumer installations	205,256.29	214,766.26	224,884.44	235,455.66
Information technology (connection assets)	0.00	0.00	0.00	0.00
Miscellaneous	0.00	0.00	0.00	0.00
<b>B2 Connection Services: Maintenance</b>				
Maintenance supervision & engineering	0.00	0.00	0.00	0.00
Contractor services	0.00	0.00	0.00	0.00
Structures	0.00	0.00	0.00	0.00
Substations	0.00	0.00	0.00	0.00
Overhead conductors & devices	0.00	0.00	0.00	0.00
Underground cables & devices	0.00	0.00	0.00	0.00
Consumer installations	0.00	0.00	0.00	0.00
Distribution transformers	0.00	0.00	0.00	0.00
Information technology (connection assets)	0.00	0.00	0.00	0.00
Miscellaneous	0.00	0.00	0.00	0.00
<b>B3 Administrative &amp; General</b>				
Admin & general salaries	221,125.70	231,343.44	242,232.87	253,618.93
Office supplies & expenses	0.00	0.00	0.00	0.00
Information technology (admin & general)	0.00	0.00	0.00	0.00
Outside services employed	0.00	0.00	0.00	0.00
Property insurance	0.00	0.00	0.00	0.00
Injuries & damages	0.00	0.00	0.00	0.00
Employee pension & benefits	0.00	0.00	0.00	0.00
Regulatory liaison & compliance	0.00	0.00	0.00	0.00
Rents	0.00	0.00	0.00	0.00
Maintenance of office & general plant	0.00	0.00	0.00	0.00
Officers allowance & benefits	0.00	0.00	0.00	0.00
Travel	0.00	0.00	0.00	0.00
Training	0.00	0.00	0.00	0.00
Water and Electricity	88,871.70	95,405.70	102,153.50	109,317.34
Sub total B	1,903,558.45	1,993,980.16	2,090,107.05	2,190,714.67
<b>C Regulated Retail Services</b>				
Administration and General Salaries	12,418,156.01	12,991,814.42	13,603,288.63	14,242,701.77
Office supplies & expenses	462,545.73	483,822.83	506,562.50	530,370.94

Outside services employed	3,978,514.80	4,161,526.48	4,357,118.22	4,561,902.78
Property insurance	610,058.58	638,121.27	668,112.97	699,514.28
Injuries & damages	160,314.72	167,689.19	175,570.59	183,822.40
Employee pension & benefits	1,412,833.58	1,484,327.40	1,560,899.93	1,634,262.23
Regulatory liaison & compliance	2,555,171.49	2,677,961.11	2,809,294.92	2,947,072.47
Rents	1,560,396.58	1,632,174.82	1,708,887.03	1,789,204.72
Maintenance of office & general plant	2,116,549.08	2,214,414.40	2,318,670.55	2,427,660.25
Officers allowance & benefits	53,438.24	55,896.40	58,523.53	61,274.13
Travel	0.00	0.00	0.00	0.00
Training	0.00	0.00	0.00	0.00
Water and Electricity	2,758,481.92	2,961,289.95	3,170,734.56	3,393,092.29
Planning, installation and maintenance of consumer metering installations	17,373,051.68	18,175,257.24	19,030,573.72	19,925,084.28
Consumer Meter Reading Expenses	4,688,174.33	4,937,265.33	5,503,714.67	5,790,486.25
Information technology (retail related)	107,813.99	112,773.43	118,073.79	123,623.25
Consumer Records, Billing and Collection Expenses	22,919,152.00	24,194,162.56	25,543,448.22	26,964,910.61
Bad debts	4,181,275.86	4,373,614.55	4,579,174.43	4,794,395.63
Information and Instructional Advertising Expenses	287,202.27	300,413.57	314,533.01	329,316.06
Energy trading expenses (excluding energy purchases)	482,086.03	504,410.24	528,170.07	552,997.65
Miscellaneous consumer services expenses	0.00	0.00	0.00	0.00
<b>Sub total C</b>	78,125,216.87	82,066,935.19	86,555,351.34	90,951,692.01
<b>TOTAL</b>	167,231,115.38	175,427,018.73	184,355,687.29	193,433,794.67

13a. The above-mentioned proposed Operating and Maintenance expenditures are increased from current levels for the following reasons:

That the proposed increase in operating and maintenance expenditure is a result of increased inputs required to service the growing asset base, customer connections, service quality performance and of inflationary pressures.

