

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. 2009-043RC

CABANATUAN ELECTRIC CORPORATION

Applicant.

APPLICATION

COMES NOW, applicant CABANATUAN ELECTRIC CORPORATION through the undersigned counsel, and unto this Honorable Commission, most respectfully states; that:

1. Applicant is a corporation duly organized and existing under and by virtue of the laws of the Philippines, with principal office at Barangay Bitas, Cabanatuan City where it may be served with summons and other legal processes, represented in this instance by its Chairman/Chief Executive Officer, Julius Cesar V. Vergara of legal age, Filipino, married and with office address also at Barangay Bitas, Cabanatuan 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 City of Cabanatuan in the Province of Nueva Ecija.

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:

Table1. 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	133,050,775	139,973,362	146,960,876	155,761,588
Taxes, levies & duties (other than corporate tax)	2,504,882	1,135,769	1,213,141	1,268,197
Regulatory depreciation	40,063,583	40,795,981	43,590,132	43,545,815
Return on capital	144,308,337	149,610,418	154,518,473	158,200,607
TOTAL REVENUE REQUIREMENT	319,927,577	331,515,530	346,282,622	358,776,207

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 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.

Table2. Summary of proposed Rolled-forward Regulatory Asset Base (RAB)

ITEM	PhP for Regulatory Year			
	2011	2012	2013	2014
Opening value of RAB	864,394,278	896,540,582	928,894,036	956,190,235
plus Capital Expenditure	72,029,683	72,496,440	71,526,176	60,242,659
minus Regulatory Depreciation on asset base at start of Second Regulatory Period	36,066,574	34,552,219	33,339,389	31,664,950
minus Regulatory Depreciation on capital expenditure incurred during the Second Regulatory Period	3,997,009	6,243,763	10,250,743	11,880,865
Change in assets used over regulatory lives	180,204	652,996	(639,845)	408,743
Closing value of RAB	896,540,582	928,894,036	956,190,235	973,295,823
AVERAGE VALUE OF RAB	880,467,430	912,717,309	942,542,136	964,743,029

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)	4/30/2009	Substation projects: 4.6% Other projects : 3.3%
P ₀ -factor		0 Php/kWh
X-factor		-0.203586308
Valuation of the applicant's regulatory asset base as at December 31, 2008		PhP806,903,115
Working-capital proportion		4.90%

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 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 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		NOMINAL PESO				
CAPEX CATEGORY	2010	2011	2012	2013	2014	
A1. Regulated Distribution Services Assets-Network						
Land and Land Rights	-	-	-	-	-	
Structures and Improvements	-	-	-	39,666	-	
Station Equipment	-	-	-	-	-	
Power transformers	-	-	-	-	-	
Switchgear	721,761	-	-	-	3,450,375	
Protective equipment	-	3,396,457	717,820	-	-	
Metering & control equipment	-	-	-	-	-	
Communications equipment	-	-	-	-	-	
Other station equipment	-	-	-	-	159,083	
Poles, Towers and Fixtures	14,319,481	13,706,413	20,918,783	15,563,133	15,667,263	
Overhead Conductors & Devices	6,750,875	6,997,989	8,968,140	9,297,963	16,942,680	

