

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- RC**

**LA UNION ELECTRIC COMPANY, INC.**

Applicant.  
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**APPLICATION**

COMES NOW, applicant **LA UNION 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 Valbros Building, Quezon Avenue, San Fernando City, La Union where it may be served with summons and other legal processes, represented in this instance by its President, **RUBEN L. VALERO JR.** of legal age, Filipino, married and with office address also at Valbros Building, Quezon Avenue, San Fernando City, La Union. 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 San Fernando and in the Municipalities of Bauang and San Juan, all in the Province of La Union.
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, 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 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	115,193,767	122,768,229	130,496,648	137,925,917
Taxes, levies & duties (other than corporate tax)	2,803,618	1,743,351	1,873,909	2,031,950
Regulatory depreciation	21,723,449	26,288,561	27,312,358	29,432,657
Return on capital	70,286,869	73,956,929	77,975,202	82,902,017
<b>TOTAL REVENUE REQUIREMENT</b>	<b>210,007,703</b>	<b>224,757,070</b>	<b>237,658,117</b>	<b>252,292,541</b>

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	421,287,382	431,455,947	465,660,919	480,094,956
plus Capital Expenditure	30,934,994	58,900,245	36,107,020	72,459,962
minus Regulatory Depreciation on asset base at start of Second Regulatory Period	19,173,331	21,860,538	21,691,308	21,166,818
minus Regulatory Depreciation on capital expenditure incurred during the Second Regulatory Period	2,550,118	4,428,023	5,621,049	8,265,839
Closing value of RAB	431,455,947	465,660,919	480,094,956	525,497,892
<b>AVERAGE VALUE OF RAB</b>	426,371,664	448,558,433	472,877,937	502,796,424

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 2. 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 <sub>0</sub> -factor		0 PhP/kWh
X-factor		0
Valuation of the applicant's regulatory asset base as at Dec. 31, 2008		Php 379,704,331
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 3a. Forecast Change in the Consumer Price Index for the Philippines**

	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>
Calendar Year	1.9%	3.6%	4.2%	4.0%	4.0%	4.0%
Regulatory Year		2.7%	3.9%	4.1%	4.0%	4.0%
Data source :						

**Table 3b. Forecast Change in the Consumer Price Index for the United States of America**

	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>
Calendar Year	-1.2%	0.7%	1.3%	1.6%	1.9%	1.9%
Regulatory Year		-0.3%	1.0%	1.4%	1.7%	1.9%
Data source :						

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

<b>Quarter ending</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>
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 :						

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

ITEM Capex Category	NOMINAL PESO				
	2010	2011	2012	2013	2014
<b>A REGULATED DISTRIBUTION SERVICES ASSETS</b>					
<b>A1 Regulated Distribution Services Assets – Network assets</b>					
Land and Land Rights (Distribution Purposes)					2,121,552
Structures and Improvements					
Station Equipment					
Power transformers			15,220,106		28,012,201
Switchgear			2,437,535		2,014,361
Protective equipment			3,620,710		6,558,360
Metering & control equipment			1,043,255		875,874
Communications equipment					8,303,752
Other station equipment	7,268,078		999,684		
Poles, Towers and Fixtures - Distribution	1,830,775	1,694,920	3,829,371	4,807,388	1,301,082
Overhead Conductors and Devices - Distribution	3,439,991	3,472,786	5,808,899	10,502,879	936,582
Underground Cables and Devices - Distribution					
Underground Conduits - Distribution					
Line Transformers – Distribution	3,993,023	4,904,486	5,248,942	3,741,602	3,891,266
Power Conditioning Equipment		3,145,753	3,277,875		
Meters, Instruments and Metering Transformers - Distribution	1,009,455	1,045,796	1,089,719		
Information Systems Equipment (distribution)					
Regulated Entity Property on Consumer's Premises					
Street Lights and Signal Systems					
Submarine Cables					