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
<b>Levies</b>	606,095	504,119	159,131	424,984	568,884
<b>Duties</b>					
<b>Other taxes</b>	596,821	3,444,686	2,317,525	2,836,113	2,540,491
<b>TOTAL</b>	1,202,916	3,948,805	2,476,655	3,261,097	3,109,375

14a. The above-mentioned proposed taxes, levies & duties (other than corporate income taxes) expenditure are increased from current levels for the following reasons:

That the taxes, levies and duties (other than corporate income tax) figure includes additional property taxes for new assets, such as substation.

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)**

Depreciation Category	NOMINAL VALUE				
	2011	2012	2013	2014	2015
<b>A. Regulated Distribution Services Assets</b>					
<b>A1 Regulated Distribution Services Assets - Network Assets</b>					
Land and Land Rights (Distribution Purposes)	0.00	0.00	0.00	0.00	0.00
Structures and Improvements (Distribution Purposes)	198,910.52	199,063.40	202,886.99	202,886.99	202,886.99
Station Equipment	0.00	0.00	0.00	0.00	0.00
Power transformers	3,146,417.05	3,146,417.05	3,210,334.47	3,342,440.41	3,342,440.41
Switchgear	2,852,888.93	2,852,888.93	3,111,422.98	3,744,998.26	3,744,998.26
Protective equipment	2,137,265.06	2,137,265.06	2,393,905.50	2,789,305.40	2,789,305.40
Metering & control equipment	0.00	0.00	0.00	252,322.52	252,322.52
Communications equipment	2,222,808.43	2,222,808.43	2,335,250.67	2,961,861.90	3,231,034.47
Other station equipment	960,236.36	960,236.36	960,236.36	960,236.36	960,236.36
Poles, Towers and Fixtures - Distribution	11,683,393.93	17,580,454.92	18,461,962.22	23,403,385.16	23,637,325.93
Overhead Conductors and Devices - Distribution	9,461,463.21	10,525,468.27	11,216,165.87	12,302,023.63	13,410,286.92
Underground Conduits - Distribution	0.00	0.00	0.00	0.00	0.00
Underground Conductors and Devices - Distribution	0.00	0.00	0.00	0.00	0.00
Distribution Transformers	8,485,606.51	8,902,586.04	9,874,086.61	10,588,668.98	11,376,645.55
Power Conditioning Equipment	1,876,692.65	1,887,644.49	1,916,920.19	2,329,954.91	2,344,430.35
Meters, Metering Instruments & Metering Transformers - Distribution	0.00	0.00	0.00	0.00	0.00
Information technology equipment (distribution)	0.00	0.00	0.00	0.00	0.00
Regulated Entity Property on Consumer's Premises	0.00	0.00	0.00	0.00	0.00