ITEM	NOMINAL PESO				
	Capex Category	2010	2011	2012	2013
Underground Cables and Devices	-	-	-	-	-
Underground Conduits	-	-	-	-	-
Line Transformers – Distribution	15,853,285	17,367,895	15,734,034	16,811,818	10,400,687
Power Conditioning Equipment	92,419	95,746	199,534	103,758	107,908
Meters, Instruments and Metering	-	-	-	-	-
Transformers – Distribution	-	-	-	-	-
Information Systems Equipment	-	-	-	-	-
Regulated Entity Property on Consumer's Premises	-	-	-	-	-
Street Lights and Signal Systems	295,770	439,234	457,682	332,059	-
Submarine Cables	-	-	-	-	-
A2. Regulated Distribution Services Assets-Non-Network					
Land and Land Rights	-	-	-	-	-
Structures and Improvements	955,853	3,960,929	1,837,422	-	-
Office Furniture and Equipment	1,235,611	497,821	50,777	131,690	20,096
Transportation Equipment	-	-	-	15,308,723	-
Stores Equipment	-	-	-	-	-
Tools, Shop & Garage Equipment	2,532,899	246,860	1,070,701	289,331	238,554
Laboratory Equipment	-	-	-	-	-
Information Systems Equipment	838,736	10,028,632	1,742,592	2,206,811	1,339,819
Power-operated Equipment	66,119	182,732	73,589	118,742	126,079
Communication Plant & Equipment	-	156,869	13,621	-	14,733
Miscellaneous Equipment	-	-	-	-	-
A3. Materials and supplies/Spares	11,189,735	-	-	-	-
A4. Transferred sub transmission assets	-	-	-	-	-
Sub-total A	54,852,544	57,077,576	51,784,694	60,203,694	48,467,278
B1. Distribution Connection Services Assets-Network					
Poles, Towers and Fixtures	-	-	-	-	-
Overhead Conductors & Devices	1,953,296	2,023,615	2,108,606	2,192,951	2,280,669
Underground Conductors & Device	-	-	-	-	-
Line Transformers	-	-	-	-	-
Information Systems Equipment	-	-	-	-	-

ITEM	NOMINAL PESO				
	2010	2011	2012	2013	2014
CAPEX CATEGORY					
B2. Distribution Connection Services Assets-Non-Network					
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	-	-	-	-	-
Power-operated Equipment	-	-	-	-	-
Communication Plant & Equipment	-	-	-	-	-
Miscellaneous Equipment	-	-	-	-	-
B3. Materials and supplies/Spares					
Sub-total B	1,953,296	2,023,615	2,108,606	2,192,951	2,280,669
C1. Regulated Retail Services Assets					
Meters, Instruments & Metering Transformers	13,098,288	12,928,492	18,603,140	9,129,532	9,494,713
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 & Equipment	-	-	-	-	-
Miscellaneous Equipment	-	-	-	-	-
Sub-total C	13,098,288	12,928,492	18,603,140	9,129,532	9,494,713
TOTAL	69,904,128	72,029,683	72,496,440	71,526,176	60,242,659

- 10a. The increases reflect new capital expenditures to meet growing energy demand, increased customer numbers, service quality and performance measurement improvements in compliance to the Grid and Distribution Codes, the Distribution Service and Open Access Rules (DSOAR) and other ERC Technical compliances, security and reliability of grid connection, 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				
	2010	2011	2012	2013	2014
A1. Regulated Distribution Services-Operation					
Operation supervision & engineering	9,237,448	9,713,717	10,271,450	10,838,055	11,433,554
Load dispatching	-	-	-	-	-
Substations	6,023,294	6,331,744	6,709,579	7,098,211	7,512,718
Overhead lines & devices	7,399,430	7,814,790	8,298,250	8,791,628	9,311,198
Underground cables & devices	-	-	-	-	-
Streetlighting and signal systems	507,952	532,499	561,387	590,627	621,308
Metering (distribution network)	-	-	-	-	-
Rents	-	-	-	-	-
Information technology	58,387	60,489	63,029	65,551	68,173
Miscellaneous	150,904	156,337	162,903	169,419	176,196
A2. Regulated Distribution Services-Maintenance					
Maintenance supervision & engr.	-	-	-	-	-
Substations	3,921,126	4,062,287	4,232,903	4,345,553	4,507,589
Overhead lines	12,876,470	13,684,735	14,618,684	15,576,988	16,588,567
Underground cables & devices	-	-	-	-	-
Streetlighting and signal systems	636,000	658,896	686,570	657,367	671,876
Line transformers	391,016	411,708	435,894	460,499	486,375
Information technology	-	-	-	-	-
Metering (distribution network)	-	-	-	-	-
Miscellaneous	-	-	-	-	-