<b>A2 Regulated Distribution Services Assets – Non-network fixed assets</b>					
Land and Land Rights (non-network)					
Structures and Improvements (non-network)	504,728	522,898	544,860	566,654	589,320
Office Furniture and Equipment	258,673	281,384	307,863	336,186	367,115
Transportation Equipment	1,514,183	1,568,694	1,362,149	1,133,308	1,178,640
Stores Equipment					
Tools, Shop and Garage Equipment		1,045,796			
Laboratory Equipment					
Information Systems Equipment (non-network)	31,041	33,766	36,944	40,342	44,054
Power-operated Equipment	292,742				
Communication Plant and Equipment	10,347	11,255	12,315	13,447	14,685
Miscellaneous Equipment					
<b>A3 Regulated Distribution Services Assets – Materials and supplies (including spares)</b>	5,482,463	5,963,823	6,525,018	7,125,320	7,780,850
<b>A4 Regulated Distribution Services Assets – Transferred Subtransmission Assets</b>	7,469,969				
<b>Subtotal A</b>	<b>33,105,467</b>	<b>23,691,357</b>	<b>51,365,243</b>	<b>28,267,127</b>	<b>63,989,514</b>
<b>B DISTRIBUTION CONNECTION SERVICES ASSETS</b>					
<b>B1 Distribution Connection Services Assets – Network assets</b>					
Poles, Towers and Fixtures (Customer)					
Overhead Conductors and Devices (Customer)					
Underground Conductors and Devices (Customer)					
Line Transformers (Customer)					

Information Systems Equipment (Connection)					
<b>B2 Distribution Connection Services Assets – Non-network fixed assets</b>					
Land and Land Rights (non-network)					
Structures and Improvements (non-network)					
Office Furniture and Equipment					
Transportation Equipment					
Stores Equipment					
Tools, Shop and Garage Equipment					
Laboratory Equipment					
Information Systems Equipment (non-network)					
Power-operated Equipment					
Communication Plant and Equipment					
Miscellaneous Equipment					
<b>B3 Distribution Connection Services Assets – Materials and supplies (including spares)</b>					
<b>Subtotal B</b>	0	0	0	0	0
<b>C REGULATED RETAIL SERVICES ASSETS</b>					
<b>C Regulated Retail Services Assets</b>					
Meters, Instruments & Metering Transformers (Consumer Consumption Metering)	4,332,373	4,707,256	5,147,516	5,621,664	6,143,212
Land and land rights					
Structures and improvements	504,728	522,898	544,860	566,654	589,320
Office Furniture and Equipment	258,673	281,384	307,863	336,186	367,115
Transportation Equipment	1,514,183	1,568,694	1,362,149	1,133,308	1,178,640
Stores Equipment					
Tools, Shop and Garage Equipment					
Laboratory Equipment					
Information Systems Equipment	145,311	152,150	160,300	168,633	177,476
Communication Plant and Equipment	10,347	11,255	12,315	13,447	14,685
Miscellaneous Equipment					
<b>Subtotal C</b>	6,765,614	7,243,637	7,535,001	7,839,893	8,470,448
<b>TOTAL</b>	39,871,081	30,934,994	58,900,245	36,107,020	72,459,962

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

That the proposed Capital Expenditure Project are necessary to upgrade system capacity to meet load and customer growth; to refurbish/replace of aging equipment and line materials to improve system reliability, customer service and meet performance targets; to reduce system losses which is currently above the 9.5% cap and address the impending lowering to 8.5% by 2010; and to comply to the Distribution and Grid Codes, Distribution Services and Open Acces Rules (DSOAR), Magna Carta and other regulations of the ERC, DOE, DENR and Local Government. (See Schedule C1.4 for additional details)

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)**

Opex Category and Sub-category	Nominal PhP				
	2010	2011	2012	2013	2014
<b>A REGULATED DISTRIBUTION SERVICES</b>					
<b>A1. Distribution : Operation</b>					
Operation supervision & engineering	7,968,897	8,402,484	8,845,367	9,319,657	9,769,561
Load dispatching	5,796,175	6,035,015	6,352,945	6,706,796	7,035,291
Substations	945,480	937,820	998,649	1,060,908	1,132,235
Overhead conductors & devices	1,771,625	1,880,811	2,006,034	2,160,420	2,290,762
Underground cables & devices					
Streetlighting and signal systems					
Metering (distribution network)	299,589	319,422	341,330	364,439	388,949
Rents	350,372	381,135	417,000	455,364	497,257
Information technology (distribution network)					
Miscellaneous	422,166	461,189	506,627	555,359	608,658
<b>A2. Distribution : Maintenance</b>					
Maintenance supervision & engineering	752,858	807,586	869,447	941,336	1,023,162
Substations	904,772	984,967	1,074,606	1,170,179	1,274,916
Overhead lines	4,208,515	4,505,462	4,822,884	5,181,506	5,539,086
Underground cables & devices					

