

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. 2009- RC

VISAYAN ELECTRIC COMPANY, INC. (VECO),

Applicant.

APPLICATION

COMES NOW, Applicant **VISAYAN ELECTRIC COMPANY, INC. (“VECO,” for brevity)** 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 operations at VECO Compound, #59 J. Panis Street, Banilad, Cebu City, where it may be served with summons and other legal processes, represented in this instance by its Vice President for Utility Economics Group, Arlo G. Sarmiento, of legal age, Filipino, married and with office address also at #59 J. Panis Street, Banilad, Cebu City. Herein Applicant is the exclusive franchise holder issued by Congress of the Philippines/National Electrification Commission to operate an electric light and power services in the cities of Cebu, Mandaue, and Talisay, and the surrounding Municipalities of Naga, Minglanilla, San Fernando, Consolacion and Liloan, all in the Province of Cebu.
2. Applicant will enter Performance-Based Regulation at the third 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 (Third Entry Point) issued by the Commission on December 8, 2008. This Second Regulatory Period commences on July 1, 2010 and terminates on June 30, 2014.

- 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 July 2010 to June 2014 Regulatory Period for Privately Owned Distribution Utilities subject to Performance Based Regulation, dated December 8, 2008 (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-3RD 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)			
	2011	2012	2013	2014
Operating and maintenance expenditure	1,156,079,954	1,240,392,492	1,331,020,598	1,438,702,221
Taxes, levies & duties (other than corporate tax)	34,278,171	9,934,085	11,097,285	11,497,601
Regulatory depreciation	331,863,316	362,258,680	382,332,086	402,017,990
Return on capital	1,237,521,465	1,365,960,522	1,423,200,618	1,452,511,034
TOTAL REVENUE REQUIREMENT	2,759,742,906	2,978,545,779	3,147,650,587	3,304,728,846

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 December 8, 2008.

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 Based on December 31, 2008, as valued by the Commission and communicated to the Applicant, suitably amended to a June 30, 2010 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			
	2011	2012	2013	2014
Opening value of RAB	7,005,591,680	8,093,890,562	8,576,222,785	8,788,658,120
plus Capital Expenditure	1,418,371,758	843,388,048	592,756,908	538,822,734
Change in Assets Used over Regulatory Lives	1,790,440	1,202,856	2,010,513	518,318
minus Regulatory Depreciation on asset base at start of Second Regulatory Period	307,825,641	300,574,477	290,983,624	285,953,458
minus Regulatory Depreciation on capital expenditure incurred during the Second Regulatory Period	24,037,675	61,684,203	91,348,462	116,064,532
Closing value of RAB	8,093,890,562	8,576,222,785	8,788,658,120	8,925,981,182
AVERAGE VALUE OF RAB	7,549,741,121	8,335,056,673	8,682,440,452	8,857,319,651

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)	04/30/2008	For substation projects : 4.6% For other projects : 3.3%
P ₀ -factor		0 PhP/kWh
X-factor		0
Valuation of the Applicant's regulatory asset base as at December 31, 2008		PhP 5,976,663,725
Working-capital proportion		4.9%

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

	2009	2010	2011	2012	2013	2014
Calendar Year	1.90%	3.60%	4.20%	4.00%	4.00%	4.00%
Regulatory Year		2.75%	3.90%	4.10%	4.00%	4.00%
Data source :	Bangko Sentral ng Pilipinas					

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

	2009	2010	2011	2012	2013	2014
Calendar Year	-1.20%	0.70%	1.30%	1.60%	1.90%	1.90%
Regulatory Year		-0.25%	1.00%	1.45%	1.75%	1.90%
Data source :	US Bureau of Labour, US City Average Series CUUR000SAO					

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

Quarter ending	2009	2010	2011	2012	2013	2014
Calendar Year	47.70	49.00	51.00	51.20	49.00	49.00
Regulatory Year		48.35	50.00	51.10	50.10	49.00
Data source :	Bangko Sentral ng Pilipinas					