Opex Category and Sub-Category	Nominal PhP				
	2010	2011	2012	2013	2014
A3. Regulated Distribution Services-Admin & General					
Admin & general salaries	17,934,572	18,498,626	19,931,066	20,639,891	22,174,472
Office supplies & expenses	646,540	682,055	723,455	765,657	810,078
Information technology	-	-	-	-	-
Outside services employed	4,285,427	5,523,984	5,096,929	5,300,806	5,512,838
Property insurance	1,871,042	1,938,399	2,019,812	2,100,604	2,184,628
Injuries & damages	10,095	10,458	10,897	11,333	11,786
Employee pension & benefits	7,097,618	7,362,161	7,680,781	7,997,797	8,327,885
Rents	-	-	-	-	-
Maintenance of office & general plant	1,882,093	2,024,008	2,186,291	2,297,443	2,461,134
Officers allowance & benefits	1,467,027	1,519,973	1,583,951	1,647,454	1,713,502
Travel	1,359,291	1,431,341	1,515,544	1,601,217	1,691,318
Training	247,856	256,778	267,563	278,266	289,396
Regulatory liaison & compliance	1,763,932	1,373,292	1,430,970	1,488,209	1,547,737
Water and Electricity	701,024	726,261	758,890	824,298	902,479
Other	1,525,364	1,581,743	1,649,703	1,717,279	1,787,622
A4. Regulated Distribution Services-WESM					
Registration fees	-	52,290	54,486	56,665	58,932
Metering fees	-	-	-	-	-
Billing & settlement fees	-	-	-	-	-
Administration fees	-	-	-	-	-
Costs for the PEM board, committees & working groups	-	-	-	-	-
Market management software & upgrades	-	-	-	-	-
Provision of security	-	-	-	-	-
Other	-	-	-	-	-
Subtotal A	81,993,907	86,408,572	90,950,987	95,320,817	100,851,363
B1. Distribution Connection Services-Operation					
Operation supervision & engineering	-	-	-	-	-
Load dispatching	-	-	-	-	-
Overhead connections & devices	-	-	-	-	-
Underground cables & devices	-	-	-	-	-
Consumer installations	-	-	-	-	-
Distribution transformers	-	-	-	-	-
Information technology	-	-	-	-	-
Miscellaneous	-	-	-	-	-

Opex Category and Sub-Category	Nominal PhP				
	2010	2011	2012	2013	2014
B2. Distribution Connection Services-Maintenance					
Maintenance supervision & engr.	-	-	-	-	-
Load dispatching	-	-	-	-	-
Overhead connections & devices	-	-	-	-	-
Underground cables & devices	-	-	-	-	-
Consumer installations	-	-	-	-	-
Distribution transformers	-	-	-	-	-
Information technology	-	-	-	-	-
Miscellaneous	-	-	-	-	-
B3. Distribution Connection Services-Admin & General					
Admin & general salaries	-	-	-	-	-
Office supplies & expenses	-	-	-	-	-
Information technology	-	-	-	-	-
Outside services employed	-	-	-	-	-
Property insurance	-	-	-	-	-
Injuries & damages	-	-	-	-	-
Employee pension & benefits	-	-	-	-	-
Rents	-	-	-	-	-
Maintenance of office & general plant	-	-	-	-	-
Officers allowance & benefits	-	-	-	-	-
Travel	-	-	-	-	-
Training	-	-	-	-	-
Water and Electricity	-	-	-	-	-
Miscellaneous	-	-	-	-	-
Sub-total B	-	-	-	-	-
C1. Regulated Retail Services					
Administration & management	-	-	-	-	-
Consumer meter installations (planning, supply, install, maintain)	8,256,042	9,963,867	10,043,128	10,304,356	11,075,455
Meter reading expenses	6,566,314	7,064,344	7,633,677	8,222,561	8,846,341
Information technology	1,296,157	1,367,897	1,451,481	1,536,717	1,626,450
Consumer records, billing and collection	20,552,999	21,646,123	22,923,312	24,223,017	25,590,022
Bad debts	3,741,487	3,876,180	4,038,980	4,200,539	4,368,560
Informational and instructional advertising	313,446	324,730	338,369	351,903	365,980
Energy trading expenses	-	-	-	-	-
Water and Electricity	1,949,609	2,022,301	2,200,845	2,392,678	2,612,797
Miscellaneous consumer services expenses	363,668	376,760	392,584	408,288	424,619
Sub-total C	43,039,722	46,642,203	49,022,376	51,640,059	54,910,224
Total Operating & Maintenance Expenditure	125,033,629	133,050,775	139,973,362	146,960,876	155,761,588