Opex Category and Sub-category	Nominal PhP				
	2010	2011	2012	2013	2014
Streetlighting and signal systems					
Line transformers	5,600,833	6,168,408	6,748,855	7,369,750	8,047,767
Information technology (distribution network)	58,569	62,748	66,822	68,134	69,304
Metering (distribution network)	436,207	226,782	237,983	257,081	263,127
Miscellaneous	337,732	368,952	405,302	444,287	486,926
<b>A3. Administrative &amp; General</b>					
Admin & general salaries	14,434,188	14,849,838	15,559,778	16,217,541	16,957,362
Office supplies & expenses	377,125	410,237	448,840	490,134	535,226
Information technology (admin & general)	228,939	242,920	253,823	265,112	276,921
Outside services employed	2,700,568	2,823,504	2,942,795	3,061,276	3,184,566
Property insurance	833,812	907,021	992,371	1,083,670	1,183,367
Injuries & damages					
Employee pension & benefits	4,342,990	4,142,687	4,688,527	5,132,242	5,666,036
Rents	744,978	810,387	886,645	968,216	1,057,292
Maintenance of office & general plant	2,422,615	2,648,915	2,882,182	3,130,707	3,401,430
Officers allowance & benefits	5,684,662	5,929,347	6,222,184	6,518,905	6,831,897
Travel	511,926	556,873	609,275	665,328	726,538
Training	1,017,619	1,106,966	1,211,132	1,322,556	1,444,231
Regulatory liaison & compliance	1,954,385	2,071,142	2,210,706	2,354,485	1,864,852
Water and Electricity					
Other	826,941	902,288	990,049	1,084,104	1,186,930
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					
<b>Subtotal A</b>	65,934,539	68,944,904	73,592,159	78,349,490	82,743,650
<b>B DISTRIBUTION CONNECTION SERVICES</b>					
<b>B1. Connection Services: Operation</b>					

Opex Category and Sub-category	Nominal PhP				
	2010	2011	2012	2013	2014
Operation supervision & engineering Load dispatching Overhead connections & devices Underground cables & devices Consumer installations Distribution transformers Information technology (connection assets) Miscellaneous					
<b>B2. Connection Services: Maintenance</b> Maintenance supervision & engineering Load dispatching Overhead connections & devices Underground cables & devices Consumer installations Distribution transformers Information technology (connection assets) Miscellaneous					
<b>B3. Administrative &amp; General</b> Admin & general salaries Office supplies & expenses Information technology (admin & general) 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					
<b>Subtotal B</b>					
<b>C REGULATED RETAIL SERVICES</b>					
Administration & management	8,170,610	8,581,247	9,039,445	9,526,127	10,017,310

Opex Category and Sub-category	Nominal PhP				
	2010	2011	2012	2013	2014
Consumer meter installations (planning, supply, install, maintain)	1,791,492	1,838,901	1,973,046	2,140,860	2,293,510
Meter reading expenses	3,317,465	3,528,145	3,759,890	3,947,922	4,264,983
Information technology (consumer related)	251,204	263,428	276,126	289,821	304,225
Consumer records, billing and collection	11,317,058	11,849,071	12,487,452	13,083,749	13,511,250
Bad debts	8,793,055	9,382,893	10,070,284	10,787,288	11,555,343
Informational and instructional advertising	74,490	81,030	88,655	96,811	105,718
Energy trading expenses					
Water and Electricity	9,307,430	9,882,678	10,558,887	11,265,747	12,026,518
Miscellaneous consumer services expenses	767,929	841,471	922,285	1,008,833	1,103,410
<b>Subtotal C</b>	<b>43,790,733</b>	<b>46,248,863</b>	<b>49,176,070</b>	<b>52,147,158</b>	<b>55,182,267</b>
<b>TOTAL</b>	<b>109,725,272</b>	<b>115,193,767</b>	<b>122,768,229</b>	<b>130,496,648</b>	<b>137,925,917</b>

