

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- 045RC**

***IBAAN ELECTRIC AND ENGINEERING CORP.***

**Applicant.**

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**APPLICATION**

COMES NOW, applicant ***IBAAN ELECTRIC AND ENGINEERING CORP.*** 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 Don Pedro Subd., Poblacion, Ibaan, Batangas where it may be served with summons and other legal processes, represented in this instance by its *Chief Finance Officer*, Amelita K. Castillo of legal age, *Filipino, married* and with office address also at Don Pedro Subd., Poblacion, Ibaan, Batangas. 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 Municipalities/cities of Ibaan all in the Province of Batangas.
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	12,655,571	13,283,319	13,973,529	14,700,021
Taxes, levies & duties (other than corporate tax)	384,508	270,195	269,829	269,426
Regulatory depreciation	4,197,822	44,197,822	4,197,822	4,197,822
Return on capital				
<b>TOTAL REVENUE REQUIREMENT</b>	<b>31,508,625</b>	<b>32,116,209</b>	<b>33,027,490</b>	<b>33,848,357</b>

Note : All values are in nominal terms

The meaning and application of these parameters are as described in the afore-mentioned RDWR.

Corporate income tax has been discontinued as a building block for the Second Regulatory Period following an approach by various Regulated Entities in this regard and consultation on the resulting changes to the RDWR. This rule change (and others approved by the Commission) was published in the ERC document titled "*Performance*

*Based Regulation of Privately Owned Electricity Distribution Utilities : Modifications to the Rules for Setting Distribution Wheeling Rates (RDWR)*" dated December 8, 2008.

- 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)**

ROLLED-FORWARD REGULATORY ASSET BASE				
Opening Value of RAB	86,199,484	86,062,408	87,258,169	88,661,137
Depreciation on RAB	4,197,822	4,197,822	4,197,822	4,197,822
Capital Expenditure	4,060,746	5,393,583	5,600,790	3,838,550
Change in assets used over regulatory lives	-	-	-	-
Closing Value of RAB	86,062,408	87,258,169	88,661,137	88,301,865
Average RAB for the Year	86,130,946	86,660,289	87,959,653	88,481,501

Note : All values are in nominal terms

- 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)	December 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 December 30,2008		86,199,485
Working-capital proportion		4.9%

The meaning and application of these parameters are as described in the afore-mentioned RDWR.

- 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**

	2009	2010	2011	2012	2013	2014
Calendar Year	1.9%	3.6%	4.2%	4.0%	4.0%	4.0%
Regulatory Year		3.6 %	4.2%	4.0%	4.0%	4.0%
Data source :	Bangko Sentral Ng Pilipinas (BSP)					

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

	2009	2010	2011	2012	2013	2014
Calendar Year	1.2%	0.7%	1.3%	1.6%	1.9%	1.9%
Regulatory Year		0.7%	1.3%	1.6%	1.9%	1.9%
Data source :	United States Bureau of Labor Statistics					

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

Quarter ending	2009	2010	2011	2012	2013	2014
Calendar Year	48.20	49.00	51.00	51.20	49.00	49.00
Regulatory Year		49.00	51.00	51.20	49.00	49.00
Data source :	Bangko Sentral Ng Pilipinas (BSP)					

- 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.