- 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 aforementioned 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 16.27% 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 second 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 second 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 Capex Category	NOMINAL PESO				
	2010	2011	2012	2013	2014
A REGULATED DISTRIBUTION SERVICES ASSETS					
A1 Regulated Distribution Services Assets - Network assets					
Land and Land Rights (Distribution Purposes)	15,265,403		16,479,186	27,254,477	144,284
Structures and Improvements	11,955,709	389,214,533	12,352,162	15,199,157	19,129,729
Station Equipment					
Power transformers	27,638,198	27,578,755	172,625,238	30,187,294	57,202,927
Switchgear	16,492,201		11,912,331	12,146,382	12,354,882
Protective equipment	20,167,310	105,057,120	15,951,467	28,777,816	22,180,938
Metering & control equipment	12,641,983	6,888,683	1,784,378	8,529,188	7,065,149
Communications equipment	9,196,946	6,537,490	3,199,406	1,716,055	4,080,062
Other station equipment	19,221,296	23,177,947	18,521,313	19,211,679	19,958,601
Poles, Towers and Fixtures - Distribution	122,430,680	583,061,639	302,490,692	82,559,123	76,348,600
Overhead Conductors and Devices - Distribution	47,579,825	20,328,728	18,239,300	19,211,679	19,958,601
Underground Cables and Devices - Distribution	751,041	2,432,512	665,370	885,593	403,750
Underground Conduits - Distribution					
Line Transformers - Distribution	18,897,426	17,011,425	16,845,642	17,519,467	18,220,246
Power Conditioning Equipment	1,200			143,884	
Meters, Instruments and Metering Transformers - Distribution	3,999,097		4,317,073	6,122,982	
Information Systems Equipment (distribution)	260,692	441,383	68,700	24,927,045	304,384
Regulated Entity Property on Consumer's Premises					
Street Lights and Signal Systems	5,309,189	7,714,173	11,528,793	16,964,101	24,002,936
Submarine Cables					
A2 Regulated Distribution Services Assets - Non-network fixed assets					
Land and Land Rights (non-network)	228,598			67,414	99,630

ITEM	NOMINAL PESO				
	2010	2011	2012	2013	2014
Capex Category					
Structures and Improvements (non-network)	1,564,151	324,092	562,840		
Office Furniture and Equipment	538,966				274,623
Transportation Equipment	7,467,805	6,111,201	4,814,377	3,139,874	3,203,621
Stores Equipment					
Tools, Shop and Garage Equipment	123,946	123,702	931,917	134,054	139,416
Laboratory Equipment	2,941,149				
Information Systems Equipment (non-network)	5,650,181	2,797,441	3,046,594	35,835,400	1,323,388
Power-operated Equipment	1,986,150				1,178,640
Communication Plant and Equipment		677,276			
Miscellaneous Equipment	1,917,965	670,990		3,884,979	
A3 Regulated Distribution Services Assets - Materials and supplies (including spares)					
A3 Regulated Distribution Services Assets - Transferred subtransmission assets					
Subtotal A	354,317,106	1,200,149,089	616,336,778	354,875,933	286,918,424
B DISTRIBUTION CONNECTION SERVICES ASSETS					
B1 Distribution Connection Services Assets - Network assets					
Poles, Towers and Fixtures (Customer)	26,997,692	27,969,609	29,144,332	30,310,106	51,522,510
Overhead Conductors and Devices (Customer)	8,610,327	8,920,299	9,294,951	9,666,749	10,053,419
Underground Conductors and Devices (Customer)					
Line Transformers (Customer)	45,024,668	46,645,556	48,604,669	50,548,856	52,570,810
Information Systems Equipment (Connection)					
B2 Distribution Connection Services Assets - Non-network fixed assets					
Land and Land Rights (non-network)	7,191			2,121	3,134
Structures and Improvements (non-network)					

