

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- 124RC**

**PANAY ELECTRIC COMPANY, INC.**

Applicant.

-----

**APPLICATION**

COMES NOW, Applicant PANAY ELECTRIC COMPANY, INC., 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 Manfred's Building, Gen. Luna St., Iloilo City, Philippines where it may be served with summons and other legal processes, represented in this instance by its Operations and Plant Manager, Engr. Randy S. Pastolero, of legal age, Filipino, married and with office address also at Manfred's Building, Gen. Luna St., Iloilo City. Herein applicant is the exclusive franchise holder issued by the National Electrification Commission to operate an electric light and power services in the City of Iloilo, Philippines.
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, 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 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	191,810,548	215,627,307	242,840,485	275,559,393
Taxes, levies & duties (other than corporate tax)	3,692,426	4,227,178	4,835,892	5,561,441
Regulatory depreciation	71,769,542	74,733,237	76,186,268	79,938,280
Return on capital	219,706,327	224,809,320	229,922,577	239,855,853
<b>TOTAL REVENUE REQUIREMENT</b>	<b>486,978,843</b>	<b>519,397,042</b>	<b>553,785,222</b>	<b>600,914,968</b>

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	1,446,306,473	1,423,563,926	1,508,911,060	1,485,709,381
plus Capital Expenditure	49,026,994	160,080,371	52,984,589	227,931,717
minus Regulatory Depreciation on asset base at start of Second Regulatory Period	68,522,303	68,335,438	66,672,304	66,672,304
minus Regulatory Depreciation on capital expenditure incurred during the Second Regulatory Period	3,247,239	6,397,799	9,513,964	13,265,976
Closing value of RAB	1,423,563,926	1,508,911,060	1,485,709,381	1,633,702,817
<b>AVERAGE VALUE OF RAB</b>	1,434,935,199	1,466,237,493	1,497,310,220	1,559,706,099

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 2. 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 <sub>0</sub> -factor		0 PhP/kWh
X-factor		-0.176
Valuation of the applicant's regulatory asset base as at June 30, 2009		PhP 1,230,929,035
Working-capital proportion		6.85%

The meaning and application of these parameters are as described in the afore-mentioned 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 3a. Forecast Change in the Consumer Price Index for the Philippines**

	2010	2011	2012	2013	2014	2015
Calendar Year						
Regulatory Year		4.2%	4.1%	4.0%	4.0%	4.8%
Data source :	ERC supplied					

**Table 3b. 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%	1.8%	2.4%	2.7%	2.8%
Data source :	ERC supplied					

**Table 3c. Forecast PhP/US\$ Exchange Rate (average for the year)**

Quarter ending	2010	2011	2012	2013	2014	2015
Calendar Year						
Regulatory Year		47.43	47.00	46.75	46.55	46.50
Data source :	ERC supplied					

- 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 4. Proposed Capital Expenditure (per regulatory year)**

		Forecast (nominal value for regulatory year),				PhP
		2011	2012	2013	2014	2015
<b>CAPITAL EXPENDITURE</b>						
<b>Regulated Distribution Services Assets</b>						
<b>Network</b>	Land and Land Rights (Distribution)	-	-	-	-	-
	Structures and Improvements (Distribution)	-	-	-	-	-
	Station Equipment	-	-	-	-	-
	Power transformers	574,262	1,227,684	1,173,447	1,309,272	170,313,977
	Switchgear	-	-	-	-	-
	Protective equipment	357,446	185,916	386,984	402,464	-
	Metering & control equipment	-	1,009,259	-	275,975	-
	Communications equipment	145,695	151,559	-	164,044	-
	Other station equipment	457,531	-	276,970	-	300,550
	Poles, Towers and Fixtures - Distribution	8,006,719	8,706,984	9,529,242	10,397,830	11,377,727
	Overhead Conductors and Devices	19,208,678	18,470,990	18,877,594	20,271,555	20,954,333
	Underground Conduits - Distribution	-	-	-	-	-
	Underground Conductors and Devices	-	-	-	-	-
	Distribution Transformers	4,620,518	4,917,890	5,321,206	5,864,101	6,351,464
	Power Conditioning Equipment	-	1,088,324	-	-	-
	Meters, Metering Instruments & Equipment	11,726,600	8,403,125	9,270,238	10,219,471	11,325,368
	Information technology equipment	74,757	15,936	-	-	-
	Regulated Entity Property on Capital	-	-	-	-	-
	Street Lights and Signal Systems	-	-	-	-	-
	Submarine Cables	-	-	-	-	-
<b>Non-network</b>	Land and Land Rights (non-network)	-	-	-	-	-
	Structures and Improvements (non-network)	15,319	159,357	110,771,497	235,729	60,110
	Office Furniture and Equipment	439,148	430,263	378,139	415,113	339,020
	Transportation Equipment	3,952,329	3,398,549	2,751,503	1,872,781	5,986,956
	Stores Equipment	-	-	-	-	-
	Tools, Shop and Garage Equipment	1,454,907	105,333	131,083	559,274	69,117
	Laboratory Equipment	-	-	-	-	-
	Information Systems Equipment	1,194,890	701,170	989,574	971,662	715,309
	Power-operated Equipment	-	-	-	-	-
	Communication Plant and Equipment	14,717	49,343	216,813	18,649	130,453
	Miscellaneous Equipment	5,106	5,312	6,081	6,669	7,333
<b>Materials</b>	Materials and supplies (including)	-	-	-	-	-
<b>Subtrans</b>	Transferred subtransmission as	-	-	-	-	-

