

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),**

COMMISSION CASE NO. 2010- RC

**CLARK ELECTRIC DISTRIBUTION
CORPORATION (CEDC)**

Applicant.

APPLICATION

COMES NOW, applicant Clark Electric Distribution Corporation 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 Bldg. N2830, Bayanihan Street, Clark Freeport Zone, Phils., Pampanga where it may be served with summons and other legal processes, represented in this instance by its Chief Operating Officer, Radito P. Tuazon, of legal age, Filipino, married and with office address also at Bldg. N2830, Bayanihan Street, Clark Freeport Zone, Philippines. Herein applicant is the exclusive franchise holder issued by Clark

Development Corporation (CDC) by virtue of Executive Order No. 80, to operate and maintain the power distribution system and distribute power exclusively within the Clark Special Economic Zone.

2. Applicant will enter Performance-Based Regulation at the fourth entry point, as originally described in Annex B of Commission Resolution No. 12-02 Series of 2004 “Adopting a Methodology for Setting Distribution Wheeling Rates”, dated December 10, 2004, and later amended by the Energy Regulatory Commission (Commission) to make provision for four entry points. The application submitted to the Commission is for the approval of the Annual Revenue Requirement and Performance Incentive Scheme required for the Second Regulatory Period described in the amended Rules for setting Distribution Wheeling Rates (RDWR) for Privately Owned Distribution Utilities entering Performance Based Regulation (Fourth Entry Point) issued by the Commission on June 22, 2009. This Second Regulatory Period commences on October 1, 2011 and terminates on September 30, 2015.
- 2a. Applicant proposes the Annual Revenue Requirement and Performance Incentive Scheme values thus approved to form the basis of the Commission’s determination of the X-factor, P₀-factor and the Maximum Annual Prices that will apply to the applicant and on which it will base its rate setting for the Second Regulatory Period.
3. Applicant has prepared its proposal as contained in this application in accordance with the conditions described in the afore-mentioned RDWR and in the implementing guidelines issued by the Commission in its Position Paper on the Regulatory Reset for the October 2011 to September 2015 Regulatory Period for Privately Owned Distribution Utilities subject to Performance Based

Regulation, dated June 22, 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-4TH ENTRY-V1.0.xls (Price-Cap Model) that was provided to the applicant by the Commission.

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

Table 1. Annual Revenue Requirement as per Building Block approach

Building Block	Proposed revenue requirement per Regulatory Year (PHP)			
	2012	2013	2014	2015
Operating and maintenance expenditure	88,034,819	107,257,484	118,887,866	133,118,831
Taxes, levies & duties (other than corporate tax)	1,067,737	1,127,361	1,233,925	1,328,850
Regulatory depreciation	33,295,056	41,434,694	42,745,072	45,961,663
Return on capital	115,530,921	138,575,603	146,121,144	161,130,879
TOTAL REVENUE REQUIREMENT	237,928,533	288,395,143	308,988,006	341,540,223

Note : All values are in nominal terms

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

Corporate income tax has been discontinued as a building block for the Second Regulatory Period following an approach by various Regulated Entities in this regard and consultation on the resulting changes to the RDWR. This rule change (and others approved by the Commission) was published in the ERC document titled *“Performance Based Regulation of Privately Owned Electricity Distribution Utilities: Modifications to the Rules for Setting Distribution Wheeling Rates (RDWR)”* dated June 22, 2009.

5. 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 Base on June 30, 2009, as valued by the Commission and communicated to the applicant, suitably amended to a September 30, 2011 value in accordance with the method described in the RDWR.

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

ITEM	PhP for Regulatory Year			
	2012	2013	2014	2015
Opening value of RAB	634,786,259	893,051,879	939,312,790	992,032,199
plus Capital Expenditure	291,526,726	87,653,246	95,415,740	191,299,585
minus Regulatory Depreciation on asset base at start of Second Regulatory Period	27,375,889	27,229,250	27,199,922	27,199,922
minus Regulatory Depreciation on capital expenditure incurred during the Second Regulatory Period	5,919,167	14,205,444	15,545,150	18,761,741
Change in assets used over regulatory lives	33,950	42,360	48,740	56,135
Closing value of RAB	893,051,879	939,312,790	992,032,199	1,137,426,255
AVERAGE VALUE OF RAB	763,919,069	916,182,334	965,672,494	1,064,729,227

Note : All values are in nominal terms

6. 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)	10/26/2009	For substation projects : 4.20% For other projects : 2.98%
P ₀ -factor		0 PhP/kWh
X-factor		-0.064
Valuation of the applicant's regulatory asset base as at June 30, 2009		PhP 520,366,848
Working-capital proportion		6.85%

The meaning and application of these parameters are as described in the aforementioned RDWR.