ITEM Capex Category	NOMINAL PESO				
	2010	2011	2012	2013	2014
Office Furniture and Equipment	15,906				
Transportation Equipment	1,686,983	344,168	309,519	251,474	220,297
Stores Equipment					
Tools, Shop and Garage Equipment	30,125	31,210	216,805	33,821	35,174
Laboratory Equipment	87,217				
Information Systems Equipment (non-network)	419,597	294,931	292,002	244,374	103,273
Power-operated Equipment	30,723				
Communication Plant and Equipment		2,043			
Miscellaneous Equipment		20,598		81,598	
B3 Distribution Connection Services Assets – Materials and supplies (including spares)					
Subtotal B	82,910,428	84,228,413	87,862,279	91,139,099	94,508,616
C REGULATED RETAIL SERVICES ASSETS					
Meters, Instruments & Metering Transformers (Consumer Consumption Metering)	118,886,231	125,797,357	134,307,185	143,032,706	152,157,542
Land and land rights	38,026			11,214	16,573
Structures and improvements	625,660	324,092			
Office Furniture and Equipment	424,906	98,096	130,766	73,665	218,048
Transportation Equipment	2,814,838	4,773,444	1,702,263	1,530,713	3,397,634
Stores Equipment					
Tools, Shop and Garage Equipment	7,210	7,470	64,170	8,095	8,418
Laboratory Equipment					
Information Systems Equipment	4,175,119	2,868,582	2,984,606	2,085,483	1,597,477
Communication Plant and Equipment		16,289			
Miscellaneous Equipment		108,927			
Subtotal C	126,971,991	133,994,256	139,188,991	146,741,876	157,395,694
TOTAL	564,199,525	1,418,371,758	843,388,048	592,756,908	538,822,734

10a. The above-mentioned proposed Capital Expenditure is increased from current levels due to projected capital expenditure for the purchase of subtransmission assets from the National Grid Corporation of the Philippines (NGCP) and construction of new substations and other improvements required to meet customer growth and ensure continued reliable service. A detailed explanation of the increase in the proposed Capital Expenditure is attached as Schedule C1.4.

11. The proposed Operating & Maintenance Expenditure included in the afore-mentioned 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				
	2010	2011	2012	2013	2014
A REGULATED DISTRIBUTION SERVICES					
A1. Distribution : Operation					
Operation supervision & engineering	115,594,781	125,379,959	137,278,181	150,482,127	165,534,843
Load dispatching	11,400,278	12,780,202	14,488,222	16,464,638	18,771,317
Substations	2,699,283	3,008,430	3,360,972	3,746,016	4,182,779
Overhead conductors & devices	32,449,662	33,781,048	36,404,717	39,122,815	42,511,046
Underground cables & devices	-	-	-	-	-
Streetlighting and signal systems	8,595,847	9,546,618	10,687,642	11,967,408	13,427,933
Metering (distribution network)	2,260,711	2,542,757	2,889,503	3,290,811	3,762,979
Rents	-	-	-	-	-
Information technology (distribution network)	13,743,420	14,200,507	14,858,393	16,086,745	17,184,384
Miscellaneous	6,545,083	6,884,013	7,517,879	8,143,764	8,855,238
Operation supervision & engineering Load dispatching Substations					
A2. Distribution : Maintenance					
Maintenance supervision & engineering	42,463,300	45,371,414	49,488,198	53,835,176	58,757,136
Substations	14,144,386	14,952,663	16,031,715	17,058,370	18,165,249
Overhead lines	21,800,783	21,296,564	22,397,100	23,514,995	24,802,748
Underground cables & devices	-	-	-	-	-
Streetlighting and signal systems	5,046,836	5,314,455	5,636,158	5,974,284	6,342,161
Line transformers	11,765,311	12,268,744	12,881,855	13,500,915	14,159,778
Information technology (distribution					

