

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 - 115 RC

**SUBIC ENERZONE CORPORATION
(SEZ),**

Applicant.

APPLICATION

COMES NOW, Applicant Subic Enerzone Corporation (SEZ) 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. 502 Dewey Avenue, Subic Bay Freeport Zone, Olongapo City where it may be served with summons and other legal processes, represented in this instance by its Senior Vice President and Chief Operating Officer, Dante T. Pollescas of legal age, Filipino, married and with office address also at Bldg. 502 Dewey Avenue, Subic Bay Freeport Zone, Olongapo City. Herein Applicant is the duly authorized operator of the power distribution system of the Subic Freeport Zone, located in the provinces of Zambales and Bataan, by virtue of the Distribution Management Service Agreement (DMSA) that it entered into with the Subic Bay Metropolitan Authority (SBMA) on May 15, 2003 for a period of twenty-five (25) years.

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 (the “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	112,458,061	122,616,480	134,665,997	148,839,566
Taxes, levies & duties (other than corporate tax)	22,300,258	1,755,892	1,826,127	1,909,190
Regulatory depreciation	54,052,834	54,674,119	57,739,065	57,759,507
Return on capital	220,888,920	220,699,246	220,012,567	217,962,452
TOTAL REVENUE REQUIREMENT	409,700,073	399,745,737	414,243,756	426,470,715

Note : All values are in nominal terms

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

ITEM	PhP for Regulatory Year			
	2012	2013	2014	2015
Opening value of RAB	1,464,479,975	1,464,317,337	1,460,560,133	1,453,513,889
plus Capital Expenditure	53,890,196	50,916,915	50,692,821	35,538,216
minus Regulatory Depreciation on asset base at start of Second Regulatory Period	51,707,608	51,249,034	51,242,029	50,928,200
minus Regulatory Depreciation on capital expenditure incurred during the Second Regulatory	1,061,603	3,072,506	4,958,727	6,577,777

Period				
Closing value of RAB	1,464,317,337	1,460,560,133	1,453,513,889	1,431,292,598
AVERAGE VALUE OF RAB	1,464,398,656	1,462,438,735	1,457,037,011	1,442,403,244

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)	9/1/2010	For substation projects : 4.20% For other projects : 2.98%
P ₀ -factor	9/1/2010	0 PhP/kWh
X-factor		-0.175
Valuation of the applicant's regulatory asset base as at June 30, 2009	9/1/2010	Php 1,291,241,749
Working-capital proportion	9/1/2010	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):

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

	2010	2011	2012	2013	2014	2015
Calendar Year	3.8%	4.3%	4.0%	4.0%	4.0%	5.1%
Regulatory Year		4.2%	4.1%	4.0%	4.0%	4.8%
Data source :	ERC Expenditure Templates					

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

	2010	2011	2012	2013	2014	2015
Calendar Year	1.6%	1.3%	1.9%	2.5%	2.8%	2.8%
Regulatory Year		1.4%	1.7%	2.3%	2.7%	2.8%
Data source :	ERC Expenditure Templates					

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

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 :	ERC Expenditure Templates					

7a. For the purposes of the initial and subsequent annual price resets during the Second Regulatory Period as required in terms of the RDWR, the Applicant will update the afore-mentioned Consumer Price Indices and foreign exchange rates with actual values in accordance with the RDWR and will use such updated values for the price resets.

8. The afore-mentioned Annual Revenue Requirement is in part based on a proposed rate of return of 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				
	2011	2012	2013	2014	2015
Capex Category					
A. REGULATED DISTRIBUTION SERVICES ASSETS					
A1. Regulated Distribution Services Assets – Network assets					
Land and Land Rights (Distribution Purposes)	0	0	0	0	0
Structures and Improvements	438,750	125,000	0	0	0
Station Equipment	0	0	0	0	0
Power transformers	0	0	0	0	0