11a. The above-mentioned proposed Operating and Maintenance expenditure are increased from current levels to meet the demands relative to growing asset base, increased customer volume, compliance to the Grid and Distribution codes, the Distribution Service and Open Access Rules (DSOAR), ERC compliances and 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				
	2010	2011	2012	2013	2014
Levies	739,184	1,667,103	200,075	204,006	207,508
Duties	0	0	0	0	0
Other taxes	787,747	837,779	935,694	1,009,135	1,060,689
Total	1,526,932	2,504,882	1,135,769	1,213,141	1,268,197

12a. The above-mentioned proposed taxes, levies & duties (other than corporate income taxes) expenditure are increased from current levels due to higher level of tax base, compliance with various local government tax ordinance and provision for regulatory compliances associated with regulatory Reset for the Second Regulatory Period.

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 Capex Category	NOMINAL PESO				
	2010	2011	2012	2013	2014
A1. Regulated Distribution Services Assets-Network					
Land and Land Rights	0	0	0	0	0
Structures and Improvements	204,950	212,570	212,570	213,445	213,445
Station Equipment					
Power transformers	1,731,089	1,795,451	1,795,451	1,795,451	1,795,451
Switchgear	993,965	1,018,561	1,018,561	1,018,561	1,116,141
Protective equipment	701,983	864,511	815,927	413,284	325,996
Metering & control equipment	29,634	30,736	30,736	30,736	30,736
Communications equipment	-	-	-	-	-
Other station equipment	96,842	100,442	100,442	100,442	105,023
Poles, Towers and Fixtures	10,761,483	10,750,612	10,930,907	11,041,094	11,178,478
Overhead Conductors & Devices	2,824,409	3,027,579	3,292,538	3,556,601	4,026,340
Underground Cables & Devices	-	-	-	-	-
Underground Conduits	-	-	-	-	-
Line Transformers – Distribution	7,629,229	8,333,439	8,420,078	8,669,136	8,570,682
Power Conditioning Equipment	61,668	65,430	71,534	74,586	77,637
Meters, Instruments and Metering Transformers – Distrib.	-	-	-	-	-
Information Systems Equipment	-	-	-	-	-
Regulated Entity Property on Consumer's Premises	-	-	-	-	-
Street Lights and Signal Systems	63,441	74,735	88,735	98,502	98,502
Submarine Cables	-	-	-	-	-
A2. Regulated Distribution Services Assets-Non-Network					
Land and Land Rights	1	1	1	1	1
Structures and Improvements	488,051	599,434	630,388	630,388	630,388
Office Furniture and Equipment	263,057	286,865	285,612	259,776	253,510
Transportation Equipment	755,000	783,071	471,273	2,231,424	2,002,112
Stores Equipment	-	-	-	-	-
Tools, Shop & Garage Equipment	627,878	599,488	641,537	954,494	620,821
Laboratory Equipment	-	-	-	-	-
Information Systems Equipment	475,450	2,301,453	2,505,906	2,754,500	2,875,475
Power-operated Equipment	49,479	68,206	70,153	75,672	64,651
Communication Plant & Equip.	234,291	221,805	220,472	215,303	211,412
Miscellaneous Equipment	-	-	-	-	-