network)	38,552,217	40,241,662	42,393,358	43,948,076	47,999,937
Metering (distribution network)	2,210	2,289	2,385	2,481	2,580
Miscellaneous	-	-	-	-	-
Maintenance supervision & engineering					
A3. Administrative & General					
Admin & general salaries	80,513,236	86,600,206	93,911,721	101,808,760	110,672,876
Office supplies & expenses	10,519,735	10,900,213	11,381,722	11,832,038	12,293,445
Information technology (admin & general)	4,584,062	4,531,289	4,545,371	4,823,545	5,171,840
Outside services employed	35,048,830	36,327,362	37,870,765	39,404,139	40,999,783
Property insurance	3,214,189	3,711,135	4,032,438	4,299,219	4,583,314
Injuries & damages	2,023,562	2,096,410	2,184,459	2,271,838	2,362,711
Employee pension & benefits	52,117,932	58,158,913	63,825,062	71,532,543	79,788,239
Rents	27,230,460	28,219,912	29,406,897	30,585,173	31,810,869
Maintenance of office & general plant	7,912,543	8,113,931	8,365,750	8,698,351	9,072,940
Officers allowance & benefits	-	-	-	-	-
Travel	13,350,764	13,869,364	14,491,987	15,094,332	15,725,214
Training	14,653,938	15,324,977	16,084,088	17,157,310	18,281,861
Regulatory liaison & compliance	22,731,505	30,155,144	26,815,306	25,900,561	26,513,063
Water and Electricity	5,530,884	12,736,754	14,327,230	15,001,368	15,869,472
Other	17,540	18,171	18,934	19,692	20,480
WESM compliance (applicable to Regulated Distribution Services)					
Registration fees					
Metering fees					
Billing & settlement fees					
Costs for the PEM board, committees & working groups					
Market management software & upgrades					
Provision for security					
Other					
Subtotal A	606,513,288	658,335,105	703,578,009	755,567,489	817,626,214
B DISTRIBUTION CONNECTION SERVICES					
B1. Connection Services: Operation					
Operation supervision & engineering	1,756,798	1,886,037	2,040,869	2,209,022	2,396,243
Load dispatching	-	-	-	-	-
Overhead connections & devices	3,864,972	3,872,202	4,104,076	4,268,239	4,438,969
Underground cables & devices	-	-	-	-	-
Consumer installations	-	-	-	-	-

Distribution transformers	-	-	-	-	-
Information technology (connection assets)	230,445	235,615	245,040	290,697	298,963
Miscellaneous	-	-	-	-	-
B2. Connection Services: Maintenance					
Maintenance supervision & engineering	16,191,318	17,492,959	19,051,330	20,755,724	22,663,126
Load dispatching	-	-	-	-	-
Overhead connections & devices	7,220,157	6,929,684	7,339,211	7,632,779	7,938,090
Underground cables & devices	-	-	-	-	-
Consumer installations	268,965	299,770	334,898	373,265	416,786
Distribution transformers	-	-	-	-	-
Information technology (connection assets)	4,374,981	4,520,326	4,705,088	5,010,987	5,414,451
Miscellaneous	-	-	-	-	-
B3. Administrative & General					
Admin & general salaries	1,823,795	1,967,991	2,140,234	2,323,608	2,528,284
Office supplies & expenses	772,287	801,916	838,273	872,385	905,125
Information technology (admin & general)	96,180	94,802	94,866	100,803	108,288
Outside services employed	2,416,083	2,503,062	2,608,191	2,712,519	2,821,019
Property insurance	-	-	-	-	-
Injuries & damages	-	-	-	-	-
Employee pension & benefits	4,157,610	4,646,627	5,099,342	5,569,094	6,083,520
Rents	-	-	-	-	-
Maintenance of office & general plant	13,352	10,462	9,070	9,433	9,872
Officers allowance & benefits	-	-	-	-	-
Travel	1,121,582	1,167,027	1,221,476	1,270,335	1,321,148
Training	793,215	818,389	834,417	878,545	936,049
Water and Electricity	-	-	-	-	-
Miscellaneous	-	-	-	-	-
Subtotal B	45,101,740	47,246,868	50,666,381	54,277,435	58,279,934
C REGULATED RETAIL SERVICES					
Administration & management	146,323,320	156,545,305	168,803,971	182,055,334	196,741,430
Consumer meter installations (planning, supply, install, maintain)	37,726,209	41,101,910	44,711,711	48,958,591	54,179,585
Meter reading expenses	19,672,370	21,309,506	23,247,585	25,340,880	27,652,124
Information technology (consumer related)	33,083,665	33,996,703	35,225,998	36,857,917	39,642,324
Consumer records, billing and					