Street Lights and Signal Systems	459,359.85	505,064.09	550,648.63	599,085.68	632,894.74
Submarine Cables	0.00	0.00	0.00	0.00	0.00
<b>A2 Regulated Distribution Services -Non Network</b>					
Land and Land Rights (non-network)	0.00	0.00	0.00	0.00	0.00
Structures and Improvements (non-network)	578,923.27	655,154.89	770,389.66	822,642.81	822,642.81
Office Furniture and Equipment	253,203.97	285,075.91	191,566.83	47,279.54	96,593.43
Transportation Equipment	6,080,543.01	3,132,361.58	2,205,731.98	2,677,171.52	3,358,967.84
Stores Equipment	0.00	42,616.58	85,233.16	85,233.16	85,233.16
Tools, Shop and Garage Equipment	621,993.31	621,993.31	621,993.31	621,993.31	621,993.31
Laboratory Equipment	0.00	257,123.81	514,247.62	514,247.62	514,247.62
Information Systems Equipment (non-network)	225,358.65	233,163.72	224,778.86	233,139.37	170,077.21
Power-operated Equipment	0.00	524,839.85	1,049,679.69	1,049,679.69	1,049,679.69
Communication Plant and Equipment	0.00	12,305.27	53,746.53	72,557.67	95,535.47
Miscellaneous Equipment	0.00	0.00	0.00	0.00	0.00
<b>A3 Regulated Distribution Services Assets - Materials and supplies (including spares)</b>	0.00	0.00	0.00	0.00	0.00
<b>A4 Regulated Distribution Services Assets - Transferred subtransmission assets</b>	2,183,384.93	2,691,421.61	3,199,458.30	3,199,458.30	3,199,458.30
<b>Sub-total A</b>	<b>53,428,449.65</b>	<b>59,375,953.58</b>	<b>63,150,646.45</b>	<b>72,800,573.19</b>	<b>75,939,236.75</b>
B Distribution Connection Services Assets	0.00	0.00	0.00	0.00	0.00
<b>B1 Distribution Connection Services Assets - Network</b>					
Poles, Towers and Fixtures (Customer)	0.00	0.00	0.00	0.00	0.00
Overhead Conductors and Devices (Customer)	1,742,552.40	3,600,029.06	3,776,323.02	3,952,225.80	4,046,867.22
Underground Conduits (Customer)	0.00	0.00	0.00	0.00	0.00
Underground Conductors and Devices (Customer)	0.00	0.00	0.00	0.00	0.00
Distribution Transformers (Customer)	0.00	0.00	0.00	0.00	0.00
Information Technology Equipment (Connection)	0.00	0.00	0.00	0.00	0.00
<b>B2 Distribution Connection Services Assets - Non Network</b>					
Land and Land Rights (non-network)	0.00	0.00	0.00	0.00	0.00
Structures and Improvements (non-network)	0.00	23,325.46	82,051.98	183,697.21	291,016.51
Office Furniture and Equipment	1,736.67	15,034.15	17,219.96	17,219.96	26,594.96
Transportation Equipment	0.00	136,796.43	487,272.55	487,272.55	487,272.55
Stores Equipment	0.00	3,416.02	6,832.05	6,832.05	6,832.05
Tools, Shop and Garage Equipment	0.00	0.00	0.00	0.00	0.00
Laboratory Equipment	0.00	0.00	0.00	0.00	0.00
Information Systems Equipment (non-network)	0.00	63,259.34	28,317.78	28,317.78	32,782.07
Power-operated Equipment	0.00	0.00	0.00	2,855.63	5,727.86
Communication Plant and Equipment	0.00	5,436.94	17,581.45	197,358.56	479,698.51
Miscellaneous Equipment	0.00	0.00	0.00	0.00	0.00
Distribution Connection Services Assets - Materials and supplies (including spares)	0.00	0.00	0.00	0.00	0.00
<b>Sub total B</b>	<b>1,744,289.07</b>	<b>3,847,297.42</b>	<b>4,415,598.79</b>	<b>4,875,779.56</b>	<b>5,376,791.72</b>
<b>C Regulated Retail Services Assets</b>					

<b>C Regulated Retail Services Assets</b>					
Meters, Instruments & Metering Transformers (Consumer Consumption Metering)	13,290,225.58	14,183,403.07	14,118,125.95	14,196,370.82	14,128,576.69
Land and land rights	0.00	409,839.30	1,669,256.38	2,428,429.82	3,109,847.70
Structures and improvements	885,514.93	885,514.93	885,514.93	885,514.93	885,514.93
Office Furniture and Equipment	495,757.27	233,209.69	0.00	0.00	0.00
Transportation Equipment	1,119,290.29	1,119,717.80	1,087,963.30	855.01	855.01
Stores Equipment	0.00	1,216,016.81	2,526,436.43	2,526,436.43	2,526,436.43
Tools, Shop and Garage Equipment	332,583.15	332,583.15	332,583.15	332,583.15	332,583.15
Laboratory Equipment	0.00	301,040.87	647,065.84	647,065.84	647,065.84
Information Systems Equipment	100,540.19	417,498.79	0.00	0.00	0.00
Communication Plant and Equipment	0.00	26,099.24	52,198.47	52,198.47	52,198.47
Miscellaneous Equipment	0.00	25,360.26	50,720.52	50,720.52	50,720.52
Sub-total Regulated Retail Services Assets	16,223,911.41	19,150,283.90	21,369,864.97	21,120,174.99	21,733,798.74
<b>TOTAL</b>	<b>71,396,650.12</b>	<b>82,373,534.90</b>	<b>88,936,110.21</b>	<b>98,796,527.74</b>	<b>103,049,827.21</b>

16a. 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.