7. In calculating the afore-mentioned Annual Revenue Requirement for the Second Regulatory Period, the applicant made use of the estimated Philippine Consumer Price Index, United States of America Consumer Price Index and Philippine Peso/United States dollar exchange rate figures below (figures provided for calendar years and converted to regulatory years):

	2010	2011	2012	2013	2014	2015
Calendar Year	3.80%	4.30%	4.00%	4.00%	4.00%	5.10%
Regulatory Year		4.17%	4.07%	4.00%	4.00%	4.82%
Data source :	Sourced from the Bangko Sentral ng Pilipines					

	2010	2011	2012	2013	2014	2015
Calendar Year	1.6%	1.3%	1.9%	2.5%	2.8%	2.8%
Regulatory Year		1.37%	1.75%	2.35%	2.72%	2.80%
Data source :	Sourced from the US Bureau of Labour, US City average, series CUUR000SAO					

Quarter ending	2010	2011	2012	2013	2014	2015
Calendar Year	47.80	47.30	46.90	46.70	46.50	46.50
Regulatory Year		47.43	47.00	46.75	46.55	46.50
Data source :	Sourced from the Bangko Sentral ng Pilipines					

- 7a. For the purposes of the initial and subsequent annual price resets during the Second Regulatory Period as required in terms of the RDWR, the applicant will update the afore-mentioned Consumer Price Indices and foreign exchange rates with actual values in accordance with the RDWR and will use such updated values for the price resets.
8. The afore-mentioned Annual Revenue Requirement is in part based on a proposed rate of return of 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 Second Regulatory Period for the fourth entry group and that this may differ from the figure used in this Revenue Application.
9. Allowance has been made in accordance with the RDWR to include assets used beyond their standard lives in the Regulatory Asset Base, at a value equal to 5% of their optimized replacement cost.
10. The proposed Capital Expenditure included in the afore-mentioned calculation of the Rolled-forward Regulatory Asset Base is as demonstrated below:

Table 5. Proposed Capital Expenditure (per regulatory year)					
ITEM	NOMINAL PESO				
Capex Category	2011	2012	2013	2014	2015
A. REGULATED DISTRIBUTION SERVICES ASSETS					
A1 Regulated Distribution Services Assets – Network assets	112,647,225	137,493,775	58,724,919	56,851,424	156,663,092
Land and Land Rights (Distribution Purposes)	0	0	0	0	0

Structures and Improvements	5,976,494	0	0	0	10,497,561
Station Equipment	0	0	0	0	0
Power transformers	52,806,087	0	0	0	60,117,475
Switchgear	10,721,659	0	0	0	9,626,463
Protective equipment	3,159,977	8,722,979	0	0	11,485,080
Metering & control equipment	6,030,763	1,029,508	276,506	0	16,439,864
Communications equipment	1,021,274	885,599	1,843,372	1,917,107	2,254,846
Other station equipment	1,480,847	221,400	230,422	239,638	5,762,082
Poles, Towers and Fixtures - Distribution	9,923,717	35,463,219	5,004,228	4,458,374	8,245,250
Overhead Conductors and Devices - Distribution	4,052,414	28,971,757	7,309,930	7,104,979	5,125,425
Underground Cables and Devices - Distribution	0	0	0	379,524	0
Underground Conduits - Distribution	1,404,251	41,573,417	23,455,230	19,179,417	0
Line Transformers - Distribution	15,845,062	18,341,754	20,605,232	23,572,384	27,109,046
Power Conditioning Equipment	0	0	0	0	0
Meters, Instruments and Metering Transformers - Distribution	0	2,284,142	0	0	0
Information Systems Equipment (distribution)	224,680	0	0	0	0
Regulated Entity Property on Consumer's Premises	0	0	0	0	0
Street Lights and Signal Systems	0	0	0	0	0
Submarine Cables	0	0	0	0	0
A2 Regulated Distribution Services Assets – Non-network fixed assets	14,441,321	133,067,614	5,364,942	11,607,805	3,635,586
Land and Land Rights (non-network)	0	0	0	0	0
Structures and Improvements (non-network)	2,951,481	113,424,317	275,546	52,103	329,562
Office Furniture and Equipment	24,511	7,835,845	0	218,833	0
Transportation Equipment	2,834,035	0	1,138,618	9,236,163	0
Stores Equipment	0	0	0	0	0
Tools, Shop and Garage Equipment	2,106,173	1,646,636	890,741	598,121	968,507
Laboratory Equipment	0	0	0	0	0
Information Systems Equipment (non-network)	6,525,122	3,793,520	3,060,037	1,502,585	2,337,516
Power-operated Equipment	0	6,017,205	0	0	0
Communication Plant and Equipment	0	350,092	0	0	0