collection	71,567,363	76,732,742	82,344,912	88,717,390	96,303,962
Bad debts	94,875,371	105,142,308	114,961,176	120,666,982	127,128,006
Informational and instructional advertising	14,474,574	15,272,856	16,448,851	18,158,527	20,711,461
Energy trading expenses	-	-	-	-	-
Water and Electricity	-	-	-	-	-
Miscellaneous consumer services expenses	399,569	396,651	403,897	420,053	437,183
Subtotal C	418,122,440	450,497,981	486,148,101	521,175,674	562,796,074
TOTAL	1,069,737,468	1,156,079,954	1,240,392,492	1,331,020,598	1,438,702,221

11a. The above-mentioned proposed Operating and Maintenance expenditures are increased as a result of additional inputs required to service the growing customer and asset base, improvement in service performance, and salary-related increases mandated by the collective bargaining agreement of the Applicant with its labor union. A detailed explanation of the increase in the proposed Operating and Maintenance expenditure is attached as Schedule "G1.4".

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				
	2010	2011	2012	2013	2014
Levies	0	27,327,091	2,220,926	2,264,563	2,303,435
Duties	0	0	0	0	0
Other taxes	6,709,537	6,951,080	7,713,158	8,832,722	9,194,165
TOTAL	6,709,537	34,278,171	9,934,085	11,097,285	11,497,601

12a. Majority of the increase in the above-mentioned proposed taxes, levies & duties (other than corporate income taxes) relates to consultancy 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				
	2010	2011	2012	2013	2014
A REGULATED DISTRIBUTION SERVICES ASSETS					
A1 Regulated Distribution Services Assets - Network assets					
Land and Land Rights (Distribution Purposes)	-	-	-	-	-
Structures and Improvements	1,302,558	6,176,478	11,196,061	11,540,453	11,969,564
Station Equipment					
Power transformers	25,002,033	25,481,818	28,671,811	31,903,368	33,295,819
Switchgear	13,091,642	13,058,608	13,248,416	13,631,761	14,022,157
Protective equipment	5,561,786	7,256,278	8,892,278	9,550,944	10,210,183
Metering & control equipment	1,751,348	1,986,933	2,125,127	2,289,461	2,537,937
Communications equipment	684,899	862,523	1,017,668	1,095,990	1,188,343
Other station equipment	9,761,428	10,150,540	10,789,389	11,397,918	12,018,896
Poles, Towers and Fixtures - Distribution	54,826,141	64,882,103	78,414,977	83,808,795	85,539,928
Overhead Conductors and Devices - Distribution	15,902,116	16,633,816	16,962,932	17,365,719	17,778,467
Underground Cables and Devices - Distribution	617,995	659,978	709,960	734,983	755,786
Underground Conduits - Distribution	4,440,056	4,427,756	4,427,756	4,427,756	4,427,756
Line Transformers - Distribution	67,243,198	67,366,031	67,720,027	68,137,797	68,533,509
Power Conditioning Equipment	522,530	521,121	521,121	523,442	525,764