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

It is to improve network and personnel capability and productivity to meet performance targets and load and customer growth; and to comply with Grid and Distribution codes, Distribution Services and Open Access Rules (DSOAR), Magna Carta and other regulations of the ERC, DENR, and local government. (See Schedule G1.4 for Additional details)

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				
	2010	2011	2012	2013	2014
<b>Levies</b>	102,507	1,348,533	157,863	161,036	163,884
<b>Duties</b>	0	0	0	0	0
<b>Other taxes</b>	1,320,133	1,455,085	1,585,487	1,712,872	1,868,066
<b>TOTAL</b>	<b>1,422,639</b>	<b>2,803,618</b>	<b>1,743,351</b>	<b>1,873,909</b>	<b>2,031,950</b>

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

That the increase is due to the provisions set by the Bureau Of Internal Revenue (BIR) and other government agencies both Local and National. ( See Schedule G3.3 for Additional Details)

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)**

ITEM Depreciation Category	NOMINAL PESO				
	2010	2011	2012	2013	2014
<b>A REGULATED DISTRIBUTION SERVICES ASSETS</b>					
<b>A1 Regulated Distribution Services Assets – Network assets</b>					
Land and Land Rights (Distribution Purposes)					
Structures and Improvements	85,970	89,292	92,903	96,846	101,174
Station Equipment					
Power transformers	2,670,451	992,615	1,422,690	1,477,571	2,238,983
Switchgear	704,085	473,068	583,446	617,765	726,596
Protective equipment	699,129	717,109	939,759	1,094,968	1,627,042
Metering & control equipment	42,299	44,120	80,880	83,053	114,638
Communications equipment					830,357
Other station equipment	515,561	548,866	646,347	809,557	704,879
Poles, Towers and Fixtures - Distribution	2,555,280	2,770,240	3,124,097	3,606,318	4,010,141

Overhead Conductors and Devices - Distribution	1,017,451	1,159,396	1,423,602	1,869,285	2,025,471
Underground Cables and Devices - Distribution					
Underground Conduits - Distribution					
Line Transformers - Distribution	1,765,311	2,484,666	2,968,371	2,566,534	2,818,366
Power Conditioning Equipment	26,917	134,493	247,311	252,297	260,227
Meters, Instruments and Metering Transformers – Distribution	40,378	82,210	125,799	125,799	125,799
Information Systems Equipment (distribution)					
Regulated Entity Property on Consumer's Premises					
Street Lights and Signal Systems					
Submarine Cables					
<b>A2 Regulated Distribution Services Assets – Non-network fixed assets</b>					
Land and Land Rights (non-network)					
Structures and Improvements (non-network)	695,245	758,099	834,237	931,102	1,064,611
Office Furniture and Equipment	162,939	182,958	207,729	234,654	267,277
Transportation Equipment	2,714,345	2,823,999	4,044,670	3,828,139	2,823,198
Stores Equipment	3,147	3,356	3,597	3,879	4,214
Tools, Shop and Garage Equipment	97,359	157,417	167,050	180,174	191,524
Laboratory Equipment	13,089	13,927	14,903	16,068	17,522
Information Systems Equipment (non-network)	736,743	888,014	1,230,844	787,009	37,229
Power-operated Equipment	14,637	14,637	14,637	14,637	14,637
Communication Plant and Equipment	44,608	59,156	86,250	95,975	75,358
Miscellaneous Equipment	56,057	59,298	62,939	67,058	71,757
<b>A3 Regulated Distribution Services Assets – Materials and supplies (including spares)</b>					
<b>A4 Regulated Distribution Services Assets – Transferred Subtransmission Assets</b>	248,999	248,999	248,999	248,999	248,999
<b>Subtotal A</b>	<b>14,909,999</b>	<b>14,705,935</b>	<b>18,571,059</b>	<b>19,007,685</b>	<b>20,399,999</b>