ITEM Capex Category	NOMINAL PESO				
	2011	2012	2013	2014	2015
Switchgear	3,163,160	745,043	6,585,783	2,800,304	201,681
Protective equipment	563,681	982,830	715,240	146,846	0
Metering & control equipment	349,951	742,957	208,769	0	0
Communications equipment	0	0	0	0	0
Poles, Towers and Fixtures - Distribution	21,007	0	0	0	0
Overhead Conductors and Devices - Distribution	13,861,353	11,622,768	8,645,758	8,045,278	7,331,746
Underground Conduits – Distribution	9,508,264	5,507,949	5,976,274	9,916,324	5,276,689
Underground Conductors and Devices - Distribution	0	0	0	0	0
Distribution Transformers	11,056,699	9,015,889	8,346,315	8,444,609	4,195,536
Power Conditioning Equipment	3,770,049	4,259,081	3,639,163	3,559,725	3,453,778
Meters, Instruments and Metering Transformers - Distribution	104,985	4,699,461	1,621,755	86,001	21,737
Information technology Equipment (distribution)	0	0	0	0	0
Regulated Entity Property on Consumer's Premises	1,547,608	526,993	107,923	20,250	184,986
Street Lights and Signal Systems	0	0	0	0	0
Submarine Cables	371,717	339,153	339,153	339,153	309,368
A2. Regulated Distribution Services Assets – Non-network fixed assets					
Land and Land Rights (non-network)	0	0	0	0	0
Structures and Improvements (non-network)	4,626,916	1,162,500	527,500	505,000	200,000
Office Furniture and Equipment	352,585	93,800	68,800	68,800	68,800
Transportation Equipment	1,498,192	1,555,000	1,367,500	1,762,500	757,500
Stores Equipment	0	0	0	0	0
Tools, Shop and Garage Equipment	5,932,663	2,368,325	1,564,200	2,191,900	1,957,400
Laboratory Equipment	1,950,000	650,000	0	0	0
Information Systems Equipment (non-network)	2,972,138	1,408,418	862,500	510,000	652,500
Power-operated Equipment	0	0	0	0	0
Communication Plant and Equipment	0	0	0	234,254	78,085
Miscellaneous Equipment	0	0	0	0	0

ITEM Capex Category	NOMINAL PESO				
	2011	2012	2013	2014	2015
A3. Regulated Distribution Services Assets – Materials and supplies (including spares)	0	0	0	0	0
A4. Regulated Distribution Services Assets – Transferred Subtransmission Assets	0	0	0	0	0
Subtotal A	62,089,718	45,805,167	40,576,633	38,630,945	24,689,805
B. DISTRIBUTION CONNECTION SERVICES ASSETS					
B1. Distribution Connection Services Assets – Network assets					
Poles, Towers and Fixtures (Customer)	0	0	0	0	0
Overhead Conductors and Devices (Customer)	1,124,300	636,183	690,275	1,145,362	609,472
Underground Conduits (Customer)	0	0	0	0	0
Underground Conductors and Devices (Customer)	0	0	0	0	0
Distribution Transformers (Customer)	0	0	0	0	0
Information technology Equipment (Connection)	0	0	0	0	0
B2. Distribution Connection Services Assets – Non-network fixed assets					
Land and Land Rights (non-network)	0	0	0	0	0
Structures and Improvements (non-network)	0	0	0	0	0
Office Furniture and Equipment	0	0	0	0	0
Transportation Equipment	0	0	0	0	0
Stores Equipment	0	0	0	0	0
Tools, Shop and Garage Equipment	0	0	0	0	0
Laboratory Equipment	0	0	0	0	0
Information Systems Equipment (non-network)	0	0	0	0	0
Power-operated Equipment	0	0	0	0	0
Communication Plant and Equipment	0	0	0	0	0
Miscellaneous Equipment	0	0	0	0	0
B3. Distribution Connection Services Assets – Materials & supplies (including spares)	0	0	0	0	0

ITEM Capex Category	NOMINAL PESO				
	2011	2012	2013	2014	2015
Subtotal B	1,124,300	636,183	690,275	1,145,362	609,472
C. REGULATED RETAIL SERVICES ASSETS					
Meters, Instruments & Metering Transformers (Consumer Consumption Metering)	3,409,210	2,978,538	3,477,188	3,136,306	3,510,944
Land and land rights	0	0	0	0	0
Structures and improvements	0	0	0	0	0
Office Furniture and Equipment	0	0	0	0	0
Transportation Equipment	0	0	0	0	0
Stores Equipment	0	0	0	0	0
Tools, Shop and Garage Equipment	0	0	0	0	0
Laboratory Equipment	0	0	0	0	0
Information Systems Equipment	0	0	0	0	0
Communication Plant and Equipment	0	0	0	0	0
Miscellaneous Equipment	0	0	0	0	0
Subtotal C	3,409,210	2,978,538	3,477,188	3,136,306	3,510,944
TOTAL	66,623,228	49,419,888	44,744,096	42,912,613	28,810,221

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

10b. The increases reflect new capital expenditure required to meet growing energy demand, increased customer numbers, service quality and performance measurement improvements and the replacement of ageing or obsolete equipment.