<b>Regulated Retail Services Assets</b>						
Meters, Instruments & Metering Transformers (Consumer Consumption Metering)	-	-	-	-	-	-
Land and land rights	-	-	-	-	-	-
Structures and improvements	-	-	-	-	-	-
Office Furniture and Equipment	-	-	-	-	-	-
Transportation Equipment	-	-	-	-	-	-
Stores Equipment	-	-	-	-	-	-
Tools, Shop and Garage Equipme	-	-	-	-	-	-
Laboratory Equipment	-	-	-	-	-	-
Information Systems Equipment	-	-	-	-	-	-
Communication Plant and Equipm	-	-	-	-	-	-
Miscellaneous Equipment	-	-	-	-	-	-
<b>Sub-total Regulated Retail Servi</b>	-	-	-	-	-	-
<b>TOTAL</b>	<b>52,248,622</b>	<b>49,026,994</b>	<b>160,080,371</b>	<b>52,984,589</b>	<b>227,931,717</b>	

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

- a. Construction of an office building;
- b. Construction of a new 50/62.5 MVA sub-station for the new load center at Diversion Road to service the requirements of the rising business district;
- c. Purchase of substantial capital investments to reduce systems losses;
- d. Purchase of concrete poles and transformers to service future load growth;
- e. Purchase of automatic reclosers to improve system reliability; and
- f. Replace old and dilapidated utility vehicles and computers.