<b>B DISTRIBUTION CONNECTION SERVICES ASSETS</b>					
<b>B1 Distribution Connection Services Assets – Network assets</b>					
Poles, Towers and Fixtures (Customer)					
Overhead Conductors and Devices (Customer)	1,471,400	1,580,389	1,709,540	1,874,017	2,067,063
Underground Conductors and Devices (Customer)					
Line Transformers (Customer)					
Information Systems Equipment (Connection)					
<b>B2 Distribution Connection Services Assets – Non-network fixed assets</b>					
Land and Land Rights (non-network)					
Structures and Improvements (non-network)					
Office Furniture and Equipment					
Transportation Equipment					
Stores Equipment					
Tools, Shop and Garage Equipment					
Laboratory Equipment					
Information Systems Equipment (non-network)					
Power-operated Equipment					
Communication Plant and Equipment					
Miscellaneous Equipment					
<b>B3 Distribution Connection Services Assets – Materials and supplies (including spares)</b>					
<b>Subtotal B</b>	1,471,400	1,580,389	1,709,540	1,874,017	2,067,063
<b>C REGULATED RETAIL SERVICES</b>					
<b>C Regulated Retail Services</b>					
Meters, Instruments & Metering Transformers (Consumer Consumption Metering)	4,513,226	5,014,491	5,386,807	5,630,123	5,977,146

Land and land rights					
Structures and improvements	12,618	25,691	39,312	53,478	68,211
Office Furniture and Equipment	12,934	27,003	42,396	59,205	77,561
Transportation Equipment	151,418	308,288	444,503	557,833	675,697
Stores Equipment					
Tools, Shop and Garage Equipment					
Laboratory Equipment					
Information Systems Equipment	29,062	59,492	91,552	125,279	160,774
Communication Plant and Equipment	1,035	2,160	3,392	4,736	6,205
Miscellaneous Equipment					
<b>Subtotal C</b>	4,720,293	5,437,125	6,007,961	6,430,655	6,965,594
<b>TOTAL</b>	21,101,692	21,723,449	26,288,561	27,312,358	29,432,657

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 Regulated Entity* itself, is forecast as follows:

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

	2010	2011	2012	2013	2014
<b>Energy consumption (MWh)</b>	118,674.754	121,620.499	124,704.622	127,935.494	131,322.048

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
<b>Demand (MW)</b>	25,741	26,513	27,308	28,127	28,971

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 P<sub>0</sub>-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
<b>Maximum Annual Price (PhP/kWh)</b>	1.526	1.857	2.259	2.747

- 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 (2011)	Illustrative Rates (2012)	Illustrative Rates (2013)	Illustrative Rates (2014)
<b>Customer Class</b>					
<b>Residential</b>					
Distribution (PhP/kWh)	0.8614	1.2400	1.3114	1.3703	1.4375
Supply (PhP/kWh)	0.1578	0.5264	0.5568	0.5818	0.6103
Metering (PhP/kWh)	0.1641	0.6789	0.7180	0.7503	0.7871