ITEM Depreciation Category	NOMINAL PESO				
	2010	2011	2012	2013	2014
Meters, Instruments and Metering Transformers - Distribution	239,255	239,255	322,839	524,969	643,517
Information Systems Equipment (distribution)	50,000	142,728	192,107	2,611,831	5,054,370
Regulated Entity Property on Consumer's Premises					
Street Lights and Signal Systems Submarine Cables	140,101	355,049	665,520	1,125,231	1,786,203
A2 Regulated Distribution Services Assets - Non-network fixed assets					
Land and Land Rights (non-network)					
Structures and Improvements (non-network)	5,226,067	5,216,795	5,227,528	5,234,339	5,234,339
Office Furniture and Equipment	1,244,422	1,267,729	1,267,437	1,266,964	1,273,829
Transportation Equipment	20,457,590	20,797,845	19,218,447	17,043,319	16,192,587
Stores Equipment					
Tools, Shop and Garage Equipment	2,601,018	2,603,050	2,629,199	2,655,848	2,662,685
Laboratory Equipment	2,494,800	2,633,870	2,633,870	2,633,870	2,633,870
Information Systems Equipment (non-network)	19,900,697	16,473,229	14,628,682	13,805,307	16,250,435
Power-operated Equipment	48,377	98,377	98,377	98,377	127,843
Communication Plant and Equipment	899,335	930,714	964,578	964,578	964,578
Miscellaneous Equipment	503,859	599,280	616,054	713,179	810,303
A3 Regulated Distribution Services Assets - Materials and supplies (including spares)					
A3 Regulated Distribution Services Assets - Transferred subtransmission assets					
Subtotal A	254,513,251	270,821,906	293,162,161	305,086,198	316,438,669
B DISTRIBUTION CONNECTION SERVICES ASSETS					
B1 Distribution Connection Services Assets - Network assets					
Poles, Towers and Fixtures (Customer)	863,014	1,745,790	2,667,280	3,626,532	4,624,154
Overhead Conductors and Devices (Customer)	4,419,655	4,645,465	4,890,741	5,143,200	5,402,549

ITEM Depreciation Category	NOMINAL PESO				
	2010	2011	2012	2013	2014
Underground Conductors and Devices (Customer)					
Line Transformers (Customer)	1,439,269	2,911,493	4,448,283	6,048,049	7,711,807
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		788	788	788	788
Transportation Equipment	914,877	1,178,201	1,224,893	1,264,964	1,298,662
Stores Equipment					
Tools, Shop and Garage Equipment	4,154	6,427	12,627	18,893	20,618
Laboratory Equipment	3,218	7,538	7,538	7,538	7,538
Information Systems Equipment (non-network)	573,505	686,131	744,825	798,462	833,227
Power-operated Equipment	1,522	1,522	1,522	1,522	1,522
Communication Plant and Equipment	200	303	405	405	405
Miscellaneous Equipment		515	1,030	3,070	5,110
B3 Distribution Connection Services Assets - Materials and supplies (including spares)					
Subtotal B	8,219,413	11,184,171	13,999,930	16,913,421	19,906,376
C REGULATED RETAIL SERVICES ASSETS					
C Regulated Retail Services Assets					
Meters, Instruments & Metering Transformers (Consumer Consumption Metering)	36,974,901	42,287,041	46,463,550	50,954,574	55,567,025
Land and land rights					
Structures and improvements	39,708	51,129	55,051	55,051	55,051
Office Furniture and Equipment	68,579	85,887	91,609	96,720	104,012
Transportation Equipment	928,535	1,550,399	2,012,950	2,243,877	2,595,901
Stores Equipment					
Tools, Shop and Garage Equipment	29,592	30,136	31,927	33,734	34,147
Laboratory Equipment					

ITEM Depreciation Category	NOMINAL PESO				
	2010	2011	2012	2013	2014
Information Systems Equipment	4,766,051	5,847,512	6,432,830	6,939,839	7,308,135
Communication Plant and Equipment	1,598	2,412	3,226	3,226	3,226
Miscellaneous Equipment		2,723	5,446	5,446	5,446
Subtotal C	42,808,963	49,857,240	55,096,590	60,332,467	65,672,945
TOTAL	305,541,627	331,863,316	362,258,680	382,332,086	402,017,990

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 Applicant itself, is forecast as follows:

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

	2010	2011	2012	2013	2014
Energy consumption (MWh)	1,844,236	1,899,259	1,955,146	2,011,416	2,068,150

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)

	2010	2011	2012	2013	2014
Demand (MW)	345.8	355.7	365.2	374.4	384.3

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

	2011 Regulatory year	2012 Regulatory year	2013 Regulatory year	2014 Regulatory year
Maximum Annual Price (PhP/kWh)	1.261	1.447	1.660	1.903

18. 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)