11. The proposed Operating & Maintenance Expenditure included in the 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				
	2011	2012	2013	2014	2015
A. REGULATED DISTRIBUTION SERVICES					
A1. Distribution: Operation					

Opex Category and Sub-category	Nominal PhP				
	2011	2012	2013	2014	2015
Operation supervision & engineering	5,174,615	5,875,017	6,393,444	7,149,751	8,076,927
Contractor services	0	0	0	0	0
Load dispatching	0	0	0	0	0
Structures	0	0	0	0	0
Substations	5,618,067	6,421,387	7,229,237	8,159,710	9,256,365
Overhead conductors & devices	3,049,070	3,469,610	3,902,097	4,416,782	4,995,050
Underground cables & devices	3,326,067	3,785,315	4,259,754	4,822,744	5,455,316
Streetlighting and signal systems	114,261	130,038	146,336	165,677	187,408
Metering (distribution network)	0	0	0	0	0
Rents	0	0	0	0	0
Information technology (distribution network)	0	0	0	0	0
Miscellaneous	0	0	0	0	0
A2. Distribution: Maintenance					
Maintenance supervision & engineering	2,932,965	3,298,391	3,609,415	3,984,460	4,417,789
Contractor services	0	0	0	0	0
Structures	0	0	0	0	0
Substations	2,820,412	3,139,587	3,385,654	3,870,709	4,208,625
Overhead lines & Devices	1,203,537	1,346,736	1,461,165	1,601,296	1,759,571
Underground cables & devices	1,248,807	1,395,596	1,510,835	1,651,335	1,810,193
Streetlighting and signal systems	42,901	47,943	51,902	56,729	62,186
Distribution transformers	1,240,643	1,395,159	1,526,577	1,685,257	1,868,435
Information technology (distribution network)	0	0	0	0	0
Metering (distribution network)	0	0	0	0	0
Miscellaneous	0	0	0	0	0
A3. Administrative & General					
Admin & general salaries	6,496,070	7,361,900	8,178,173	9,100,511	10,196,158
Office supplies & expenses	844,282	907,718	944,243	983,227	1,027,568
Information technology (admin & general)	3,583,049	3,623,296	3,861,908	4,080,273	4,559,024
Outside services employed	6,065,710	6,800,799	7,396,545	8,066,227	8,851,874
Property insurance	1,014,765	1,109,123	1,154,319	1,200,492	1,255,097
Injuries & damages	18,662	20,398	21,229	22,078	23,082
Employee pension & benefits	7,810,420	8,575,658	9,490,872	10,246,565	11,214,317

Opex Category and Sub-category	Nominal PhP				
	2011	2012	2013	2014	2015
Regulatory liaison & compliance	971,997	1,062,378	1,105,669	1,149,896	1,202,200
Rents	0	0	0	0	0
Maintenance of office & general plant	7,333,926	8,052,700	8,337,936	8,863,614	9,256,056
Officers allowance & benefits	74,797	84,326	89,310	93,458	98,310
Travel	4,018,677	4,392,353	4,571,337	4,721,146	4,924,374
Training	2,369,173	2,125,527	2,068,763	2,063,604	2,194,676
Water and Electricity	1,084,652	1,185,508	1,233,817	1,283,169	1,341,535
Miscellaneous	126,326	138,072	143,698	149,446	156,244
WESM compliance (applicable to Regulated Distribution Services)					
Market fees					
Registration fees					
Metering fees					
Billing & settlement fees					
Administration fees	0	0	0	0	0
Costs for the PEM board, committees & working groups					
Market management software & upgrades					
Provision and maintenance of security					
Subtotal A	68,583,851	75,744,533	82,074,236	89,588,158	98,398,381
B DISTRIBUTION CONNECTION SERVICES					
B1. Connection Services: Operation					
Operation supervision & engineering	1,317,109	1,499,145	1,680,584	1,896,217	2,145,207
Contractor services	0	0	0	0	0
Structures	0	0	0	0	0
Substations	0	0	0	0	0
Overhead connections & devices	1,116,671	1,271,563	1,425,773	1,607,770	1,820,132
Underground cables & devices	0	0	0	0	0
Consumer installations	0	0	0	0	0
Information technology (connection assets)	0	0	0	0	0
Miscellaneous	0	0	0	0	0
B2. Connection Services: Maintenance					
Maintenance supervision & engineering	990,368	1,120,564	1,238,834	1,380,496	1,546,696
Contractor services	0	0	0	0	0