Miscellaneous Equipment	0	0	0	0	0
A3 Regulated Distribution Services Assets – Materials and supplies (including spares)	31,828,489	15,693,333	17,637,604	20,177,418	23,204,719
A4 Regulated Distribution Services Assets – Transferred Subtransmission Assets	0	0	0	0	0
Subtotal A	158,917,035	286,254,722	81,727,466	88,636,648	183,503,397
B. DISTRIBUTION CONNECTION SERVICES ASSETS					
B1 Distribution Connection Services Assets – Network assets					
Poles, Towers and Fixtures (Customer)					
Overhead Conductors and Devices (Customer)					
Underground Conductors and Devices (Customer)					
Line Transformers (Customer)					
Information Systems Equipment (Connection)					
B2 Distribution Connection Services Assets – Non-network fixed assets					
Land and Land Rights (non-network)					
Structures and Improvements (non-network)					
Office Furniture and Equipment					
Transportation Equipment					
Stores Equipment					
Tools, Shop and Garage Equipment					
Laboratory Equipment					
Information Systems Equipment (non-network)					
Power-operated Equipment					
Communication Plant and Equipment					
Miscellaneous Equipment					
B3 Distribution Connection Services Assets – Materials and supplies (including spares)					
Subtotal B					
C. REGULATED RETAIL SERVICES ASSETS					
C Regulated Retail Services Assets					
Meters, Instruments &	4,556,821	5,272,004	5,925,780	6,779,093	7,796,188

Metering Transformers					
Land and land rights					
Structures and improvements					
Office Furniture and Equipment					
Transportation Equipment					
Stores Equipment					
Tools, Shop and Garage Equipment					
Laboratory Equipment					
Information Systems Equipment					
Communication Plant and Equipment					
Miscellaneous Equipment					
Subtotal C	4,556,821	5,272,004	5,925,780	6,779,093	7,796,188
TOTAL	163,473,856	291,526,726	87,653,246	95,415,740	191,299,585

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

- To keep up with the increasing business trends in the Freeport Zone so as not to be left behind;
- To upgrade facilities (both distribution network and admin & general)) to be at par with the other utilities provider (i.e., Clark PLDT Telecoms & Clark Water Corporation) and other industries in Clark Freeport Zone;
- In anticipation of big ticket investors locating in Clark;
- To maintain or improve system reliability, efficiency and service performance; and
- To support CEDC's guaranteed service level requirements and commitments.

11. 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)

		Forecast (nominal value for regulatory year), measured in				
Opex Category and Sub-category		2011	2012	2013	2014	2015
Regulated Distribution Services						
Operation	Operation supervision & engineering	4,836,526	5,466,225	6,311,812	7,113,626	8,065,474
	Contractor services	1,813,782	1,886,784	1,963,669	2,207,801	2,308,224
	Load dispatching	1,474,787	1,663,795	1,874,469	2,104,966	2,373,558
	Structures	0	0	0	0	0
	Substations	672,243	1,006,346	1,134,274	1,279,608	1,448,352
	Overhead conductors & devices	691,443	760,973	857,808	892,121	932,699
	Underground cables & devices	0	0	0	0	0
	Street lighting and signal systems	0	0	0	0	0
	Metering (distribution network)	988,738	1,107,059	1,225,901	1,363,628	1,525,090
	Rents	4,212,799	4,477,364	5,692,107	6,451,822	7,634,288
	Information technology (distribution network)	0	0	0	0	0
	Miscellaneous	517,361	707,593	858,968	1,314,995	1,663,517
Maintenance	Maintenance supervision & engineering	893,190	1,337,953	1,499,088	1,683,303	1,899,620
	Contractor services	1,115,231	1,491,579	1,552,360	1,738,643	1,817,726
	Structures	0	0	0	0	0
	Substations	3,667,893	4,420,833	5,243,229	5,326,264	6,403,845
	Overhead lines & Devices	3,132,990	3,328,316	3,524,990	4,127,247	4,429,551
	Underground cables & devices	714,892	818,031	936,502	1,071,358	1,328,275
	Streetlighting and signal systems	0	0	0	0	0
	Distribution transformers	1,987,642	2,340,383	2,637,973	2,975,302	3,371,130
	Information technology (distribution network)	123,072	266,092	127,669	293,808	138,816
	Metering (distribution network)	1,337,503	1,512,011	1,711,925	1,942,112	2,212,357
	Miscellaneous	1,382,498	1,242,738	1,484,634	1,750,972	2,013,245
Admin & Gen	Company Management Costs	5,730,346	6,088,469	6,715,615	6,984,240	7,301,922
	Admin & general	6,473,634	7,732,679	8,944,834	10,293,260	11,870,060