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

**Table 5. Proposed Operating & Maintenance Expenditure (per regulatory year)**

		Forecast (nominal value for regulatory year), measured in				PhP
Opex Category and Sub-category		2011	2012	2013	2014	2015
<b>Regulated Distribution Services</b>						
Operation	Operation supervision & engineering	704,599	806,254	923,019	1,055,934	1,214,360
	Contractor services	-	-	-	-	-
	Load dispatching	-	-	-	-	-
	Structures	-	-	-	-	-
	Substations	13,816,466	15,809,814	18,099,456	20,705,778	23,812,350
	Overhead conductors & devices	7,204,651	8,244,090	9,438,033	10,797,109	12,417,044
	Underground cables & devices	-	-	-	-	-
	Streetlighting and signal systems	-	-	-	-	-
	Metering (distribution network)	498,016	569,866	652,397	746,342	858,319
	Rents	-	-	-	-	-
	Information technology (distribution)	-	-	-	-	-
	Miscellaneous	394,771	451,726	517,147	591,616	680,378
Maintenance	Maintenance supervision & engineering	11,301,647	12,932,173	14,805,063	16,936,992	19,478,118
	Contractor services	-	-	-	-	-
	Structures	2,609,357	2,985,818	3,418,236	3,910,463	4,497,165
	Substations	-	-	-	-	-
	Overhead lines & Devices	12,483,380	14,284,398	16,353,123	18,707,973	21,514,807
	Underground cables & devices	-	-	-	-	-
	Streetlighting and signal systems	-	-	-	-	-
	Distribution transformers	4,256,203	4,870,259	5,575,590	6,378,475	7,335,464
	Information technology (distribution)	-	-	-	-	-
	Metering (distribution network)	4,113,842	4,707,359	5,389,098	6,165,128	7,090,108
	Miscellaneous	-	-	-	-	-
Admin & G	Company Management Costs	-	11,889,758	9,649,649	7,202,044	4,567,154
	Admin & general salaries	33,927,950	38,822,848	44,445,333	50,845,460	58,474,013
	Office supplies & expenses	691,298	791,033	905,594	1,036,000	1,191,435
	Information technology (admin & ge)	-	-	-	-	-
	Outside services employed	2,119,821	2,425,654	2,776,948	3,176,828	3,653,461
	Property insurance	664,145	759,963	870,024	995,308	1,144,638
	Injuries & damages	-	-	-	-	-
	Employee pension & benefits	-	-	-	-	-
	Regulatory liaison & compliance	6,868,120	7,859,007	8,997,181	10,292,775	11,837,042
	Rents	4,464,912	5,109,079	5,848,997	6,691,253	7,695,169
	Maintenance of office & general plant	-	-	-	-	-
	Officers allowance & benefits	24,715	28,281	32,376	37,038	42,595
	Travel	571,677	654,154	748,892	856,732	985,271
	Training	-	-	-	-	-
	Water and Electricity	-	-	-	-	-
	Miscellaneous	15,652,974	17,911,281	20,505,266	23,458,024	26,977,527
WESM	Market fees	-	-	-	-	-
	Registration fees	-	-	-	-	-
	Metering fees	-	-	-	-	-
	Billing & settlement fees	-	-	-	-	-
	Administration fees	-	-	-	-	-
	Costs for the PEM board, committee	-	-	-	-	-
	Market management software & upg	-	-	-	-	-
	Provision and maintenance of secur	-	-	-	-	-
	Sub-total Regulated Distribution Ser	122,368,543	151,912,816	169,951,421	190,587,272	215,466,417

Regulated Retail Services					
Administration and General Salaries	-	-	-	-	-
Office supplies & expenses	-	-	-	-	-
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	-	-	-	-	-
Planning, installation and maintenance o	-	-	-	-	-
Consumer Meter Reading Expenses	5,326,367	6,094,820	6,977,496	7,982,256	9,179,866
Information technology (retail related)	-	-	-	-	-
Consumer Records, Billing and Collectio	12,334,051	14,113,525	16,157,504	18,484,185	21,257,442
Bad debts	16,851,016	19,282,168	22,074,691	25,253,447	29,042,324
Information and Instructional Advertising	355,876	407,219	466,194	533,326	613,343
Energy trading expenses (excluding ener	-	-	-	-	-
Miscellaneous consumer services expen	-	-	-	-	-
Sub-total Regulated Retail Services	34,867,310	39,897,732	45,675,886	52,253,213	60,092,976
Total Operating & Maintenance Expenditure	157,235,852	191,810,548	215,627,307	242,840,485	275,559,393

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

- a. Addition of 2 trouble shooting teams to meet performance incentive scheme rewards;
- b. To implement new programs such as tree trimming and pole replacement to improve system reliability;
- c. Provide for additional utility teams for faster implementation of services to meet the guaranteed service level requirements;
- d. Additional contractors for implementation of elevated metering centers to eliminate/reduce systems losses;
- e. Provide for the annual salary increases of employees under the bargaining agreement;
- f. Provide for salaries and other necessary expenses of the trading team created for WESM; and
- g. Additional maintenance expenses of new/refurbished vehicles for trouble shooting / utility / line teams.

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 6. 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>					
<b>Duties</b>					
<b>Other taxes</b>	3,226,874	3,692,426	4,227,178	4,835,892	5,561,441
<b>TOTAL</b>	3,226,874	3,692,426	4,227,178	4,835,892	5,561,441

- 12a. The above-mentioned proposed taxes, levies & duties (other than corporate income taxes) expenditure are increased from current levels for the following reason:

a. Increase in tax rate by the City Government for real property taxes and annual business taxes.