		Forecast (nominal value for regulatory year), measured in				PhP
		2010	2011	2012	2013	2014
<b>CAPITAL EXPENDITURE</b>						
<b>Regulated Distribution Services Assets</b>						
<b>Network</b>	Land and Land Rights (Distribution Purposes)	-	-	-	-	-
	Structures and Improvements	-	-	-	-	-
	Station Equipment	-	-	-	-	-
	Power transformers	-	-	-	-	-
	Switchgear	-	-	-	-	-
	Protective equipment	-	-	-	-	-
	Metering & control equipment	-	-	-	-	-
	Communications equipment	-	-	-	-	-
	Other station equipment	-	-	-	-	-
	Poles, Towers and Fixtures - Distribution	232,571	264,162	244,272	343,197	108,976
	Overhead Conductors and Devices - Distribution	149,303	261,084	310,811	469,093	191,074
	Underground Cables and Devices - Distribution	-	-	-	-	-
	Underground Conduits - Distribution	-	-	-	-	-
	Line Transformers - Distribution	-	-	-	-	-
	Power Conditioning Equipment	-	-	-	-	-
	Meters, Instruments and Metering Transformers - Distribution	-	-	-	-	-
	Information Systems Equipment (distribution)	-	-	1,000,000	1,250,000	-
	Regulated Entity Property on Consumer's Premises	-	-	-	-	-
	Street Lights and Signal Systems	-	-	-	-	-
	Submarine Cables	-	-	-	-	-
<b>Non-network</b>	Land and Land Rights (non-network)	-	-	-	-	-
	Structures and Improvements (non-network)	-	-	-	-	-
	Office Furniture and Equipment	10,200	12,000	15,000	15,000	15,000
	Transportation Equipment	450,000	-	300,000	-	-
	Stores Equipment	-	-	-	-	-
	Tools, Shop and Garage Equipment	35,000	-	-	-	-
	Laboratory Equipment	-	-	-	-	-
	Information Systems Equipment (non-network)	150,000	-	-	-	-
	Power-operated Equipment	-	-	-	-	-
	Communication Plant and Equipment	-	-	-	-	-
	Miscellaneous Equipment	-	-	-	-	-
<b>Materials</b>	Materials and supplies (including spares)	3,300,000	3,000,000	3,000,000	3,000,000	3,000,000
<b>Subtrans</b>	Transferred subtransmission assets	-	-	-	-	-
	<b>Sub-total Regulated Distribution Services</b>	<b>4,327,074</b>	<b>3,537,246</b>	<b>4,870,083</b>	<b>5,077,290</b>	<b>3,315,050</b>
<b>Distribution Connection Services Assets</b>						
<b>Network</b>	Poles, Towers and Fixtures (Customer)	-	-	-	-	-
	Overhead Conductors and Devices (Customer)	-	-	-	-	-
	Underground Conductors and Devices (Customer)	-	-	-	-	-
	Line Transformers (Customer)	-	-	-	-	-
	Information Systems Equipment (Connection)	-	-	-	-	-
<b>Non-network</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>Materials</b>	Materials and supplies (including spares)	-	-	-	-	-
	<b>Sub-total Distribution Connection Assets</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Regulated Retail Services Assets</b>						
	Meters, Instruments & Metering Transformers (Consumer Consumption Metering)	523,500	523,500	523,500	523,500	523,500
	Land and land rights	-	-	-	-	-
	Structures and improvements	-	-	-	-	-
	Office Furniture and Equipment	-	-	-	-	-
	Transportation Equipment	-	-	-	-	-
	Stores Equipment	-	-	-	-	-
	Tools, Shop and Garage Equipment	-	-	-	-	-
	Laboratory Equipment	-	-	-	-	-
	Information Systems Equipment	-	-	-	-	-
	Communication Plant and Equipment	-	-	-	-	-
	Miscellaneous Equipment	-	-	-	-	-
	<b>Sub-total Regulated Retail Services Assets</b>	<b>523,500</b>	<b>523,500</b>	<b>523,500</b>	<b>523,500</b>	<b>523,500</b>
	<b>TOTAL</b>	<b>4,850,574</b>	<b>4,060,746</b>	<b>5,393,583</b>	<b>5,600,790</b>	<b>3,838,550</b>

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

The increases reflect the new capital expenditures required to sustain the existing demand of customers, increase in number of customers, improve the service quality and performance measurement, to compliance to the Grid and Distribution Codes, and the Distribution Service and Open Access Rules (DSOAR) and other ERC Technical Compliances, security and reliability of grid connection and replacement of ageing or obsolete equipment.