	salaries					
	Office supplies & expenses	3,491,326	3,066,948	3,515,756	3,420,690	3,633,121
	Information technology (admin & general)	904,960	1,070,143	1,386,132	1,446,264	1,516,406
	Outside services employed	4,597,774	3,369,864	3,475,119	3,246,215	3,481,814
	Property insurance	1,268,830	1,355,074	1,643,477	1,614,418	1,604,061
	Injuries & damages	0	0	0	0	0
	Employee pension & benefits	1,457,213	1,651,235	1,753,379	1,866,753	1,988,391
	Regulatory liaison & compliance	16,210,270	18,922,729	28,748,338	32,828,005	38,291,465
	Rents	1,645,276	1,711,496	1,851,293	1,925,345	991,721
	Maintenance of office & general plant	490,722	493,581	494,566	455,597	518,675
	Officers allowance & benefits	1,297,618	1,818,542	1,892,646	1,968,352	2,057,883
	Travel	765,955	849,903	939,819	1,034,907	1,142,090
	Training	714,892	796,784	884,536	977,412	1,081,980
	Water and Electricity	1,029,240	1,119,524	1,610,346	1,832,116	1,943,677
	Miscellaneous	331,914	371,832	398,041	425,462	486,891
WESM	Market fees	0	0	0	0	0
	Registration fees	0	0	0	0	0
	Metering fees	0	0	0	0	0
	Billing & settlement fees	0	0	0	0	0
	Administration fees	0	0	0	0	0
	Costs for the PEM board, committees & working groups	0	0	0	0	0
	Market management software & upgrades costs recovery	0	0	0	0	0
	Provision and maintenance of security	0	0	0	0	0
Sub-total Regulated Distribution Services		75,972,562	84,252,880	102,891,279	113,956,609	127,475,921
Distribution Connection Services						
Operation	Operation supervision & engineering					
	Contractor services					
	Structures					
	Substations					
	Overhead lines & devices					
	Underground cables & devices					
	Consumer installations					

	Information technology (connection assets)					
	Miscellaneous					
Maintenance	Maintenance supervision & engineering					
	Contractor services					
	Structures					
	Substations					
	Overhead conductors & devices					
	Underground cables & devices					
	Consumer installations					
	Distribution transformers					
	Information technology (connection assets)					
	Miscellaneous					
Admin & Gen.	Admin & general salaries					
	Office supplies & expenses					
	Information technology (admin & general)					
	Outside services employed					
	Property insurance					
	Injuries & damages					
	Employee pension & benefits					
	Regulatory liaison & compliance					
	Rents					
	Maintenance of office & general plant					
	Officers allowance & benefits					
	Travel					
	Training					
	Water and Electricity					
	Sub-total Distribution Connection Services	-	-	-	-	-
Regulated Retail Services						
	Administration and General Salaries	916,033	1,045,005	1,309,015	1,361,376	1,562,022
	Office supplies & expenses	121,940	134,943	140,442	146,060	152,703
	Outside services employed	0	0	0	0	0

	Property insurance	0	0	0	0	0
	Injuries & damages	0	0	0	0	0
	Employee pension & benefits	158,583	167,414	175,802	192,659	210,933
	Regulatory liaison & compliance	0	0	0	0	0
	Rents	0	0	0	0	0
	Maintenance of office & general plant	10,213	11,686	13,379	15,305	17,601
	Officers allowance & benefits	0	0	0	0	0
	Travel	0	0	0	0	0
	Training	0	0	0	0	0
	Water and Electricity	0	0	0	0	0
	Planning, installation and maintenance of consumer metering installations	0	0	0	0	0
	Consumer Meter Reading Expenses	36,766	38,246	39,804	41,396	43,279
	Information technology (retail related)	0	0	0	0	0
	Consumer Records, Billing and Collection Expenses	1,637,273	1,832,811	2,054,671	2,313,815	2,618,113
	Bad debts	248,124	339,359	411,958	630,666	797,816
	Information and Instructional Advertising Expenses	1,184,678	212,476	221,134	229,979	240,440
	Energy trading expenses (excluding energy purchases)	0	0	0	0	0
	Miscellaneous consumer services expenses	0	0	0	0	0
	Sub-total Regulated Retail Services	4,313,609	3,781,939	4,366,205	4,931,257	5,642,909
	Total Operating & Maintenance Expenditure	80,286,171	88,034,819	107,257,484	118,887,866	133,118,831

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

- To match the major and minor capital expenditure forecasts (maintenance side);

- To motivate people to be more efficient, service-oriented and to improve performance levels (people retention);
- Historical expenditure patterns; and
- To showcase facilities of Clark Electric to foreign investors in the Clark Freeport Zone.

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

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

	Nominal PhP				
	2011	2012	2013	2014	2015
Levies	1,035,163	929,292	959,000	1,003,583	1,052,443
Duties	63,625	9,243	0	10,349	87,280
Other taxes	138,466	129,203	168,361	219,992	189,127
TOTAL	1,237,255	1,067,737	1,127,361	1,233,925	1,328,850

13a. The above-mentioned proposed taxes, levies & duties (other than corporate income taxes) expenditure are increased from current levels for the following reasons:

- To match the major and minor capital expenditure forecasts (duties and levies portion); and
- In compliance with Government Regulatory Agency fees.

14. The proposed Depreciation included in the afore-mentioned calculation of the Annual Revenue Requirement, including an allowance for assets intended to be disposed of during the Second Regulatory Period after allowing for any

potential income from the sales of such disposed assets, is as demonstrated below. These values include depreciation on the applicant's Regulatory Asset Base as at the start of the Second Regulatory Period, as well as depreciation on those assets proposed to be acquired during the Second Regulatory Period.