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 7. Summary of proposed Depreciation (per Regulatory Year)**

		Forecast (real value for regulatory year), measured in PHP				
		2011	2012	2013	2014	2015
<b>Depreciation of opening asset base</b>						
<b>Regulated Distribution Services Assets</b>						
<b>Network</b>	Land and Land Rights (Distribution Purposes)	-	-	-	-	-
	Structures and Improvements (Distribution Purposes)	-	-	-	-	-
	Station Equipment	-	-	-	-	-
	Power transformers	9,737,426.34	9,737,426.34	9,737,426.34	9,737,426.34	9,737,426.34
	Switchgear	1,601,895.70	1,601,895.70	1,601,895.70	1,601,895.70	1,601,895.70
	Protective equipment	600,081.32	600,081.32	600,081.32	600,081.32	600,081.32
	Metering & control equipment	23,762.69	23,762.69	23,762.69	23,762.69	23,762.69
	Communications equipment	-	-	-	-	-
	Other station equipment	665,834.13	665,834.13	665,834.13	665,834.13	665,834.13
	Poles, Towers and Fixtures - Distribution	8,823,496.94	8,823,496.94	8,823,496.94	8,823,496.94	8,823,496.94
	Overhead Conductors and Devices - Distribution	4,316,941.00	4,316,941.00	4,316,941.00	4,316,941.00	4,316,941.00
	Underground Conduits - Distribution		-	-	-	-
	Underground Conductors and Devices - Distribution		-	-	-	-
	Distribution Transformers	5,009,587.95	5,009,587.95	5,009,587.95	5,009,587.95	5,009,587.95
	Power Conditioning Equipment	20,046,636.65	20,046,636.65	20,046,636.65	20,046,636.65	20,046,636.65
	Meters, Metering Instruments & Metering Transforms	15,355,083.59	15,355,083.59	15,355,083.59	15,355,083.59	15,355,083.59
	Information technology equipment (distribution)	-	-	-	-	-
	Regulated Entity Property on Consumer's Premises		-	-	-	-
	Street Lights and Signal Systems	-	-	-	-	-
	Submarine Cables		-	-	-	-
<b>Non-netwo</b>	Land and Land Rights (non-network)		-	-	-	-
	Structures and Improvements (non-network)	15,211.61				
	Office Furniture and Equipment	161,952.64	161,952.64	161,952.64	161,952.64	161,952.64
	Transportation Equipment	1,663,133.33	1,663,133.33	1,663,133.33		
	Stores Equipment	-	-	-	-	-
	Tools, Shop and Garage Equipment	288,737.57	288,737.57	288,737.57	288,737.57	288,737.57
	Laboratory Equipment	37,640.00	37,640.00	37,640.00	37,640.00	37,640.00
	Information Systems Equipment (non-network)	186,865.58	186,865.58			
	Power-operated Equipment	1,725.00				
	Communication Plant and Equipment	3,130.00	3,130.00	3,130.00	3,130.00	3,130.00
	Miscellaneous Equipment	97.68	97.68	97.68	97.68	97.68
<b>Materials</b>	Materials and supplies (including spares)	-	-	-	-	-
<b>Subtrans</b>	Transferred subtransmission assets	-	-	-	-	-
	<b>Sub-total Regulated Distribution Services</b>	<b>68,539,240</b>	<b>68,522,303</b>	<b>68,335,438</b>	<b>66,672,304</b>	<b>66,672,304</b>
<b>Regulated Retail Services Assets</b>						
	Meters, Instruments & Metering Transformers (Consumer Consumption Metering)	-	-	-	-	-
	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	-	-	-	-	-
	<b>Sub-total Regulated Retail Services Assets</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
	<b>TOTAL</b>	<b>68,539,240</b>	<b>68,522,303</b>	<b>68,335,438</b>	<b>66,672,304</b>	<b>66,672,304</b>