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)**

		<a href="#">Previous Page</a>	<a href="#">Next Page</a>			
Opex Category and Sub-category		Forecast (nominal value for regulatory year), measured in PHP				
		2010	2011	2012	2013	2014
<b>Regulated Distribution Services</b>						
Operation	Operation supervision & engineering	911,589	959,567	1,010,071	1,063,232	1,119,192
	Load dispatching	-	-	-	-	-
	Substations	432,387	455,145	479,100	504,315	530,858
	Overhead lines & devices	353,666	372,280	391,874	412,499	434,210
	Underground cables & devices	-	-	-	-	-
	Streetlighting and signal systems	-	-	-	-	-
	Metering (distribution network)	-	-	-	-	-
	Rents	-	-	-	-	-
	Information technology (distribution network)	-	-	-	-	-
	Miscellaneous	-	-	-	-	-
Maintenance	Maintenance supervision & engineering	1,930,342	2,031,939	2,138,883	2,251,456	2,369,953
	Substations	-	-	-	-	-
	Overhead lines	-	807,576	850,080	894,821	941,917
	Underground cables & devices	767,197	-	-	-	-
	Streetlighting and signal systems	-	-	-	-	-
	Line transformers	350,000	367,500	385,875	405,169	425,427
	Information technology (distribution network)	-	-	-	-	-
	Metering (distribution network)	-	-	-	-	-
	Miscellaneous	93,087	97,986	103,143	108,572	114,286
Admin & Gen	Admin & general salaries	1,410,710	1,484,958	1,563,114	1,645,383	1,731,982
	Office supplies & expenses	168,194	177,046	186,364	196,173	206,498
	Information technology (admin & general)	-	-	-	-	-
	Outside services employed	137,697	144,944	152,573	160,603	169,056
	Property insurance	-	-	-	-	-
	Injuries & damages	82,356	86,691	91,253	96,056	101,112
	Employee pension & benefits	452,182	475,981	501,032	527,402	555,160
	Rents	177,835	187,194	197,047	207,417	218,334
	Maintenance of office & general plant	361,171	380,181	400,190	421,252	443,424
	Officers allowance & benefits	886,301	932,949	982,052	1,033,738	1,088,146
	Travel	52,221	54,969	57,862	60,908	64,113
	Training	29,540	31,094	32,731	34,454	36,267
	Regulatory liaison & compliance	226,000	178,000	150,000	150,000	150,000
	Water and Electricity	495,506	521,585	549,037	577,934	608,352
	Other	54,150	57,000	60,000	63,158	66,482
WESM	Registration fees	-	-	-	-	-
	Metering fees	-	-	-	-	-
	Billing & settlement fees	-	-	-	-	-
	Administration fees	-	-	-	-	-
	Costs for the PEM board, committees & working groups	-	-	-	-	-
	Market management software & upgrades	-	-	-	-	-
	Provision of security	-	-	-	-	-
	Other	-	-	-	-	-
<b>Subtotal Regulated Distribution Services</b>		<b>9,372,131</b>	<b>9,804,585</b>	<b>10,282,281</b>	<b>10,814,541</b>	<b>11,374,769</b>
<b>Distribution Connection Services</b>						
Operation	Operation supervision & engineering	-	-	-	-	-
	Load dispatching	-	-	-	-	-
	Overhead connections & devices	-	-	-	-	-
	Underground cables & devices	-	-	-	-	-
	Consumer installations	-	-	-	-	-
	Distribution transformers	-	-	-	-	-
	Information technology (connection assets)	-	-	-	-	-
	Miscellaneous	-	-	-	-	-
Maintenance	Maintenance supervision & engineering	-	-	-	-	-
	Load dispatching	-	-	-	-	-
	Overhead connections & devices	-	-	-	-	-
	Underground cables & devices	-	-	-	-	-
	Consumer installations	-	-	-	-	-
	Distribution transformers	-	-	-	-	-
	Information technology (connection assets)	-	-	-	-	-
	Miscellaneous	-	-	-	-	-
Admin & Gen	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>Sub-total Distribution Connection Services</b>		<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Regulated Retail Services</b>						
	Administration & management	249,585	262,721	276,548	291,104	306,425
	Consumer meter installations (planning, supply, installation)	262,323	276,129	290,662	305,960	322,064
	Meter reading expenses	156,461	164,695	173,364	182,488	192,093
	Information technology (consumer related)	-	-	-	-	-
	Consumer records, billing and collection	911,431	959,401	1,009,896	1,063,049	1,118,999
	Bad debts	1,044,159	1,099,115	1,156,963	1,217,856	1,281,954
	Informational and instructional advertising	42,871	45,128	47,503	50,003	52,635
	Energy trading expenses	-	-	-	-	-
	Water and Electricity	-	-	-	-	-
	Miscellaneous consumer services expenses	41,607	43,797	46,102	48,528	51,082
<b>Sub-total Regulated Retail Services</b>		<b>2,708,437</b>	<b>2,850,986</b>	<b>3,001,038</b>	<b>3,158,988</b>	<b>3,325,252</b>
<b>Total Operating &amp; Maintenance Expenditure</b>		<b>12,080,568</b>	<b>12,655,571</b>	<b>13,283,319</b>	<b>13,973,529</b>	<b>14,700,021</b>

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

The increases in the operating and maintenance expenditures is the result of increase in inputs required to sustain the existing demand of customers, increase in number of customers, improve the service quality and performance measurement, to compliance to the Grid and Distribution Codes, and the Distribution Service and Open Access Rules (DSOAR) and other ERC Technical Compliances, security and reliability of grid connection.

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

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

**Table 6. Summary of proposed Taxes, Levies & Duties (other than corporate income tax) expenditure (per Regulatory Year)**

**TAXES, DUTIES AND LEVIES OTHER THAN INCOME TAX**  
**Forecast (nominal value for regulatory year), measured in PHP**

	2010	2011	2012	2013	2014
Levies	0	143,950.00	18,703.00	18,337.00	17,934.00
Duties	229,623.00	240,558.00	251,492.00	262,834.00	268,091.00
Other Taxes					
<b>TOTAL</b>	<b>229,623.00</b>	<b>384,508.00</b>	<b>270,195.00</b>	<b>281,171.00</b>	<b>286,025.00</b>

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

Increasing level of proposed revenue, changes in local government tax ordinances and impositions, regulatory compliances, and additional assets being acquired.