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

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

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

	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>
<b>Energy consumption (MWh)</b>	253,549	270,979	279,004	286,097	293,167

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)**

	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>
<b>Demand (MW)</b>	51.3	54.7	56.3	57.7	59.2

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 P<sub>0</sub>-factor is demonstrated below:

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

	<b>2012 Regulatory year</b>	<b>2013 Regulatory year</b>	<b>2014 Regulatory year</b>	<b>2015 Regulatory year</b>
<b>Maximum Annual Price (PhP/kWh)</b>	2.043	2.342	2.686	3.080

19a. The applicant recognizes that the Commission will determine the actual X-factor and P<sub>0</sub>-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)**

	<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>Customer Class</b>					
<b>Residential</b>					
Distribution (PhP/kWh)	1.3704	1.951	2.2482	2.5825	2.9585
Supply (PhP/kWh)	0.2603	0.3782	0.436	0.5006	0.5734
Metering (PhP/kWh)	0.3632	0.5822	0.6772	0.7841	0.9043
Metering (PhP/customer/month)	5.000	5.000	5.000	5.000	5.000

Total PhP/kWh	1.9939	2.9114	3.3614	3.8672	4.4362
Total PhP/customer/month	5.0000	5.000	5.0000	5.000	5.000
<b>Average PhP/kWh distribution wheeling rate</b>	2.0362	2.9531	3.4033	3.909	4.4781
<b>General Retail Service</b>					
Distribution (PhP/kWh)	0.9745	1.3463	1.533	1.742	1.9766
Supply (PhP/customer/month)	33.9403	42.147	47.6629	54.3592	61.6874
Metering (PhP/customer/month)	81.8807	109.8736	124.8506	141.6397	160.2518
Total PhP/kWh	0.9745	1.3463	1.533	1.742	1.9766
Total PhP/customer/month	115.821	152.0206	172.5135	195.9989	221.9392
<b>Average PhP/kWh distribution wheeling rate</b>	1.2088	1.6266	1.8518	2.1047	2.3885
<b>General Power Retail Service</b>					
Distribution (PhP/kWh)	0.3592	0.5029	0.5765	0.6585	0.7497
Distribution demand charge (PhP/kW)	216.6646	292.4408	333.5385	379.1127	429.5217
Supply (PhP/customer/month)	33.9403	42.2503	47.7754	54.4829	61.823
Metering (PhP/customer/month)	918.9307	1,232.4604	1435.5302	1677.2066	1940.4539
Total PhP/kWh	0.3592	0.5029	0.5765	0.6585	0.7497
Total PhP/kW	216.6646	292.4408	333.5385	379.1127	429.5217
Total PhP/customer/month	952.871	1,274.71	1,483.3056	1,731.6895	2,002.2769
<b>Average PhP/kWh distribution wheeling rate</b>	1.2506	1.7409	1.9956	2.2793	2.5947
<b>Bulk Power</b>					
Distribution (PhP/kWh)	0.2061	0.1584	0.18065	0.2091	0.24121
Distribution (P/KWH)	148.3101	122.0255	139.7951	162.5494	188.3678
Supply (PhP/customer/month)	33.9403	42.2503	47.7754	54.4829	61.823
Metering (PhP/customer/month)	2,422.6552	3,180.9664	3,754.4886	4,139.4642	4,851.7806
Total PhP/kWh	0.2061	0.1584	0.18065	0.2091	0.24121
Total PhP/kW	148.3101	122.0255	139.7951	162.5494	188.3678
Total PhP/customer/month	2,456.59	3,223.2167	3,802.26	4,193.9471	4,913.6036
<b>Average PhP/kWh distribution wheeling rate</b>	0.6957	0.5392	0.6148	0.7117	0.8210
<b>Streetlights</b>					
Distribution (PhP/kWh)	2.5916	3.6128	4.2117	4.8921	5.6632
Supply (PhP/customer/month)	33.9403	42.4294	47.683	54.3775	61.7034

Metering (PhP/customer/month)					
Total PhP/kWh Total	2.5916	3.6128	4.2117	4.8921	5.6632
PhP/customer/month	33.9403	42.4294	47.683	54.3775	61.7034
<b>Average PhP/kWh distribution wheeling rate</b>	2.5954	3.6263	4.2282	4.9107	5.6840