Depreciation of assets acquired during 2nd regulatory period		2011	2012	2013	2014	2015
<b>Regulated Distribution Services Assets</b>						
<b>Network</b>	Land and Land Rights (Distribution Purpose)	-	-	-	-	-
	Structures and Improvements (Distribution Purpose)	-	-	-	-	-
	Station Equipment	-	-	-	-	-
	Power transformers	7,029	28,503	56,214	83,713	1,868,803
	Switchgear	-	-	-	-	-
	Protective equipment	5,833	14,583	23,333	35,000	40,833
	Metering & control equipment	-	15,833	31,667	35,667	39,667
	Communications equipment	7,133	21,399	28,532	35,665	42,798
	Other station equipment	7,467	14,933	19,108	23,283	27,450
	Poles, Towers and Fixtures - Distribution	130,666	397,927	678,165	972,514	1,280,955
	Overhead Conductors and Devices - Distribution	313,476	916,726	1,491,058	2,069,432	2,653,749
	Underground Conduits - Distribution	-	-	-	-	-
	Underground Conductors and Devices - Distribution	-	-	-	-	-
	Distribution Transformers	75,405	227,961	385,324	550,530	723,578
	Power Conditioning Equipment	-	17,074	34,147	34,147	34,147
	Meters, Metering Instruments & Metering Transformers	229,647	617,488	943,368	1,288,799	1,654,956
	Information technology equipment (distribution)	7,320	16,140	17,640	17,640	17,640
	Regulated Entity Property on Consumer's Premises	-	-	-	-	-
	Street Lights and Signal Systems	-	-	-	-	-
	Submarine Cables	-	-	-	-	-
<b>Non-network</b>	Land and Land Rights (non-network)	-	-	-	-	-
	Structures and Improvements (non-network)	188	2,250	1,256,438	2,511,313	2,514,500
	Office Furniture and Equipment	10,750	31,625	50,300	67,875	83,950
	Transportation Equipment	193,500	546,950	831,327	1,037,187	1,367,619
	Stores Equipment	-	-	-	-	-
	Tools, Shop and Garage Equipment	35,615	73,709	79,151	94,274	107,871
	Laboratory Equipment	-	-	-	-	-
	Information Systems Equipment (non-network)	117,000	300,000	455,500	629,500	773,500
	Power-operated Equipment	-	-	-	-	-
	Communication Plant and Equipment	721	3,763	15,890	26,506	32,742
	Miscellaneous Equipment	125	375	638	920	1,218
<b>Materials</b>	Materials and supplies (including spares)	-	-	-	-	-
<b>Subtrans</b>	Transferred subtransmission assets	-	-	-	-	-
	<b>Sub-total Regulated Distribution Services Assets</b>	<b>2,299,372</b>	<b>5,514,739</b>	<b>7,275,299</b>	<b>9,001,464</b>	<b>12,613,476</b>
<b>Regulated Retail Services Assets</b>						
	Meters, Instruments & Metering Transformers (Consumer Consumption Metering)	-	-	-	-	-
	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	-	-	-	-	-
	<b>Sub-total Regulated Retail Services Assets</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
	<b>TOTAL</b>	<b>1,141,872</b>	<b>3,247,239</b>	<b>6,397,799</b>	<b>9,513,964</b>	<b>13,265,976</b>

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
<b>Energy consumption (kWh)</b>	371,701,166	397,928,256	417,372,478	438,625,464	460,556,737

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
<b>Demand (MW)</b>	82.20	88.00	92.30	97.00	101.85

17. The estimated price-path for the Second Regulatory Period that was determined using the aforementioned 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 Second Regulatory Period**

	2012 Regulatory year	2013 Regulatory year	2014 Regulatory year	2015 Regulatory year
<b>Maximum Annual Price (PhP/kWh)</b>	1.268	1.542	1.875	2.296

- 16a. 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 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)**

	Current Rates	Illustrative Rates (2012)	Illustrative Rates (2013)	Illustrative Rates (2014)	Illustrative Rates (2015)
<b>Customer Class</b>					
<b>Residential Distribution (PhP/kWh)</b>	0.8674	1.0971	1.1239	1.1474	1.2011