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

ITEM	NOMINAL PESO				
	2011	2012	2013	2014	2015
Depreciation Category					
A. REGULATED DISTRIBUTION SERVICES ASSETS					
A1 Regulated Distribution Services Assets – Network assets					
Land and Land Rights (Distribution Purposes)	-	-	-	-	-
Structures and Improvements	704,551	857,585	857,585	857,585	857,585
Station Equipment	-	-	-	-	-
Power transformers	5,053,866	5,496,321	5,496,321	5,496,321	5,496,321
Switchgear	3,609,664	3,698,176	3,698,176	3,698,176	3,698,176
Protective equipment	615,337	761,816	1,031,583	1,031,583	1,031,583
Metering & control equipment	253,475	401,327	432,327	440,327	440,327
Communications equipment	1,909,073	2,309,573	2,389,573	2,549,573	2,709,573
Other station equipment	704,170	748,387	755,054	761,721	768,387
Poles, Towers and Fixtures - Distribution	2,083,010	2,561,241	3,641,741	3,788,241	3,913,741
Overhead Conductors and Devices - Distribution	1,105,836	1,397,846	2,281,979	2,495,979	2,695,979
Underground Cables and Devices - Distribution	-	-	-	-	-
Underground Conduits - Distribution	182,745	193,054	1,278,768	781,618	1,244,378
Line Transformers - Distribution	5,914,354	6,200,107	6,758,947	7,362,171	8,025,716
Power Conditioning Equipment	-	270,000	270,000	270,000	270,000
Meters, Instruments and Metering Transformers - Distribution	352,678	665,197	736,363	736,363	736,363
Information Systems Equipment (distribution)	-	-	-	-	-
Regulated Entity Property on Consumer's Premises	-	-	-	-	-
Street Lights and Signal Systems	-	-	-	-	-
Submarine Cables	-	-	-	-	-
A2 Regulated Distribution Services Assets – Non-network fixed assets					
Land and Land Rights (non-network)	-	-	-	-	-
Structures and Improvements (non-network)	301,195	319,257	2,911,132	2,917,182	2,918,282

Office Furniture and Equipment	149,197	167,004	525,120	525,120	534,360
Transportation Equipment	2,572,833	3,670,377	3,670,377	3,770,377	4,608,277
Stores Equipment	-	-	-	-	-
Tools, Shop and Garage Equipment	168,434	197,392	272,647	350,877	401,387
Laboratory Equipment	53,731	53,731	53,731	53,731	53,731
Information Systems Equipment (non-network)	1,676,160	2,245,280	2,792,131	3,031,553	3,158,443
Power-operated Equipment	-	-	275,000	-	-
Communication Plant and Equipment	83,968	66,339	98,339	98,339	98,339
Miscellaneous Equipment	-	-	-	-	-
A3 Regulated Distribution Services Assets – Materials and supplies (including spares)	1,813,475	-	-	-	-
A4 Regulated Distribution Services Assets – Transferred Subtransmission Assets	-	-	-	-	-
Subtotal A	29,307,751	32,280,011	40,226,895	41,016,836	43,660,949
B DISTRIBUTION CONNECTION SERVICES ASSETS					
B1 Distribution Connection Services Assets – Network assets					
Poles, Towers and Fixtures					
Overhead Conductors and Devices					
Underground Conductors and Devices					
Line Transformers					
Information Systems Equipment					
B2 Distribution Connection Services Assets – Non-network fixed assets					
Land and Land Rights (non-network)					
Structures and Improvements					
Office Furniture and Equipment					
Transportation Equipment					
Stores Equipment					
Tools, Shop and Garage Equipment					
Laboratory Equipment					
Information Systems Equipment					
Power-operated Equipment					
Communication Plant and Equipment					
Miscellaneous Equipment					
B3 Distribution Connection Services Assets – Materials and supplies (including spares)					
Subtotal B					
	-	-	-	-	-
C. REGULATED RETAIL SERVICES ASSETS					

Regulated Retail Services Assets					
Meters, Instruments &	934,623	1,015,045	1,207,799	1,728,235	2,300,715
Metering Transformers	-	-	-	-	-
Land and land rights	-	-	-	-	-
Structures and improvements	-	-	-	-	-
Office Furniture and Equipment	-	-	-	-	-
Transportation Equipment	-	-	-	-	-
Stores Equipment	-	-	-	-	-
Tools, Shop and Garage Equipment	-	-	-	-	-
Laboratory Equipment	-	-	-	-	-
Information Systems Equipment	-	-	-	-	-
Communication Plant and Equipment					
Miscellaneous Equipment	-	-	-	-	-
Subtotal C	934,623	1,015,045	1,207,799	1,728,235	2,300,715
TOTAL	30,242,374	33,295,056	41,434,694	42,745,072	45,961,663

- 14a. 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.
15. For the Second Regulatory Period, no Corporate Income Tax will be included in the afore-mentioned calculation of the Annual Revenue Requirement.
16. Forecast sales of energy, including sales to Clark Electric Distribution Corporation itself, is forecast as follows:

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

	2011	2012	2013	2014	2015
Energy consumption (kWh)	276,145,318	292,051,415	309,574,500	330,507,217	353,642,722