ITEM Capex Category	NOMINAL PESO				
	2010	2011	2012	2013	2014
A3. Materials, supplies/Spares	-	-	-	-	-
A4. Transferred sub transmission asset	-	-	-	-	-
Sub-total A	27,991,901	31,134,389	31,602,819	34,133,394	34,196,803
B1. Distribution Connection Services Assets-Network					
Poles, Towers and Fixtures	-	-	-	-	-
Overhead Conductors & Devices	1,230,368	1,307,164	1,371,664	1,436,164	1,500,664
Underground Conductors & Dev.	-	-	-	-	-
Line Transformers	547,367	567,718	567,718	567,718	567,718
Information Systems Equipment	-	-	-	-	-
B2. Distribution Connection Services Assets-Non-Network					
Land and Land Rights	-	-	-	-	-
Structures and Improvements	-	-	-	-	-
Office Furniture and Equipment	-	-	-	-	-
Transportation Equipment	-	-	-	-	-
Stores Equipment	-	-	-	-	-
Tools, Shop & Garage Equipment	-	-	-	-	-
Laboratory Equipment	-	-	-	-	-
Information Systems Equipment	-	-	-	-	-
Power-operated Equipment	-	-	-	-	-
Communication Plant & Equip.	-	-	-	-	-
Miscellaneous Equipment	-	-	-	-	-
B3. Materials and supplies/Spares					
Sub-total B	1,777,735	1,874,882	1,939,382	2,003,882	2,068,382
C1. Regulated Retail Services Assets					
Meters, Instruments & Metering Transformers	6,701,888	7,054,312	7,253,780	7,452,856	7,280,630
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 & Equipment	-	-	-	-	-
Miscellaneous Equipment	-	-	-	-	-
Sub-total C	6,701,888	7,054,312	7,253,780	7,452,856	7,280,630
TOTAL	36,471,525	40,063,583	40,795,981	43,590,132	43,545,815

- 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 Cabanatuan Electric Corporation itself, is forecast as follows:

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

Energy onsumption	2010	2011	2012	2013	2014
Consumption In KWH	150,102,739	153,037,051	156,277,566	159,293,664	162,924,020

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)	30,000	30,500	32,000	32,500	33,500

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	2012	2013	2014
Maximum Annual Price (PhP/kWh)	1.5592	1.9406	2.4133	3.0012

- 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 aforementioned 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			
		2011	2012	2013	2014
RESIDENTIAL SERVICE					
Distribution (Php/kWh)	0.9402	1.0861	1.3518	1.6810	2.0905
Supply (Php/kWh)	0.3611	0.4171	0.5191	0.6455	0.8028
Metering (Php/kWh)	0.2988	0.3472	0.4426	0.5611	0.7088
Metering (Php/Meter)	5.00	5.00	5.00	5.00	5.00
Total Php/kWh	1.6001	1.8504	2.3135	2.8876	3.6021
Total Php/customer/month	5.00	5.00	5.00	5.00	5.00
Ave. Php/kWh Distribution	1.6417	1.8963	2.3601	2.9350	3.6499
SMALL COMMERCIAL					
Distribution (Php/kWh)	0.8999	1.0396	1.2938	1.6090	2.0009
Supply (Php/customer)	44.27	42.51	51.81	63.10	77.42
Metering (Php/meter)	56.06	53.82	65.61	79.90	98.04
Total Php/kWh	0.8999	1.0396	1.2938	1.6090	2.0009
Total Php/customer/month	100.33	96.33	117.43	143.01	175.46
Ave. Php/kWh Distribution	1.3652	1.5769	1.9626	2.4407	3.0352
LARGE COMMERCIAL					
Distribution (Php/kWh)	0.8257	0.9944	1.2376	1.5391	1.9140
Supply (Php/customer)	741.47	866.92	1,083.72	1,349.71	1,689.48
Metering (Php/meter)	778.98	910.78	1,138.54	1,417.98	1,774.94
Total Php/kWh	0.8257	0.9944	1.2376	1.5391	1.9140
Total Php/customer/month	1,520.45	1,777.70	2,222.26	2,767.69	3,464.43
Ave. Php/kWh Distribution	1.2520	1.4461	1.7999	2.2383	2.7835