Supply (PhP/kWh)	0.1207	0.1207	0.1207	0.1207	0.1207
Metering (PhP/kWh)	0.2917	0.2917	0.2917	0.2917	0.2917
Metering (PhP/customer/month)	5.0000	5.0000	5.0000	5.0000	5.0000
Total PhP/kWh	1.2798	1.5095	1.5363	1.5598	1.6135
Total PhP/customer/month	5.0000	5.0000	5.0000	5.0000	5.0000
<b>Average PhP/kWh distribution wheeling rate</b>	1.3026	1.5296	1.5554	1.5781	1.6308
<b>Intermediate</b>					
Distribution (PhP/kWh)	0.5513	0.6876	0.7106	0.7318	0.7695
Supply (PhP/customer/month)	26.3327	26.3327	26.3327	26.3327	26.3327
Metering (PhP/customer/month)	95.2565	95.2565	95.2565	95.2565	95.2565
Total PhP/kWh	0.5513	0.6876	0.7106	0.7318	0.7695
Total PhP/customer/month	121.5892	121.5892	121.5892	121.5892	121.5892
<b>Average PhP/kWh distribution wheeling rate</b>	0.7389	0.8677	0.8824	0.8952	0.9251
<b>Commercial</b>					
Distribution (PhP/kWh)	0.7267	1.5201	1.5512	1.5790	1.6382
Supply (PhP/customer/month)	25.7226	25.7226	25.7226	25.7226	25.7226
Metering (PhP/customer/month)	189.8992	189.8992	189.8992	189.8992	189.8992
Total PhP/kWh	0.7267	1.5201	1.5512	1.5790	1.6382
Total PhP/customer/month	215.6218	215.6218	215.6218	215.6218	215.6218
<b>Average PhP/kWh distribution wheeling rate</b>	1.3683	1.6067	1.6338	1.6576	1.7130
<b>Power</b>					
Distribution (PhP/kWh)	0.2975	0.1784	0.2191	0.2580	0.3103
Distribution demand charge (PhP/kW)	159.95	159.95	159.95	159.95	159.95
Supply (PhP/customer/month)	25.8879	25.8879	25.8879	25.8879	25.8879
Metering (PhP/customer/month)	871.4242	871.4242	871.4242	871.4242	871.4242
Total PhP/kWh	0.2975	0.1784	0.2191	0.2580	0.3103
Total PhP/kW	159.95	159.95	159.95	159.95	159.95
Total PhP/customer/month	897.3121	897.3121	897.3121	897.3121	897.3121
<b>Average PhP/kWh distribution wheeling rate</b>	0.6578	0.7725	0.7855	0.7970	0.8236
<b>Streetlights</b>					
Distribution (PhP/kWh)	0.7267	0.8846	0.9066	0.9264	0.9656
Supply (PhP/customer/month)	25.7422	25.7422	25.7422	25.7422	25.7422
Metering (PhP/customer/month)	120.0608	120.0608	120.0608	120.0608	120.0608
Total PhP/kWh	0.7267	0.8846	0.9066	0.9264	0.9656
Total PhP/customer/month	145.8030	145.8102	145.8102	145.8102	145.8102
<b>Average PhP/kWh distribution wheeling rate</b>	0.6578	0.9958	1.0126	1.0274	1.0617
<b>City Offices</b>					
Distribution (PhP/kWh)	0.5513	0.6665	0.6824	0.6967	0.7253
Supply (PhP/customer/month)	26.0297	26.0297	26.0297	26.0297	26.0297
Metering (PhP/customer/month)	237.0802	237.0802	237.0802	237.0802	237.0802
Total PhP/kWh	0.5513	0.6665	0.6824	0.6967	0.7253
Total PhP/customer/month	263.1099	263.1099	263.1099	263.1099	263.1099
<b>Average PhP/kWh distribution wheeling rate</b>	0.6294	0.7391	0.7515	0.7625	0.7880
<b>Other Government</b>					
Distribution (PhP/kWh)	0.5950	0.7106	0.7271	0.7420	0.7720
Supply (PhP/customer/month)	25.2873	25.2873	25.2873	25.2873	25.2873
Metering (PhP/customer/month)	222.3479	222.3479	222.3479	222.3479	222.3479
Total PhP/kWh	0.5950	0.7106	0.7271	0.7420	0.7720
Total PhP/customer/month	247.6352	247.6352	247.6352	247.6352	247.6352
<b>Average PhP/kWh distribution wheeling rate</b>	0.6659	0.7820	0.7952	0.8067	0.8337

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	0.20	5	10		20	30
Customer average interruption duration index (CAIDI)	Hours	0.20	1	5		15	20
Planned system average interruption duration index (SAIDI)	Hours	0.15		3		8	10
Probability of voltage levels falling within prescribed limits	%	0.10	3	5		8	10
System losses	%	0.05	10.8	11.3	12		
Average time to process applications for Regulated Distribution Services	Days	0.10	5	10		25	35
Average time to connect premises to the Regulated Distribution System	Days	0.10	2	3		6	10
Percentage of answered calls	%	0.10	15	25		50	75

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	35 hours	120.00
Customer experiencing a number of sustained service interruptions in a Regulatory Year that exceeds the threshold	25 times	120.00
Restoration of supply to a customer after a fault on the secondary distribution network taking longer than the threshold time	43.2%	120.00

<b>Performance Measure</b>	<b>Threshold</b>	<b>Pay-out level per day (PhP)</b>	<b>Maximum pay-out (Php)</b>
Customer connection not provided on the day agreed with the customer	More than 1 day late	47.00	235.00