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

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

	2011	2012	2013	2014	2015
Demand (KW)	55,397.81	61,050.88	67,496.53	74,852.01	83,252.48

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

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

	2012 Regulatory year	2013 Regulatory year	2014 Regulatory year	2015 Regulatory year
Maximum Annual Price (PhP/kWh)	0.788	0.869	0.959	1.066

18a. The applicant recognizes that the Commission will determine the actual X-factor and P₀-factor after its consideration of this application for Allowed Annual Revenue and will determine the actual price-path for the Second Regulatory Period after incorporating such amendments to these proposals as the Commission deems necessary. As part of its consideration the Commission may also amend one or more of the parameters on which the calculations of the Allowed Annual Revenue are based. The actual approved price path is therefore likely to differ from that estimated above.

19. 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)

	Existing	Illustrative	Illustrative	Illustrative	Illustrative
	Rates	Rates	Rates	Rates	Rates
Customer Class	2009	2012	2013	2014	2015
RESIDENTIAL					
Distribution (P/kwh)	Php0.7070	0.95	1.04	1.15	1.28
Supply (P/kwh)		0.60	0.67	0.73	0.82
Metering (P/cust/mo)		5.00	5.00	5.00	5.00
Metering (P/kwh)		0.06	0.07	0.08	0.09
Total	Php0.7070	Php 1.24	Php 1.30	Php 1.42	Php 1.63
General Services 0					
Distribution (P/kwh)	Php0.2000	1.16	1.28	1.41	1.57
Supply (P/cust/mo)		414.90	457.88	504.19	560.56
Metering (P/cust/mo)		5.00	5.00	5.00	5.00
Metering (P/kwh)		0.09	0.10	0.11	0.13
Total	Php0.2000	Php 1.97	Php 2.17	Php 2.40	Php 2.66
General Services 1					
Distribution (P/kwh)	Php0.7524	1.16	1.28	1.41	1.57
Supply (P/cust/mo)		414.90	457.88	504.19	560.56
Metering (P/cust/mo)		5.00	5.00	5.00	5.00
Metering (P/kwh)		0.09	0.10	0.11	0.13
Total	Php0.7524	Php 1.97	Php 2.17	Php 2.40	Php 2.66
General Services 2					
Distribution (P/kwh)	Php0.7539	1.16	1.28	1.41	1.57
Supply (P/cust/mo)		414.90	457.88	504.19	560.56
Metering (P/cust/mo)		5.00	5.00	5.00	5.00
Metering (P/kwh)		0.09	0.10	0.11	0.13
Total	Php0.7539	Php 1.97	Php 2.17	Php 2.40	Php 2.66
General Services 3					
Distribution (P/kwh)	Php0.7839	1.16	1.28	1.41	1.57
Supply (P/cust/mo)		414.90	457.88	504.19	560.56
Metering (P/cust/mo)		5.00	5.00	5.00	5.00
Metering (P/kwh)		0.09	0.10	0.11	0.13
Total	Php0.7839	Php 1.97	Php 2.17	Php 2.40	Php 2.66
General Services 4					
Distribution (P/kw)	Php10.00	259.79	303.90	358.06	425.96
Distribution (P/kwh)	Php0.7245	0.50	0.55	0.61	0.68

Supply (P/cust/mo)		414.90	457.88	504.19	560.56
Metering (P/cust/mo)		1,196.48	1,320.43	1,453.98	1,616.53
Total	Php0.7245	1.29	1.50	1.75	2.07
Large General Service					
Distribution (P/kw)	Php10.00	259.79	303.90	358.06	425.96
Distribution (P/kwh)	Php0.7334	0.50	0.55	0.61	0.68
Supply (P/cust/mo)		414.90	457.88	504.19	560.56
Metering (P/cust/mo)		1,196.48	1,320.43	1,453.98	1,616.53
Total	Php0.7334	1.29	1.50	1.75	2.07
Small Industrial Services					
Distribution (P/kw)	Php10.00	259.79	303.90	358.06	425.96
Distribution (P/kwh)	Php0.8336	0.50	0.55	0.61	0.68
Supply (P/cust/mo)		414.90	457.88	504.19	560.56
Metering (P/cust/mo)		1,196.48	1,320.43	1,453.98	1,616.53
Total	Php0.8336	1.29	1.50	1.75	2.07
Large Industrial Services					
Distribution (P/kw)	Php10.0000	312.93	366.07	431.31	513.10
Distribution (P/kwh)	Php0.7014	0	0	0	0
Supply (P/cust/mo)		414.90	457.88	504.19	560.56
Metering (P/cust/mo)		5,080.94	5,607.31	6,174.43	6,864.72
Total	Php0.7014	0.78	0.95	1.16	1.43
69kV					
Distribution (P/kw)	Php10.0000	170.81	199.82	235.43	280.08
Distribution (P/kwh)	Php0.6204	0	0	0	0
Supply (P/cust/mo)		414.90	457.88	504.19	560.56
Metering (P/cust/mo)		36,346.74	40,112.17	44,169.12	49,107.10
Total	Php0.6204	0.42	0.51	0.62	0.76
Street Lights					
Distribution (P/kw)					
Distribution (P/kwh)	Php0.7507	1.29	1.42	1.57	1.74
Supply (P/cust/mo)		414.90	457.88	504.19	560.56
Metering (P/cust/mo)		49.17	54.26	59.75	66.43
Total	Php0.7507	Php 1.53	Php 1.69	Php 1.86	Php 2.07