Opex Category and Sub-category	Nominal PhP				
	2011	2012	2013	2014	2015
Structures	0	0	0	0	0
Substations	0	0	0	0	0
Overhead connections & devices	848,784	962,782	1,068,850	1,194,635	1,344,012
Underground cables & devices	0	0	0	0	0
Consumer installations	0	0	0	0	0
Distribution transformers	0	0	0	0	0
Information technology (connection assets)	0	0	0	0	0
Miscellaneous	0	0	0	0	0
B3. Administrative & General					
Admin & general salaries	0	0	0	0	0
Office supplies & expenses	0	0	0	0	0
Information technology (admin & general)	0	0	0	0	0
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	0	0	0	0	0
Regulatory liaison & compliance	0	0	0	0	0
Rents	0	0	0	0	0
Maintenance of office & general plant	0	0	0	0	0
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
Subtotal B	4,272,933	4,854,055	5,414,041	6,079,118	6,856,047
C REGULATED RETAIL SERVICES					
Administration and General Salaries	2,955,300	3,361,497	3,757,233	4,169,932	4,692,126
Office supplies & expenses	265,015	256,028	252,883	262,199	274,943
Outside services employed	3,388,836	3,857,827	4,308,251	4,844,850	5,482,176
Property insurance	0	0	0	0	0
Injuries & damages	0	0	0	0	0
Employee pension & benefits	610,278	473,503	426,303	471,347	524,722
Regulatory liaison & compliance	0	0	0	0	0

Opex Category and Sub-category	Nominal PhP				
	2011	2012	2013	2014	2015
Rents	0	0	0	0	0
Maintenance of office & general plant	139,476	178,565	113,088	174,646	125,005
Officers allowance & benefit	296,886	338,405	377,951	421,860	473,691
Travel	31,232	34,136	35,527	36,948	38,629
Training	92,340	100,926	105,039	109,240	114,209
Water and Electricity	0	0	0	0	0
Planning, installation and maintenance of consumer metering installations	3,477,001	3,931,255	4,340,969	4,824,586	5,398,847
Consumer Meter Reading Expenses	291,599	318,714	331,701	344,969	360,660
Information technology (retail related)	0	0	0	0	0
Consumer Records, Billing and Collection Expenses	3,140,610	3,706,742	4,170,331	4,647,123	5,213,312
Bad debts	11,165,972	12,791,901	14,296,673	15,974,274	18,046,501
Information and Instructional Advertising Expenses	2,295,858	2,509,338	2,611,591	2,716,055	2,839,596
Energy trading expenses (excluding energy purchases)	0	0	0	0	0
Miscellaneous consumer services expenses	583	637	663	690	721
Subtotal C	28,150,985	31,859,473	35,128,203	38,998,721	43,585,138
TOTAL	101,007,769	112,458,061	122,616,480	134,665,997	148,839,566

11a. The above-mentioned proposed Operating and Maintenance expenditures are increased from current levels for the following reasons:

11b. That the proposed increase in operating and maintenance expenditure is as a result of increased inputs required to service the growing asset base and of inflationary pressures.

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

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

	Nominal PhP				
	2011	2012	2013	2014	2015
Levies	0	22,300,258	1,755,892	1,826,127	1,909,190
Duties	0	0	0	0	0
Other taxes	0	0	0	0	0
TOTAL	0	22,300,258	1,755,892	1,826,127	1,909,190

12a. The above-mentioned proposed taxes, levies & duties (other than corporate income taxes) expenditure includes SEZ' share to the ERC Regulatory Reset Expert fees.

13. The proposed Depreciation included in the afore-mentioned calculation of the Annual Revenue Requirement, including an allowance for assets intended to be disposed of during the Second Regulatory Period after allowing for any potential income from the sales of such disposed assets, is as demonstrated below. These values include depreciation on the applicant's Regulatory Asset Base as at the start of the Second Regulatory Period, as well as depreciation on those assets proposed to be acquired during the Second Regulatory Period.