Customer Class	Current Rates	Illustrative Rates			
		2011	2012	2013	2014
VERY LARGE COMMERCIAL					
Distribution (Php/kWh)	0.4341	0.5091	0.6336	0.7879	0.9798
Distribution (Php/kW)	113.91	193.04	233.85	291.86	360.15
Supply (Php/customer)	741.47	660.33	839.24	1,063.81	1,353.09
Metering (Php/meter)	4,885.58	4,350.94	5,529.78	7,009.48	8,915.56
Total Php/kWh	0.4341	0.5091	0.6336	0.7879	0.9798
Total Php/kW	113.91	193.04	233.85	291.86	360.15
Total Php/customer/month	5,627.05	5,011.27	6,369.02	8,073.29	10,268.65
Ave. Php/kWh Distribution	0.9049	1.0452	1.3009	1.6177	2.0118
SEMI-INDUSTRIAL					
Distribution (Php/kWh)	0.2692	0.3133	0.3900	0.4850	0.6031
Distribution (Php/kW)	114.13	149.69	181.33	226.31	279.26
Supply (Php/customer)	741.47	914.86	1,162.73	1,421.22	1,807.69
Metering (Php/meter)	903.40	1,114.65	1,416.66	1,731.60	2,202.47
Total Php/kWh	0.2692	0.3133	0.3900	0.4850	0.6031
Total Php/kW	114.13	149.69	181.33	226.31	279.26
Total Php/customer/month	1,644.87	2,029.51	2,579.38	3,152.82	4,010.16
Ave. Php/kWh Distribution	0.64	0.7393	1.6303	1.1442	1.4230
SMALL-INDUSTRIAL					
Distribution (Php/kWh)	0.7052	0.9419	1.1723	1.4579	1.8130
Distribution (Php/kW)	115.04	199.24	241.35	301.23	371.70
Supply (Php/customer)	741.47	998.11	1,268.54	1,540.98	1,960.02
Metering (Php/meter)	903.40	1,216.09	1,545.57	1,877.52	2,388.07
Total Php/kWh	0.7052	0.9419	1.1723	1.4579	1.8130
Total Php/kW	115.04	199.24	241.35	301.23	371.70
Total Php/customer/month	1,644.87	2,214.20	2,814.11	3,418.50	4,348.08
Ave. Php/kWh Distribution	1.9394	2.2401	2.7880	3.4671	4.3117
LARGE-INDUSTRIAL					
Distribution (Php/kWh)	0.4781	0.5891	0.7332	0.9118	1.1339
Distribution (Php/kW)	113.99	199.22	241.33	301.20	371.67
Supply (Php/customer)	741.47	524.85	667.06	845.55	1,075.48
Metering (Php/meter)	4,885.58	3,458.28	4,395.27	5,571.38	7,086.40
Total Php/kWh	0.4781	0.5891	0.7332	0.9118	1.1339
Total Php/kW	113.99	199.22	241.33	301.20	371.67
Total Php/customer/month	5,627.05	3,983.13	5,062.32	6,416.94	8,161.88
Ave. Php/kWh Distribution	1.1340	1.3099	1.6303	2.0274	2.5212

Customer Class	Current Rates	Illustrative Rates			
		2011	2012	2013	2014
STREETLIGHTS-METERED					
Distribution (Php/kWh)	1.1158	1.2888	1.6041	1.9948	2.4807
Supply (Php/customer)	44.27	13.38	15.90	18.92	22.79
Metering (Php/meter)	41.35	12.50	14.85	17.67	21.28
Total Php/kWh	1.1158	1.2888	1.6041	1.9948	2.4807
Total Php/customer/month	85.62	25.88	30.75	36.59	44.07
Ave. Php/kWh Distribution	1.9196	2.2173	2.7596	3.4318	4.2678
STREETLIGHTS-UNMETERED					
Distribution (Php/kWh)	0.7984	0.9222	1.1478	1.4274	1.7751
Supply (Php/customer)	44.27	60.34	76.68	97.20	123.64
Total Php/kWh	0.7984	0.9222	1.1478	1.4274	1.7751
Total Php/customer/month	44.27	60.34	76.68	97.20	123.64
Ave. Php/kWh Distribution	0.7987	0.9225	1.1482	1.4279	1.7757
HOSPITAL					
Distribution (Php/kWh)	0.3333	0.4244	0.5283	0.6569	0.8170
Distribution (Php/kW)	114.20	166.99	202.29	252.48	311.55
Supply (Php/customer)	741.47	828.09	1,052.45	1,334.07	1,696.85
Metering (Php/meter)	778.98	869.98	1,105.69	1,401.56	1,782.69
Total Php/kWh	0.3333	0.4244	0.5283	0.6569	0.8170
Total Php/kW	114.20	166.99	202.29	252.48	311.55
Total Php/customer/month	1,520.45	1,698.07	2,158.14	2,735.64	3,479.53
Ave. Php/kWh Distribution	0.8116	0.9374	1.1667	1.4509	1.8044