Metering (PhP/customer/month)	5.0000	5.0000	5.0000	5.0000	5.0000
Inter-class cross-subsidy (PhP/kWh)	0.0000	0.0000	0.0000	0.0000	0.0000
Total PhP/kWh	1.1833	2.4453	2.5862	2.7024	2.8349
Total PhP/customer/month	5.0000	5.0000	5.0000	5.0000	5.0000
<b>Average PhP/kWh distribution wheeling rate</b>	1.2035	2.4485	2.5894	2.7059	2.8383
<b>Commercial 1 (X1)</b>					
Distribution (PhP/kWh)	0.7892	1.4905	1.5919	1.6797	1.7794
Supply (PhP/kWh)	0.1000	0.1846	0.1971	0.2080	0.2203
Metering (PhP/kWh)	0.2462	0.2407	0.2571	0.2713	0.2874
Inter-class cross-subsidy (PhP/kWh)	0.0000	0.0000	0.0000	0.0000	0.0000
Total PhP/kWh	1.1354	1.9158	2.0461	2.1590	2.2871
Total PhP/customer/month	0.0000	0.0000	0.0000	0.0000	0.0000
<b>Average PhP/kWh distribution wheeling rate</b>	1.1766	1.9158	2.0461	2.1590	2.2872
<b>Commercial 2 (X2)</b>					
Distribution (PhP/kWh)	0.7787	0.8514	0.8587	0.8574	0.8586
Supply (PhP/customer/month)	219.1200	219.1200	219.1200	219.1200	219.1200
Metering (PhP/customer/month)	565.2700	565.2700	565.2700	565.2700	565.2700
Inter-class cross-subsidy (PhP/kWh)	0.0000	0.0000	0.0000	0.0000	0.0000
Total PhP/kWh	0.7787	0.8514	0.8587	0.8574	0.8586
Total PhP/customer/month	784.3900	784.3900	784.3900	784.3900	784.3900
<b>Average PhP/kWh distribution wheeling rate</b>	0.8750	0.8863	0.8926	0.8903	0.8906
<b>Hospitals</b>					
Distribution (PhP/kWh)	0.5956	0.4613	0.4689	0.4710	0.4750
Supply (PhP/customer/month)	219.1200	219.1200	219.1200	219.1200	219.1200
Metering (PhP/customer/month)	565.2700	565.2700	565.2700	565.2700	565.2700
Inter-class cross-subsidy (PhP/kWh)	0.0000	0.0000	0.0000	0.0000	0.0000
Total PhP/kWh	0.5956	0.4613	0.4689	0.4710	0.4750
Total PhP/customer/month	784.3900	784.3900	784.3900	784.3900	784.3900
<b>Average PhP/kWh distribution wheeling rate</b>	0.6081	0.4686	0.4760	0.4777	0.4814
<b>General Power</b>					
Distribution (PhP/kWh)	0.4188	0.8711	0.9131	0.9457	0.9833
Distribution demand (PhP/kW)	117.9100	117.9100	117.9100	117.9100	117.9100
Supply (PhP/customer/month)	214.6400	214.6400	214.6400	214.6400	214.6400
Metering (PhP/customer/month)	1038.5200	1038.5200	1038.5200	1038.5200	1038.5200
Inter-class cross-subsidy (PhP/kWh)	0.0000	0.0000	0.0000	0.0000	0.0000
Total PhP/kWh	0.4188	0.8711	0.9131	0.9457	0.9833
Total PhP/kW	117.3100	117.3100	117.3100	117.3100	117.3100
Total PhP/customer/month	1253.1600	1253.1600	1253.1600	1253.1600	1253.1600
<b>Average PhP/kWh distribution wheeling rate</b>	0.7994	0.9045	0.9458	0.9777	1.0147
<b>Streetlight</b>					
Distribution (PhP/kWh)	0.8130	1.0746	1.0475	1.0088	0.9753
Supply (PhP/customer/month)	89.5700	89.5700	89.5700	89.5700	89.5700
Metering (PhP/customer/month)	0.0000	0.0000	0.0000	0.0000	0.0000
Inter-class cross-subsidy (PhP/kWh)	0.0000	0.0000	0.0000	0.0000	0.0000
Total PhP/kWh	0.8130	1.0746	1.0475	1.0088	0.9753
Total PhP/customer/month	89.5700	89.5700	89.5700	89.5700	89.5700
<b>Average PhP/kWh distribution wheeling rate</b>	0.8262	1.0987	1.0703	1.0303	0.9956

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	9.4052	13.4893	17.5734	21.6575	25.7416
Customer average interruption duration index (CAIDI)	Minutes	0.20	153.1085	205.7651	258.4217	311.0783	363.7349
Planned system average interruption duration index (SAIDI)	Minutes	0.15	692.7125	1206.8844	1721.0563	2235.2282	2749.4001
Probability of voltage levels falling within prescribed limits	%	0.10	5.3670	6.1835	7	7.8165	8.6330
System losses	%	0.05	9.56	10.49	11.42		
Average time to process applications for Regulated Distribution Services	Days	0.15	5.48	8.24	11	13.76	16.52
Average time to connect premises to the Regulated Distribution System	Days	0.15	1.90	2.48	3.06	3.64	4.22
Average time to answer calls at call centre	Seconds	0	0	0	0	0	0