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	<b>0.20</b>	<b>2.44</b>	<b>12.17</b>	<b>21.89</b>	<b>31.62</b>	<b>41.34</b>
Customer average interruption duration index (CAIDI)	Minutes	<b>0.20</b>	<b>67.30</b>	<b>136.15</b>	<b>205</b>	<b>273.85</b>	<b>342.70</b>
Planned system average interruption duration index (SAIDI)	Minutes	<b>0.15</b>	<b>582.07</b>	<b>1418.49</b>	<b>2254.92</b>	<b>3091.34</b>	<b>3927.77</b>
Probability of voltage levels falling within prescribed limits	%	<b>0.10</b>	<b>0.21%</b>	<b>0.87%</b>	<b>2.18%</b>	<b>3.48%</b>	<b>4.79%</b>
System losses	%	<b>.05</b>	<b>7%</b>	<b>7.67%</b>	<b>8.34%</b>		
Average time to process applications for Regulated Distribution Services (1)	Days	<b>0.08</b>	<b>5</b>	<b>7.5</b>	<b>10</b>	<b>12.5</b>	<b>15</b>
Average time to process applications for Regulated Distribution Services (2)	Days	<b>.02</b>	<b>12</b>	<b>21</b>	<b>30</b>	<b>39</b>	<b>48</b>
Average time to connect premises to the Regulated Distribution System (1)	Days	<b>.02</b>	<b>2</b>	<b>4</b>	<b>6</b>	<b>8</b>	<b>10</b>
Average time to connect premises to the Regulated	Days	<b>0.08</b>	<b>14</b>	<b>22</b>	<b>30</b>	<b>38</b>	<b>46</b>

Distribution System (2)							
Average time to answer calls at call centre	Seconds	0.10	18	24	30	36	42

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	69	260
Customer experiencing a number of sustained service interruptions in a Regulatory Year that exceeds the threshold	44	260
Restoration of supply to a customer after a fault on the secondary distribution network taking longer than the threshold time	4 hours if the customer is Dagupan City (except in Island Barrios) or Calasiao.  Within 8 hours if Sta. Barbara, San Fabian, San Jacinto or Manaoag.  Within 24 hours if in the Island Barrios.	260
Customer connection not provided on the day agreed with the customer	Same Target Level for Time to Connect in the PIS	260

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. DECORP proposes to modify the rate class definition and qualifier of General Power Retail Service (Schedule Y), and Bulk Power Retail Service (Schedule Z), as specified in ERC CaseNo. 2005-029 RC, Page 20 of 40, which states:

“1. Bulk Power (Schedule Z) refers to a customer connected and drawing power from the primary lines at 13.8 kV. These customers install, operate and maintain their own distribution transformers. This type of service is used for general power, heating, space cooling and lighting in industrial, manufacturing, processing, machining, cold storage, water supply and super malls, with demand equal to or greater than 1,000 kW.”

“3. Large Commercial (Schedule Y) are customers with contracted capacity greater than 40 Kw, served at 220V 3-phase. These customers are typically sole-users of DECORP-owned distribution transformers. This type of service is used for general power, space cooling, and lightings in buildings, industrial, manufacturing, processing, machining, cold storage, water supply and malls.”

To now be defined as follows:

“1. Bulk Power (Schedule Z) refers to a customer connected and drawing power from the primary lines at 13.8 kV. These customers install, operate and maintain their own distribution transformers. This type of service is used for general power,

heating, space cooling and lighting in industrial, manufacturing, processing, machining, cold storage, water supply and super malls, with demand equal to or greater than 250 kW.”

“2. Large Commercial (Schedule Y) are customers with demand equal to or greater than 40 Kw up to 249 kW, served at 220V 3-phase. These customers are typically sole-users of DECORP-owned distribution transformers. This type of service is used for general power, space cooling, and lightings in buildings, industrial, manufacturing, processing, machining, cold storage, water supply and malls.”

25. 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
<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 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
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

Schedule	Information provided
A6.1 A6.2	<ul style="list-style-type: none"> <li>- Assets included in the Original Regulatory Asset Base</li> <li>- Assets acquired in the lead-up to the Third Regulatory Period</li> </ul>
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 A7.2	<ul style="list-style-type: none"> <li>- Assets included in the Original Regulatory Asset Base</li> <li>- Assets acquired in the lead-up to the Third Regulatory Period</li> </ul>
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>B</b>	<b>Financial indices forecast for Third Regulatory Period</b>
B1	Philippine quarterly CPI
B2	United States quarterly CPI
B3	PhP/US\$ quarterly exchange rate
B4	180-Day Manila Reference Rate
<b>C</b>	<b>Forecast capital expenditure for the Third Regulatory Period</b>
C1	Summary of capital expenditure forecasts for each year of the Third Regulatory Period
C1.1	<ul style="list-style-type: none"> <li>- Real values, divided in PhP and US\$ components</li> </ul>
C1.2	<ul style="list-style-type: none"> <li>- Total real values, in PhP</li> </ul>
C1.3	<ul style="list-style-type: none"> <li>- Total nominal values, in PhP</li> </ul>
C1.4	<ul style="list-style-type: none"> <li>- Justification for capital expenditure (major and minor projects)</li> </ul>
C2	Broken down historical capital expenditure
<b>D</b>	<b>Forecast disposals during the Third Regulatory Period</b>
D1	Value of assets to be disposed of (based on ODRC register)
D2	Forecast income from the sale of disposed assets
<b>E</b>	<b>Forecast depreciation during the Third Regulatory Period</b>
E1	Depreciation of the opening asset base
E1.1	<ul style="list-style-type: none"> <li>- ODRC basis</li> </ul>
E1.2	<ul style="list-style-type: none"> <li>- Historical cost basis</li> </ul>
E2	Depreciation of the assets forecast to be acquired during the Third Regulatory Period
E2.1	<ul style="list-style-type: none"> <li>- ODRC basis</li> </ul>
E2.2	<ul style="list-style-type: none"> <li>- Historical cost basis</li> </ul>