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

ITEM Depreciation Category	NOMINAL PESO				
	2011	2012	2013	2014	2015
A. REGULATED DISTRIBUTION SERVICES ASSETS					
A1. Regulated Distribution Services Assets – Network assets					
Land and Land Rights (Distribution Purposes)	0	0	0	0	0
Structures and Improvements	417,183	413,814	415,524	415,524	415,524
Station Equipment	0	0	0	0	0
Power transformers	3,356,016	3,271,723	3,271,723	3,271,723	3,271,723
Switchgear	4,361,092	4,468,438	4,608,642	4,791,023	4,851,155
Protective equipment	1,294,378	1,302,238	1,339,814	1,359,466	1,362,923
Metering & control equipment	111,785	129,041	146,757	150,766	150,766
Communications equipment	0	0	0	0	0
Poles, Towers and Fixtures - Distribution	26,465	28,332	28,332	28,332	28,332
Overhead Conductors and Devices - Distribution	4,127,304	4,782,926	5,076,962	5,329,437	5,571,911

ITEM Depreciation Category	NOMINAL PESO				
	2011	2012	2013	2014	2015
Underground Conduits – Distribution	3,171,024	3,563,741	3,759,522	4,042,533	4,321,393
Underground Conductors and Devices - Distribution	4,145,627	4,330,276	4,330,276	4,330,276	4,330,276
Distribution Transformers	1,430,332	1,524,666	1,801,337	2,079,953	2,297,009
Power Conditioning Equipment	5,767,252	5,760,499	5,907,219	6,046,535	6,188,054
Meters, Instruments and Metering Transformers - Distribution	1,237,302	1,282,499	1,398,965	1,431,438	1,433,584
Information technology Equipment (distribution)	0	0	0	0	0
Regulated Entity Property on Consumer's Premises	1,811,642	1,999,264	2,033,224	2,040,354	2,052,638
Street Lights and Signal Systems	0	0	0	0	0
Submarine Cables	211,293	241,532	254,152	267,282	280,359
A2. Regulated Distribution Services Assets – Non-network fixed assets					
Land and Land Rights (non-network)	0	0	0	0	0
Structures and Improvements (non-network)	1,643,819	1,879,161	1,902,566	1,917,549	1,928,119
Office Furniture and Equipment	255,690	278,158	283,664	288,527	293,598
Transportation Equipment	3,838,145	4,034,570	4,205,231	4,396,103	4,554,539
Stores Equipment	0	0	0	0	0
Tools, Shop and Garage Equipment	1,246,781	1,978,268	2,084,828	2,191,497	2,313,821
Laboratory Equipment	465,744	508,562	525,825	525,825	525,825
Information Systems Equipment (non-network)	795,925	2,036,238	1,822,655	1,976,664	1,935,248
Power-operated Equipment	0	0	0	0	0
Communication Plant and Equipment	71,985	68,072	68,072	81,540	99,702
Miscellaneous Equipment	21,123	20,284	20,284	13,279	0
A3. Regulated Distribution Services Assets – Materials and supplies (including spares)	0	0	0	0	0
A4. Regulated Distribution Services Assets – Transferred Subtransmission Assets	5,096,078	4,553,929	4,553,929	4,553,929	4,553,929
Subtotal A	45,688,541	49,189,272	50,572,546	52,262,595	53,493,470
B. DISTRIBUTION CONNECTION SERVICES ASSETS					
B1. Distribution Connection Services Assets – Network assets					

ITEM Depreciation Category	NOMINAL PESO				
	2011	2012	2013	2014	2015
Poles, Towers and Fixtures (Customer)	0	0	0	0	0
Overhead Conductors and Devices (Customer)	333,195	385,167	409,866	445,571	480,751
Underground Conduits (Customer)	0	0	0	0	0
Underground Conductors and Devices (Customer)	0	0	0	0	0
Distribution Transformers (Customer)	0	0	0	0	0
Information technology Equipment (Connection)	0	0	0	0	0
B2. Distribution Connection Services Assets – Non-network fixed assets					
Land and Land Rights (non-network)	0	0	0	0	0
Structures and Improvements (non-network)	0	0	0	0	0
Office Furniture and Equipment	0	0	0	0	0
Transportation Equipment	0	0	0	0	0
Stores Equipment	0	0	0	0	0
Tools, Shop and Garage Equipment	0	0	0	0	0
Laboratory Equipment	0	0	0	0	0
Information Systems Equipment (non-network)	0	0	0	0	0
Power-operated Equipment	0	0	0	0	0
Communication Plant and Equipment	0	0	0	0	0
Miscellaneous Equipment	0	0	0	0	0
B3. Distribution Connection Services Assets – Materials & supplies (including spares)	0	0	0	0	0
Subtotal B	333,195	385,167	409,866	445,571	480,751
C. REGULATED RETAIL SERVICES ASSETS					
Meters, Instruments & Metering Transformers (Consumer Consumption Metering)	1,965,704	2,218,407	2,362,763	2,516,225	2,677,436
Land and land rights	0	0	0	0	0
Structures and improvements	0	0	0	0	0
Office Furniture and Equipment	0	0	0	0	0