- 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**

<b>Schedule</b>	<b>Information provided</b>
<b>A</b>	<b>Regulatory Asset Base</b>
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	ODRC depreciation schedules for the Regulatory Asset Base for the period between the initial valuation date and the start of the Second Regulatory Period.
A4.1	- Assets included in the Original Regulatory Asset Base
A4.2	- Assets acquired in the lead-up to the Second Regulatory Period
A5	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.
A5.1	- Assets included in the Original Regulatory Asset Base

<b>Schedule</b>	<b>Information provided</b>
A5.2	- Assets acquired in the lead-up to the Second Regulatory Period
A6	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).
<b>B</b>	<b>Forecast capital expenditure for the Second Regulatory Period</b>
B1	Summary of capital expenditure forecasts for each year of the Second Regulatory Period
B1.1	- Real values, divided in PhP
B1.2	- Total real values, in PhP
B1.3	- Total nominal values, in PhP
B1.4	- Justification for capital expenditure (major and minor projects)
B2	Broken down historical capital expenditure
<b>C</b>	<b>Forecast depreciation during the Second Regulatory Period</b>
C1	Depreciation of the opening asset base
C1.1	- ODRC basis
C1.2	- Historical cost basis
C2	Depreciation of the assets forecast to be acquired during the Second Regulatory Period
C2.1	- ODRC basis
C2.2	- Historical cost basis
<b>D</b>	<b>Forecast operating &amp; maintenance expenditure</b>
D1	Summary of forecast operating & maintenance expenditure
D1.1	- Total annual expenditure, in real PhP
D1.2	- Total annual expenditure, in nominal PhP
D1.3	- Justification for operating & maintenance expenditure forecasts
D2	Historical operating & maintenance expenditure
D3	Summary of expenditure on taxes (other than corporate income tax), duties and levies
D3.1	- Annual expenditure, in real PhP
D3.2	- Annual expenditure, in nominal PhP
D3.3	- Justification for expenditure
D3.4	- Historical taxes, levies & duties
<b>E</b>	<b>Forecast energy consumption and demand</b>
E1	Forecast energy consumption figures (kWh)
E1.1	- Breakdown of consumption figures into customer classes
E1.2	- Supporting evidence
E2	Forecast energy demand figures (MW)
E2.1	- Breakdown of demand figures into customer classes
E2.2	- Supporting evidence
E3	Forecast customer numbers, per customer class
<b>F</b>	<b>Performance incentive scheme details</b>

<b>Schedule</b>	<b>Information provided</b>
F1	Price-linked incentive scheme
F1.1	- Details of scheme proposed
F1.2	- Proposed target levels
F1.3	- Supporting information & calculations
F2	Guaranteed service level scheme
F2.1	- Details of scheme proposed
F2.2	- Proposed target levels
F2.3	- Proposed penalty levels
F2.4	- Supporting information & calculations
<b>G</b>	<b>Additional information for price-cap model</b>
G1	Details for input sheets
<b>H</b>	<b>Detailed calculations for Second Regulatory Period (see ERC Model)</b>
	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
<b>I</b>	<b>Calculation of demonstrative unbundled rates</b>

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, PANAY ELECTRIC COMPANY, INC. 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.

Respectfully submitted

Pasig City, Philippines, October 12, 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

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

### VERIFICATION/CERTIFICATION

I, **ENGR. RANDY S. PASTOLERO**, of legal age, Filipino and with office address at Manfred's Building, Gen. Luna St., Iloilo City, after having been duly sworn in accordance with law, hereby deposes and states: That –

1. I am the Operations and Plant Manager of Panay Electric Company, Inc. ("PECO");
2. I have caused preparation of the foregoing Application;
3. The allegations set forth therein are true and correct based on my own personal knowledge and/or on the authentic records of PECO;
4. PECO 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 her knowledge, no such action or proceeding is pending in the Supreme Court, the Court of Appeals, or different Divisions thereof, or any other tribunal or agency, which involve issues that may somehow be related to those in this Application; and that, if they should learn that a similar action or proceeding has been filed or is pending before the Supreme Court, the Court of Appeals, or different Divisions thereof, or any other tribunal or agency, they undertake to promptly inform this Honorable Court within five (5) days therefrom.

**ENGR. RANDY S. PASTOLERO**

SUBSCRIBED AND SWORN to before me this \_\_\_<sup>th</sup> day of October 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.