Schedule	Information provided
<b>F</b>	<b>Forecast assets used beyond standard lives</b>
F1	Forecast addition to assets used beyond standard lives
F2	Forecast removal from assets used beyond standard lives
<b>G</b>	<b>Forecast operating &amp; maintenance expenditure</b>
G1	Summary of forecast operating & maintenance expenditure
G1.1	<ul style="list-style-type: none"> <li>- Annual expenditure, divided in real PhP and US\$ components</li> <li>- Total annual expenditure, in real PhP</li> <li>- Total annual expenditure, in nominal PhP</li> <li>- Justification for operating &amp; maintenance expenditure forecasts</li> </ul>
G1.2	
G1.3	
G1.4	
G2	Historical operating & maintenance expenditure
G3	Historical operating & maintenance expenditure
G3.1	<ul style="list-style-type: none"> <li>- Annual expenditure, in real PhP</li> <li>- Annual expenditure, in nominal PhP</li> <li>- Justification for expenditure</li> <li>- Historical taxes, levies &amp; duties</li> </ul>
G3.2	
G3.3	
G3.4	
G3.1	Summary of expenditure on taxes (other than corporate income tax), duties and levies
G3.2	
G3.3	
G3.4	
<b>H</b>	<b>Forecast energy consumption and demand</b>
H1	Forecast energy consumption figures (kWh)
H1.1	<ul style="list-style-type: none"> <li>- Breakdown of consumption figures into customer classes</li> <li>- Supporting evidence</li> </ul>
H1.2	
H2	Forecast energy demand figures (MW)
H2.1	<ul style="list-style-type: none"> <li>- Breakdown of demand figures into customer classes</li> <li>- Supporting evidence</li> </ul>
H2.2	
H3	Forecast customer numbers, per customer class
<b>I</b>	<b>Carry-overs from the Second Regulatory Period</b>
I1	Under- or over recovery of revenue to which <b><i>the regulated entity</i></b> 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 <b><i>the regulated entity</i></b> 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	<ul style="list-style-type: none"> <li>- Details of scheme proposed</li> </ul>

<b>Schedule</b>	<b>Information provided</b>
J1.2	- Proposed target levels
J1.3	- Actual performance levels against the proposed indices for the five years prior to this Application
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 for the five years prior to this Application
J2.5	- Proposed penalty levels
J2.6	- Supporting information & calculations
<b>K</b>	<b>Additional information for price-cap model</b>
K1	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
	Forecast 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>

26. 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 DECORP prays, after due notice and hearing and consideration, that this Application be approved and that a final authority be issued to the 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.

RESPECTFULLY SUBMITTED.

Pasig City, Philippines, June 17, 2010.

**QUIASON MAKALINTAL BAROT  
TORRES IBARRA AND SISON**

Counsel for the Applicant  
21<sup>st</sup> Floor, Robinsons-Equitable Tower  
4 ADB Avenue corner Poveda Street  
1605 Ortigas Center, Pasig City

By:

**MANUEL L.M. TORRES**

ROLL OF ATTORNEYS NO. 25410  
MCLE COMPLIANCE NO. III-0011486  
PTR NO. 5907269; 1/5/10  
PASIG CITY  
IBP NO. 800239; 1/4/10  
QUEZON CITY

**MIGUEL K. MATHAY**

ROLL OF ATTORNEYS NO. 43982  
MCLE COMPLIANCE NO. III-0009491  
PTR NO. 5907255; 1/5/10  
PASIG CITY  
IBP NO. 800240; 1/4/10  
RSM