ITEM Depreciation Category	NOMINAL PESO				
	2011	2012	2013	2014	2015
Transportation Equipment	0	0	0	0	0
Stores Equipment	0	0	0	0	0
Tools, Shop and Garage Equipment	0	0	0	0	0
Laboratory Equipment	0	0	0	0	0
Information Systems Equipment	0	976,365	976,365	976,365	854,319
Communication Plant and Equipment	0	0	0	0	0
Miscellaneous Equipment	0	0	0	0	0
Subtotal C	1,965,704	3,194,772	3,339,128	3,492,590	3,531,755
TOTAL	47,987,440	52,769,211	54,321,541	56,200,756	57,505,977

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

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

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

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

	2011	2012	2013	2014	2015
Energy consumption (MWh)	211,372	218,770	226,427	234,351	242,554

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

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

	2011	2012	2013	2014	2015
Demand (MW)	42,140	43,976	46,680	49,131	52,329

17. The estimated price-path for the Second Regulatory Period that was determined using the afore-mentioned proposed Allowed Annual Revenue and an assumed zero X-factor and 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)	1.347	1.637	1.989	2.434

17a. 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.

18. Since the Maximum Average Prices calculated under Performance-Based Regulation are not directly comparable with unbundled rates, for illustrative purposes, the Applicant has prepared a comparison of its current rates for providing distribution wheeling services with those that would result from the implementation of the afore-mentioned estimated Maximum Annual Prices. This is presented below:

Table 12. Comparison of estimated rates with current rates (illustrative only)

Customer Class	Current Rates	Illustrative Rates (2012)	Illustrative Rates (2013)	Illustrative Rates (2014)	Illustrative Rates (2015)
Residential					
Distribution (PhP/kWh)	1.82	3.64	3.44	3.44	3.42
Supply (PhP/kWh)	0.1176	0.2351	0.2216	0.2219	0.2207
Metering (PhP/kWh)	0.2189	0.4457	0.4201	0.4208	0.4187
Metering (PhP/customer/month)	5.00	5.00	5.00	5.00	5.00
Inter-class cross-subsidy (PhP/kWh)	0	0	0	0	0
Total PhP/kWh	2.16	4.32	4.08	4.08	4.06
Total PhP/customer/month	5.00	5.00	5.00	5.00	5.00
Average PhP/kWh distribution wheeling rate	2.17	4.33	4.08	4.09	4.07
Commercial					
Distribution (PhP/kWh)	0.4850	0.8754	0.8252	0.8263	0.8219

Distribution demand charge (PhP/kW)	208.84	378.72	354.09	366.93	377.76
Supply (PhP/customer/month)	120.34	299.21	291.94	302.52	311.45
Metering (PhP/customer/month)	662.69	1,647.61	1,607.58	1,665.89	1,715.06
Inter-class cross-subsidy (PhP/kWh)	0	0	0	0	0
Total PhP/kWh	0.49	0.88	0.83	0.83	0.82
Total PhP/kW	208.84	378.72	354.09	366.93	377.76
Total PhP/customer/month	783.03	1,946.82	1,899.52	1,968.41	2,026.51
Average PhP/kWh distribution wheeling rate	1.15	2.08	1.96	1.96	1.95
Industrial					
Distribution (PhP/kWh)	0.3617	0.7248	0.6833	0.6842	0.6805
Distribution demand charge (PhP/kW)	168.16	313.58	293.19	303.82	312.79
Supply (PhP/customer/month)	1,450.16	2,645.96	2,581.68	2,675.31	2,754.27
Metering (PhP/customer/month)	1,146.36	2,091.66	2,040.84	2,114.85	2,177.28
Inter-class cross-subsidy (PhP/kWh)	0	0	0	0	0
Total PhP/kWh	0.36	0.72	0.68	0.68	0.68
Total PhP/kW	168.16	313.58	293.19	303.82	312.79
Total PhP/customer/month	2,596.52	4,737.62	4,622.51	4,790.16	4,931.55
Average PhP/kWh distribution wheeling rate	0.74	1.49	1.40	1.41	1.40
Streetlights					
Distribution (PhP/kWh)	1.24	2.84	2.68	2.68	2.67
Supply (PhP/customer/month)	94.79	189.90	185.29	192.01	197.67
Metering (PhP/customer/month)	0	0	0	0	0
Inter-class cross-subsidy (PhP/kWh)	0	0	0	0	0
Total PhP/kWh	1.24	2.84	2.68	2.68	2.67
Total PhP/customer/month	94.79	189.90	185.29	192.01	197.67
Average PhP/kWh distribution wheeling rate	1.37	3.16	2.98	2.98	2.96

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

linked Performance Incentive Scheme is based on the performance measures and performance targets demonstrated below. Stepped performance target levels are proposed, which will influence the size of the reward or penalty.