	Current Rates	Illustrative Rates (2011)	Illustrative Rates (2012)	Illustrative Rates (2013)	Illustrative Rates (2014)
Customer Class					
Schedule I: Streetlight					
Distribution (PhP/watt/month)	0.0934	0.4059	0.4291	0.4443	0.4574
Supply (PhP/customer/month)	42.75	264.97	276.48	282.45	286.82
Total PhP/watt/month	0.0934	0.4059	0.4291	0.4443	0.4574
Total PhP/customer/month	42.75	264.97	276.48	282.45	286.82
Average PhP/kWh distribution wheeling rate	0.2626	1.1481	1.2137	1.2566	1.2939
Schedule II-R: Residential					
Distribution (PhP/kWh)	1.0084	1.4780	1.5625	1.6177	1.6656
Metering (PhP/kWh)	0.1924	0.2653	0.2821	0.2938	0.3043
Metering (PhP/customer/month)	5.00	58.01	60.74	62.26	63.47
Supply (PhP/kWh)	0.2712	0.4371	0.4645	0.4835	0.5006
Total PhP/kWh	1.4720	2.1804	2.3091	2.3950	2.4705
Total PhP/customer/month	5.00	58.01	60.74	62.26	63.47
Average PhP/kWh distribution wheeling rate	1.4996	2.4406	2.5838	2.6793	2.7634
Schedule III-S: General Service					
Distribution (PhP/kWh)	0.7215	1.4780	1.5625	1.6177	1.6656
Metering (PhP/kWh)		0.2653	0.2821	0.2938	0.3043
Metering (PhP/customer/month)	86.54	58.01	60.74	62.26	63.47
Supply (PhP/kWh)					
[Schedule 30]	0.1604				
Supply (PhP/customer/month)					
[Schedules 31-35]	42.75				
Supply (PhP/kWh)		0.4371	0.4645	0.4835	0.5006

Total PhP/kWh [Schedule 30]	0.8819				
Total PhP/kWh [Schedules 31-35]	0.7215				
Total PhP/customer/month [30]	86.54				
Total PhP/customer/month [30]	129.29				
Total PhP/kWh		2.1804	2.3091	2.3950	2.4705
Total PhP/customer/month		58.01	60.74	62.26	63.47
Average PhP/kWh distribution wheeling rate	0.9861	2.4406	2.5838	2.6793	2.7634
Schedule IV-P: General Power					
Distribution (PhP/kWh)	0.6494	1.0557	1.1160	1.1555	1.1897
Metering (PhP/customer/month)	264.90	132.79	139.03	142.52	145.28
Supply (PhP/customer/month)	85.51	266.23	277.79	283.78	288.18
Total PhP/kWh	0.6494	1.0557	1.1160	1.1555	1.1897
Total PhP/customer/month	350.41	399.23	416.82	426.30	433.46
Average PhP/kWh distribution wheeling rate	0.8403	1.1335	1.1991	1.2424	1.2801
Schedule V-P: Bulk Power					
Distribution (PhP/kWh)		0.3855	0.4075	0.4219	0.4345
Distribution (PhP/kW)	151.09	107.53	112.59	115.44	117.69
Metering (PhP/kWh)		0.0035	0.0037	0.0039	0.0040
Metering (PhP/customer/month)	661.93	87.41	91.51	93.82	95.63
Supply (PhP/kWh)		0.0153	0.0162	0.0169	0.0175
Supply (PhP/customer/month)	128.26	371.77	387.92	396.29	402.43
Total PhP/kWh		0.4043	0.4274	0.4427	0.4560
Total PhP/kW	151.09	107.53	112.56	115.44	117.69
Total PhP/customer/month	790.19	459.18	479.43	490.11	498.06
Average PhP/kWh distribution wheeling rate	0.6088	0.7990	0.8398	0.8667	0.8883
Schedule VI-P: Wholesale Power					
Distribution (PhP/kWh)		0.2749	0.2907	0.3009	0.3098
Distribution (PhP/kW)	102.15	94.47	98.92	101.42	103.40
Metering (PhP/kWh)		0.0015	0.0016	0.0017	0.0017
Metering (PhP/customer/month)	7,722.53	224.39	234.93	240.84	245.50
Supply (PhP/kWh)		0.0086	0.0092	0.0095	0.0099
Supply (PhP/customer/month)	213.77	1,280.36	1,335.95	1,364.79	1,385.93
Total PhP/kWh		0.2850	0.3015	0.3121	0.3214
Total PhP/kW	102.15	94.47	98.92	101.42	103.40
Total PhP/customer/month	7,936.30	1,504.75	1,570.88	1,605.63	1,631.43
Average PhP/kWh distribution wheeling rate	0.3388	0.5635	0.5922	0.6111	0.6263
Schedule VII-P: Special Wholesale					
Distribution (PhP/kWh)		0.1928	0.2038	0.2110	0.2172
Distribution (PhP/kW)	14.81	82.39	86.27	88.45	90.18
Metering (PhP/kWh)		0.0011	0.0012	0.0012	0.0013
Metering (PhP/customer/month)	11,032.19	3,005.41	3,146.59	3,225.74	3,288.08
Supply (PhP/kWh)		0.0028	0.0029	0.0030	0.0032
Supply (PhP/customer/month)	213.77	7,442.17	7,765.29	7,932.94	8,055.78
Total PhP/kWh		0.1967	0.2079	0.2152	0.2217
Total PhP/kW	14.81	82.39	86.27	88.45	90.18
Total PhP/customer/month	11,245.96	10,447.58	10,911.88	11,158.68	11,343.86
Average PhP/kWh distribution wheeling rate	0.0377	0.3900	0.4096	0.4224	0.4326