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

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

Performance index	Units	Weight	Reward		Target	Penalty	
			Level A	Level B	Level C	Level D	Level E
System average interruption frequency index (SAIFI)	Number	0.20	0.5536	1.8418	3.13	4.4182	5.7064
Customer average interruption duration index (CAIDI)	Minutes	0.20	14.2134	23.9417	33.67	43.3983	53.1266
Planned system average interruption duration index (SAIDI)	Minutes	0.15	0	40.1694	110.63	181.0906	251.5512
Probability of voltage levels falling within prescribed limits	%	0.10	6.0%	5.0%	4.0%	3.0%	2.0%
System losses	%	0.05	6.5%	7.5%	8.5%	---	---
Average time to process applications for Regulated Distribution Services	Days	0.15	10	7	6	3	2
Average time to connect premises to the Regulated Distribution System	Days	0.15	20	15	10	7	5
Average time to answer calls at call centre	Seconds	0	0	0	0	0	0

21. 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	5.02 hours	135.07
Customer experiencing a number of sustained service interruptions in a Regulatory Year that exceeds the threshold	5 times	135.07
Restoration of supply to a customer after a fault on the secondary distribution network taking longer than the threshold time	12 hours	135.07
Customer connection not provided on the day agreed with the customer (GSL4a)	2 days	135.07
Customer connection not provided on the day agreed with the customer (GSL4b)	10 days	135.07
Customer connection not provided on the day agreed with the customer (GSL4c)	30 days	135.07

- 21a. The applicant will be entitled to an additional revenue amount equal to 0.5% of its Annual Revenue Requirement, which is intended to be applied to the Guaranteed Service Level Scheme and can be used to either provide for penalties under the scheme, or for network or operational improvements to avoid such penalties.
22. 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.
23. In support of this application for the approval of its Allowed Annual Revenue and Performance Incentive Scheme, the applicant has attached the following required documents as described in the RDWR and the Position Paper:

Table 15. Supporting Information attached

Schedule	Information provided
A	Regulatory Asset Base
A1	Summary of the optimized depreciated replacement cost (ODRC) and the depreciated historical cost of the Regulatory Asset Base as at the initial valuation date (the Regulatory Asset Base).
A2	Summary of the optimized depreciated replacement cost and the depreciated historical cost of the Original Regulatory Asset Base as at the start of the Second Regulatory Period, with supporting calculations for indexing applied.
A3	Assets forecast to be acquired during the period between the initial valuation date and the start of the Second Regulatory Period.
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
A4	Forecast asset disposal during the period between the initial valuation date and the start of the Second Regulatory Period.
A4.1	- Schedule of assets to be disposed of
A4.2	- Value of the assets to be disposed of
A4.3	- Forecast income from the sale of disposed assets
A5	ODRC depreciation schedules for the Regulatory Asset Base for the period between the initial valuation date and the start of the Second Regulatory Period.
A5.1	- Assets included in the Original Regulatory Asset Base
A5.2	- Assets acquired in the lead-up to the Second Regulatory Period
A6	Historical cost depreciation schedules for the Regulatory Asset Base for the period between the initial valuation date and the start of the Second Regulatory Period.
A6.1	- Assets included in the Original Regulatory Asset Base
A6.2	- Assets acquired in the lead-up to the Second Regulatory Period
A7	Application of the construction work in progress (CWIP) factor to the Regulatory Asset Base as at the start of the Second Regulatory Period.
A8	Summary of the optimized depreciated replacement cost (ODRC) and the depreciated historical cost of the full Regulatory Asset

Schedule	Information provided
	Base as at the start of the Second Regulatory Period (the opening value of the rolled-forward Regulatory Asset Base).
B	Financial indices forecast for Second Regulatory Period
B1	Philippine quarterly CPI
B2	United States quarterly CPI
B3	PhP/US\$ quarterly exchange rate
B4	180-Day Manila Reference Rate
C	Forecast capital expenditure for the Second Regulatory Period
C1	Summary of capital expenditure forecasts for each year of the Second Regulatory Period
C1.1	- Real values, divided in PhP and US\$ components
C1.2	- Total real values, in PhP
C1.3	- Total nominal values, in PhP
C1.4	- Justification for capital expenditure (major and minor projects)
C2	Broken down historical capital expenditure
D	Forecast disposals during the Second Regulatory Period
D1	Value of assets to be disposed of (based on ODRC register)
D2	Forecast income from the sale of disposed assets
E	Forecast depreciation during the Second Regulatory Period
E1	Depreciation of the opening asset base
E1.1	- ODRC basis
E1.2	- Historical cost basis
E2	Depreciation of the assets forecast to be acquired during the Second Regulatory Period
E2.1	- ODRC basis
E2.2	- Historical cost basis
F	Forecast assets used beyond standard lives
F1	Forecast addition to assets used beyond standard lives
F2	Forecast removal from assets used beyond standard lives
G	Forecast operating & maintenance expenditure