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

Performance index	Units	Weight	Reward		Target	Penalty	
			Level A	Level B	Level C	Level D	Level E
System average interruption frequency index (SAIFI)	Number	0.25	2.46	4.24	6.03	7.81	9.60
Customer average interruption duration index (CAIDI)	Minutes	0.25	38.13	50.64	63.15	75.67	88.18
Planned system average interruption duration index (SAIDI)	Minutes	0.15	30.74	42.50	54.27	66.04	77.80
Probability of voltage levels falling within prescribed limits	%	0.10	2%	3%	4%	5%	6%
System losses	%	0.05	7.50	8.50	9.50		
Average time to process applications for Regulated Distribution Services	Days	0.10	7.24	8.13	9.02	9.91	10.80
Average time to connect premises to the Regulated Distribution System	Days	0.10	3.19	3.92	4.65	5.38	6.11

20. The Applicant proposes to adopt a Guaranteed Service Level Performance Incentive Scheme as required in terms of the RDWR. According to this Guaranteed Service Level scheme, customers will be directly compensated, in the form of reductions in their monthly electricity bills, if service performance falls below certain minimum thresholds. The thresholds and the penalties that will apply are as demonstrated below:

Table 14. Summary of proposed Guaranteed Service Level Incentive Scheme

Performance Measure	Threshold	Penalty level (PhP)
Customer experiencing a total duration of sustained service interruptions in a Regulatory Year that exceeds the threshold	10 hours	462.62
Customer experiencing a number of sustained service interruptions in a Regulatory Year that exceeds the threshold	10 interruptions	462.62
Restoration of supply to a customer after a fault on the secondary distribution network taking longer than the threshold time	Within 10 hours	462.62

Performance Measure	Threshold	Penalty level (PhP)
Customer connection not provided on the day agreed with the customer	Beyond 5 days	462.62

- 20a. The Applicant will be entitled to an additional revenue amount equal to 0.5% of its Annual Revenue Requirement, which is intended to be applied to the Guaranteed Service Level Scheme and can be used to either provide for penalties under the scheme, or for network or operational improvements to avoid such penalties.
21. Applicant will comply with the requirements in Section 4(e), Rule 3 of the Rules and Regulations of Republic Act No. 9136, in relation to Rule 6 of the Commission Rules of Practice and Procedure, prior to the filing of this application with the Commission.
22. In support of this application for the approval of its Allowed Annual Revenue and Performance Incentive Scheme, the Applicant has attached the following required documents as described in the RDWR and the Position Paper:

Table 15. Supporting Information attached

Schedule	Information provided
A	Regulatory Asset Base
A1	Summary of the optimized depreciated replacement cost (ODRC) and the depreciated historical cost of the Regulatory Asset Base as at the initial valuation date (the Regulatory Asset Base).
A2	Summary of the optimized depreciated replacement cost and the depreciated historical cost of the Original Regulatory Asset Base as at the start of the Second Regulatory Period, with supporting calculations for indexing applied.
A3	Assets forecast to be acquired during the period between the initial valuation date and the start of the Second Regulatory Period.
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 Second 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