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	13.22	15.66	18.10	20.54	22.98
Customer average interruption duration index (CAIDI)	Minutes	0.20	64.66	75.33	86.01	96.68	107.35
Planned system average interruption duration index (SAIDI)	Minutes	0.15	321.02	544	766.98	989.96	1212.95
Probability of voltage levels falling within prescribed limits	%	0.10	3.3%	4.9%	4.1%	4.9%	5.7%
System losses	%	0.05	5.7%	7.1%	8.5%		
Average time to process applications for Regulated Distribution Services	Days	0.15	2.84	5.45	8.06	10.67	13.28
Average time to connect premises to the Regulated Distribution System	Days	0.15	3.42	4.16	4.9	5.64	6.38

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	Unit	Threshold	Penalty level (PhP)
GSL1: Duration of Sustained Interruptions	minutes	4,910	61.44
GSL2: No. of Sustained Interruptions	numbers	58	61.44
GSL3a: Restoration Time (Broken Service Wire)	hours	2	61.44
GSL3b: Restoration Time (Broken Secondary Line)	hours	4	61.44
GSL3c: Restoration Time (Distribution Transformer Outage)	hours	6	61.44
GSL4: Time to Connect	days	4	61.44

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
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
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

Schedule	Information provided
E2.1 E2.2	<ul style="list-style-type: none"> - ODRC basis - 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	<ul style="list-style-type: none"> - Annual expenditure, divided in real PhP and US\$ components
G1.2	<ul style="list-style-type: none"> - Total annual expenditure, in real PhP
G1.3	<ul style="list-style-type: none"> - Total annual expenditure, in nominal PhP
G1.4	<ul style="list-style-type: none"> - Justification for operating & maintenance expenditure forecasts
G2	Historical operating & maintenance expenditure
G3	Summary of expenditure on taxes (other than corporate income tax), duties and levies
G3.1	<ul style="list-style-type: none"> - Annual expenditure, in real PhP
G3.2	<ul style="list-style-type: none"> - Annual expenditure, in nominal PhP
G3.3	<ul style="list-style-type: none"> - Justification for expenditure
G3.4	<ul style="list-style-type: none"> - Historical taxes, levies & duties
H	Forecast energy consumption and demand
H1	Forecast energy consumption figures (kWh)
H1.1	<ul style="list-style-type: none"> - Breakdown of consumption figures into customer classes
H1.2	<ul style="list-style-type: none"> - Supporting evidence
H2	Forecast energy demand figures (MW)
H2.1	<ul style="list-style-type: none"> - Breakdown of demand figures into customer classes
H2.2	<ul style="list-style-type: none"> - Supporting evidence
H3	Forecast customer numbers, per customer class
I	Regulatory financial statements
J	Performance incentive scheme details
J1	Price-linked incentive scheme
J1.1	<ul style="list-style-type: none"> - Details of scheme proposed
J1.2	<ul style="list-style-type: none"> - Proposed target levels
J1.3	<ul style="list-style-type: none"> - Supporting information & calculations
J2	Guaranteed service level scheme
J2.1	<ul style="list-style-type: none"> - Details of scheme proposed
J2.2	<ul style="list-style-type: none"> - Proposed target levels
J2.3	<ul style="list-style-type: none"> - Proposed penalty levels
J2.4	<ul style="list-style-type: none"> - Supporting information & calculations

Schedule	Information provided
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

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, CABANATUAN ELECTRIC 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 just or equitable under the premises are likewise prayed for.

Marikina City for the City of Pasig, Philippines, June 16, 2009.

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