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**

<b>Performance Measure</b>	<b>Threshold</b>	<b>Penalty level (PhP)</b>
Customer experiencing a total duration of sustained service interruptions in a Regulatory Year that exceeds the threshold	24.23 hours	25.31
Customer experiencing a number of sustained service interruptions in a Regulatory Year that exceeds the threshold	14	25.31
Restoration of supply to a customer after a fault on the secondary distribution network taking longer than the threshold time	99 minutes	25.31
Customer connection not provided on the day agreed with the customer	7 days	25.31

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

<b>Schedule</b>	<b>Information provided</b>
	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
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>B</b>	<b>Financial indices forecast for Second Regulatory Period</b>
B1	Philippine quarterly CPI
B2	United States quarterly CPI
B3	PhP/US\$ quarterly exchange rate
B4	180-Day Manila Reference Rate
<b>C</b>	<b>Forecast capital expenditure for the Second Regulatory Period</b>
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

<b>Schedule</b>	<b>Information provided</b>
C1.3	- Total nominal values, in PhP
C1.4	- Justification for capital expenditure (major and minor projects)
C2	Broken down historical capital expenditure
<b>D</b>	<b>Forecast disposals during the Second Regulatory Period</b>
D1	Value of assets to be disposed of (based on ODRC register)
D2	Forecast income from the sale of disposed assets
<b>E</b>	<b>Forecast depreciation during the Second Regulatory Period</b>
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
<b>F</b>	<b>Forecast assets used beyond standard lives</b>
F1	Forecast addition to assets used beyond standard lives
F2	Forecast removal from assets used beyond standard lives
<b>G</b>	<b>Forecast operating &amp; maintenance expenditure</b>
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
<b>H</b>	<b>Forecast energy consumption and demand</b>
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)

<b>Schedule</b>	<b>Information provided</b>
H2.1	- Breakdown of demand figures into customer classes
H2.2	- Supporting evidence
H3	Forecast customer numbers, per customer class
<b>I</b>	<b>Regulatory financial statements</b>
<b>J</b>	<b>Performance incentive scheme details</b>
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
<b>K</b>	<b>Additional information for price-cap model</b>
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
<b>L</b>	<b>Detailed calculations for Second Regulatory Period</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>M</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, La Union 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.

Pasig City, Philippines, June 18, 2009 .

**THE LAW FIRM  
OF  
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**VERIFICATION**  
**AND**  
**CERTIFICATION**

I, **RUBEN L. VALERO, JR**, after having been duly sworn to in accordance with the law, depose and say:

1. That I am the **DIRECTOR-PRESIDENT** of **LA UNION ELECTRIC COMPANY, INC. (LUECO)**, the applicant-corporation in the above- entitled case;
2. That I have caused the preparation and filing of the foregoing **APPLICATION**;
3. That I have read the same and that all the allegations contained therein are true and correct of my own personal knowledge and belief;
4. That I hereby certify that **LUECO** has not commenced any other action or proceeding involving the same issue/s with the Supreme Court, the Court of Appeals or any other tribunal or agency;
5. That to the best of my knowledge no such action or proceeding involving the same issue/s is pending with the Supreme Court, the Court of Appeals or any other tribunal or agency;
6. That should I thereafter learn that an action or proceeding is pending with the Supreme Court, the Court of Appeals or any other tribunal or agency, I hereby undertake to report such fact within five (5) days with this Honorable Commission.

**FURTHER AFFIANT SAYETH NONE.**

\_\_\_\_\_  
**RUBEN L. VALERO JR.**

**SUBSCRIBED AND SWORN** to before me this \_\_\_\_\_ day of June 2009, affiant exhibited to me his Community Tax Certificate No. 17058051 issued on January 5, 2009 at San Fernando City, La Union.

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