Schedule	Information provided
<p>A6</p> <p>A6.1</p> <p>A6.2</p> <p>A7</p> <p>A7.1</p> <p>A7.2</p> <p>A8</p> <p>A9</p>	<p>ODRC depreciation schedules for the Regulatory Asset Base for the period between the initial valuation date and the start of the Second Regulatory Period.</p> <ul style="list-style-type: none"> - Assets included in the Original Regulatory Asset Base - Assets acquired in the lead-up to the Second Regulatory Period <p>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.</p> <ul style="list-style-type: none"> - Assets included in the Original Regulatory Asset Base - Assets acquired in the lead-up to the Second Regulatory Period <p>Application of the construction work in progress (CWIP) factor to the Regulatory Asset Base as at the start of the Second Regulatory Period.</p> <p>Summary of the optimized depreciated replacement cost (ODRC) and the depreciated historical cost of the full Regulatory Asset Base as at the start of the Second Regulatory Period (the opening value of the rolled-forward Regulatory Asset Base).</p>
<p>B</p> <p>B1</p> <p>B2</p> <p>B3</p> <p>B4</p>	<p>Financial indices forecast for Second Regulatory Period</p> <p>Philippine quarterly CPI</p> <p>United States quarterly CPI</p> <p>PhP/US\$ quarterly exchange rate</p> <p>180-Day Manila Reference Rate</p>
<p>C</p> <p>C1</p> <p>C1.1</p> <p>C1.2</p> <p>C1.3</p> <p>C1.4</p> <p>C2</p>	<p>Forecast capital expenditure for the Second Regulatory Period</p> <p>Summary of capital expenditure forecasts for each year of the Second Regulatory Period</p> <ul style="list-style-type: none"> - Real values, divided in PhP and US\$ components - Total real values, in PhP - Total nominal values, in PhP - Justification for capital expenditure (major and minor projects) <p>Broken down historical capital expenditure</p>
<p>D</p> <p>D1</p> <p>D2</p>	<p>Forecast disposals during the Second Regulatory Period</p> <p>Value of assets to be disposed of (based on ODRC register)</p> <p>Forecast income from the sale of disposed assets</p>
<p>E</p> <p>E1</p> <p>E1.1</p> <p>E1.2</p>	<p>Forecast depreciation during the Second Regulatory Period</p> <p>Depreciation of the opening asset base</p> <ul style="list-style-type: none"> - ODRC basis - Historical cost basis

Schedule	Information provided
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
G1	Summary of forecast operating & maintenance expenditure
G1.1	- Annual expenditure, divided in real PhP and US\$ components
G1.2	- Total annual expenditure, in real PhP
G1.3	- Total annual expenditure, in nominal PhP
G1.4	- Justification for operating & maintenance expenditure forecasts
G2	
G3	Historical operating & maintenance expenditure
G3.1	Summary of expenditure on taxes (other than corporate income tax), duties and levies
G3.2	- Annual expenditure, in real PhP
G3.3	- Annual expenditure, in nominal PhP
G3.4	- Justification for expenditure
	- Historical taxes, levies & duties
H	Forecast energy consumption and demand
H1	Forecast energy consumption figures (kWh)
H1.1	- Breakdown of consumption figures into customer classes
H1.2	- Supporting evidence
H2	Forecast energy demand figures (MW)
H2.1	- Breakdown of demand figures into customer classes
H2.2	- Supporting evidence
H3	Forecast customer numbers, per customer class
I	Performance incentive scheme details
I1	Price-linked incentive scheme
I1.1	- Details of scheme proposed
I1.2	- Proposed target levels
I1.3	- Supporting information & calculations
I2	Guaranteed service level scheme
I2.1	- Details of scheme proposed
I2.2	- Proposed target levels
I2.3	- Proposed penalty levels

Schedule	Information provided
I2.4	- Supporting information & calculations
J	Additional information for price-cap model
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)
J5	Inputs for financial statement projections
K	Detailed calculations for Second Regulatory Period
	Rolled forward regulatory asset base
	Annual revenue requirement
	Corporate income tax forecasts
	Forecast price-caps for the opening and subsequent years of the Second Regulatory Period
L	Calculation of demonstrative unbundled rates

23. Applicant most respectfully requests for approval of this application to allow it to fulfill its obligations under Performance Based-Regulation and in order to avoid irreparable losses which will ultimately result in the deterioration of its services, to the damage, and prejudice of the public, in general, and its consumers, in particular.

PRAYER

WHEREFORE, premises considered, SUBIC ENERZONE CORPORATION 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 22, 2010.

**QUIASON MAKALINTAL BAROT
TORRES IBARRA AND SISON**

Counsel for the Applicant
21st Floor, Robinsons-Equitable Tower
4 ADB Avenue corner Poveda Street
1605 Ortigas Center, Pasig City
Tel No. 631-0981

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

VERIFICATION/CERTIFICATION

I, DANTE T. POLLESCAS, of legal age, married, Filipino and with office address at Bldg. 502 Dewey Avenue, Subic Bay Freeport Zone, Olongapo City, after having been duly sworn in accordance with law, hereby deposes and state: That –

1. I am the Senior Vice President and Chief Operating Officer of the Subic Enerzone Corporation (“SEZ”);
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 SEZ;
4. SEZ 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.

DANTE T. POLLESCAS

SUBSCRIBED AND SWORN to before me this ___th day of September 2010 at _____, affiant who is personally known to me, exhibiting to me his Community Tax Certificate No. _____ issued at _____ on _____ and his Driver’s License with License Number _____ as competent evidence of identity.

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