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	16.41	20.18	23.95	27.70	31.50
Customer average interruption duration index (CAIDI)	Minutes	0.20	120.11	123.29	126.47	129.64	132.82
Planned system average interruption duration index (SAIDI)	Minutes	0.15	614.73	662.95	711.18	759.41	807.64
Probability of voltage levels falling within prescribed limits	%	0.10	4.1%	4.6%	5.1%	5.6%	6.1%
System losses	%	0.05	9.5%	9.6%	9.8%		
Average time to process Applications for Regulated Distribution Services	Days	0.10	7.04	7.66	8.00	8.89	9.51
Average time to connect premises to the Regulated Distribution System	Days	0.10	3.43	3.87	4.30	4.73	5.16
Average time to answer calls at call centre	Seconds	0.10	6.79	7.31	8.00	8.34	8.86

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	25	108.84
Customer experiencing a number of sustained service interruptions in a Regulatory Year that exceeds the threshold	23	108.84
Restoration of supply to a customer after a fault on the secondary distribution network taking longer than the threshold time	12	108.84
Customer connection not provided on the day agreed with the customer	5	108.84

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.

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

Schedule	Information provided
	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
A6	ODRC 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	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.
A7.1	- Assets included in the Original Regulatory Asset Base
A7.2	- Assets acquired in the lead-up to the Second Regulatory Period
A8	Application of the construction work in progress (CWIP) factor to the Regulatory Asset Base as at the start of the Second Regulatory Period.
A9	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	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

Schedule	Information provided
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
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	Historical operating & maintenance expenditure
G3	Summary of expenditure on taxes (other than corporate income tax), duties and levies
G3.1	- Annual expenditure, in real PhP
G3.2	- Annual expenditure, in nominal PhP
G3.3	- Justification for expenditure
G3.4	- Historical taxes, levies & duties
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

Schedule	Information provided
I	Regulatory financial statements
J	Performance incentive scheme details
J1	Price-linked incentive scheme
J1.1	- Details of scheme proposed
J1.2	- Proposed target levels
J1.3	- Supporting information & calculations
J2	Guaranteed service level scheme
J2.1	- Details of scheme proposed
J2.2	- Proposed target levels
J2.3	- Proposed penalty levels
J2.4	- Supporting information & calculations
K	Additional information for price-cap model
K1	Contact details for input sheets
K2	2009 Calendar year billing & consumption data (estimate)
K3	Related business revenue for 2009 calendar year (estimate)
K4	Tax losses carried forward from 2009 and 2010 regulatory years (estimate)
K5	Inputs for financial statement projections
L	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
M	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, VECO 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, June 15, 2009.

Counsel for the Applicant