Schedule	Information provided
G1	Summary of forecast operating & maintenance expenditure
G1.1	<ul style="list-style-type: none"> - Annual expenditure, divided in real PhP and US\$ components
G1.2	<ul style="list-style-type: none"> - Total annual expenditure, in real PhP
G1.3	<ul style="list-style-type: none"> - Total annual expenditure, in nominal PhP
G1.4	<ul style="list-style-type: none"> - 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	<ul style="list-style-type: none"> - Annual expenditure, in real PhP
G3.2	<ul style="list-style-type: none"> - Annual expenditure, in nominal PhP
G3.3	<ul style="list-style-type: none"> - Justification for expenditure
G3.4	<ul style="list-style-type: none"> - Historical taxes, levies & duties
H	Forecast energy consumption and demand
H1	Forecast energy consumption figures (kWh)
H1.1	<ul style="list-style-type: none"> - Breakdown of consumption figures into customer classes
H1.2	<ul style="list-style-type: none"> - Supporting evidence
H2	Forecast energy demand figures (MW)
H2.1	<ul style="list-style-type: none"> - Breakdown of demand figures into customer classes
H2.2	<ul style="list-style-type: none"> - Supporting evidence
H3	Forecast customer numbers, per customer class
I	Performance incentive scheme details
I1	Price-linked incentive scheme
I1.1	<ul style="list-style-type: none"> - Details of scheme proposed
I1.2	<ul style="list-style-type: none"> - Proposed target levels
I1.3	<ul style="list-style-type: none"> - Supporting information & calculations
I2	Guaranteed service level scheme
I2.1	<ul style="list-style-type: none"> - Details of scheme proposed
I2.2	<ul style="list-style-type: none"> - Proposed target levels
I2.3	<ul style="list-style-type: none"> - Proposed penalty levels
I2.4	<ul style="list-style-type: none"> - Supporting information & calculations
J	Additional information for price-cap model

Schedule	Information provided
J1	Contact details for input sheets
J2	2010 Calendar year billing & consumption data (estimate)
J3	Related business revenue for 2010 calendar year (estimate)
J4	Tax losses carried forward from 2010 and 2011 regulatory years (estimate)
K	Detailed calculations for Second Regulatory Period Rollover forward regulatory asset base Annual revenue requirement Corporate income tax forecasts Forecast price-caps for the opening and subsequent years of the Second Regulatory Period
L	Calculation of demonstrative unbundled rates

24. 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, CEDC prays, after due notice and hearing and consideration, that the Application be approved and that a final authority be issued to Applicant authorizing it to adopt the above Annual Revenue Requirements and Performance Incentive Scheme.

Other reliefs and equitable under the premises are likewise prayed for.

Pasig City, Philippines, September 21, 2010.

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By:

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IBP NO. 800240; 1/4/10
RSM

VERIFICATION/CERTIFICATION

I, RADITO P. TUAZON, of legal age, married, Filipino and with office address at Bldg. N2830 Bayanihan Street, Clark Freeport Zone, Pampanga, after having been duly sworn in accordance with law, hereby deposes and state: That –

1. I am the Chief Operating Officer of the Clark Electric Distribution Corporation (“CEDC”);
2. I have caused the preparation of the foregoing Application;
3. The allegations set forth therein are true and correct based on my personal knowledge and/or on the authentic records of CEDC;
4. CEDC has not commenced any other action or proceeding involving the same issues in the Supreme Court, the Court of Appeals, or any other tribunal or agency; to the best of my knowledge, no such action or proceeding is pending in the Supreme Court, the Court of Appeals, or different Divisions thereof, or any other tribunal or agency; and that, if I should learn that a similar action or proceeding has been filed or is pending before the Supreme Court, the Court of Appeals, or different Divisions thereof, or any other tribunal or agency, I undertake to promptly inform this Honorable Commission within five (5) days therefrom.

Sgd. RADITO P. TUAZON

SUBSCRIBED AND SWORN to before me this 22nd day of September 2010 at Angeles City, affiant who is personally known to me, exhibiting to me his Passport with Passport No. XX1063637, issued on 28 April 2008 at DFA Consular Office, Clark Field, Pampanga and his Driver’s License with License Number N02-82-019082, issued on September 16, 2009 at LTO, Quezon City, as competent evidence of identity.

Sgd. MARIA IMELDA Q. TUAZON

NOTARY PUBLIC

Angeles City

Until December 31, 2011

PTR No. AC 1828439

Angeles City, 01-04-10

Roll of Attorneys No. 40037

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Commission No. 2010-256

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