13. The proposed Depreciation expenses 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)**

	RY2010	RY2011	RY2012	RY2012	RY2014
Opening asset base	5,657,498.6	4,036,789.4	4,036,789.4	4.0	4,036,789.4
Interim assets before regulatory period	153,295.7	226,577.3	226,577.3	226,577.3	226,577.3
Assets acquired during regulatory period	0.0	35,326.1	165,153.5	347,580.0	451,681.8
<b>Subtotal</b>	<b>5,810,794.3</b>	<b>4,298,692.8</b>	<b>4,428,520.2</b>	<b>574,161.3</b>	<b>4,715,048.5</b>
plus Disposals	0.0	0.0	0.0	0.0	0.0
minus Income from Disposals	0.0	0.0	0.0	0.0	0.0
<b>TOTAL</b>	<b>5,810,794.3</b>	<b>4,298,692.8</b>	<b>4,428,520.2</b>	<b>574,161.3</b>	<b>4,715,048.5</b>

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

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

15. Forecast sales of energy, including sales to *the Regulated Entity* itself, as follows:

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

	2010	2011	2012	2013	2014
<b>Energy consumption (KWh)</b>	16,221,386	16,85,068 1	17,445,55 6	17,903,86 6	18,208,24 3

16. The afore-mentioned energy sales are consistent with the forecasted energy sales submitted to the Department of Energy's Distribution Development Plan (DDP). Note that 93% of IEEC's customer is residential customers, thus, the increase in energy sales is accounted for residential customers.

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

	2010	2011	2012	2013	2014
<b>Demand (MW)</b>	2,119	2,200	2,278	2339	2,414

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>	1.477	1.718	1.998	3.323
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17a. 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)**

	<b>Current Rates</b>	<b>Illustrative Rates (2011)</b>	<b>Illustrative Rates (2012)</b>	<b>Illustrative Rates (2013)</b>	<b>Illustrative Rates (2014)</b>
<b>Customer Class</b>					
<b>Residential</b>					
Distribution (PhP/kWh)	1.1439	1.2827	1.2632	1.2605	1.2681
Supply (PhP/customer/month)	16.6584	25.06	24.74	24.78	25.1
Metering (PhP/kWh)	0.3269	0.5358	0.5248	0.5229	0.5973
Metering (PhP/customer/month)	5	5	5	5	5
Total PhP/kWh Total	1.4708	1.8185	1.788	1.7834	1.8654
PhP/customer/month	21.65	30.06	29.74	29.78	30.1
<b>Average Peso/kWh Distribution</b>		2.1647	2.1356	2.1388	2.1643
<b>Wheeling Rate</b>					
<b>Commercial</b>					
Distribution (PhP/kWh)	0.4369	1.2827	1.2632	1.2605	1.2681
Supply (PhP/customer/month)	16.6584	25.06	24.74	24.78	25.1
Metering (PhP/customer/month)	34.81	45	50	55	55
Total PhP/kWh Total PhP/customer/month	0.4369	1.2827	1.2632	1.2605	1.2681
<b>Average Peso/kWh Distribution</b>	51.4684	70.06	74.74	79.78	80.81
<b>Wheeling Rate</b>		1.4394	1.4156	1.4101	1.4184
<b>Industrial</b>					
Distribution (PhP/kWh)	0.2281	1.2804	1.2601	1.2576	1.2653
Distribution (PhP/kW)		20	22	25	25
Supply (PhP/customer/month)	16.6584	25.06	24.74	24.78	25.1
metering (php/kwh)	523.1	0	0	0	0
Metering (PhP/customer/month)		550	555	575	575
Total PhP/kwhTotal		1.2804	1.2601	1.2576	1.2653
Total PhP/kwTotal		20	22	25	25

Total PhP/kWh Total PhP/customer/month	0.2281	575.06	579.74	599.78	600.1
<b>Average Peso/kWh Distribution</b>					
<b>Wheeling Rate</b>		1.2996	1.281	1.2792	1.2868
<b>Other/Streetlights</b>					
Distribution (PhP/kWh)	0.7605	1.2827	1.2632	1.2605	1.2681
Distribution (PhP/kW)		0	0	0	0
Supply (PhP/customer/month)	16.6584	25.06	24.74	24.78	25.1
Metering (PhP/customer/month)	34.81	45	50	55	55
Metering (PhP/kwh)		0	0	0	0
<b>Total PhP/kWh Total</b>		1.2827	1.2632	1.2605	1.2681
<b>Total PhP/customer/month</b>	0.7605	70.06	74.74	79.78	80.1
<b>Average Peso/kWh Distribution</b>		1.3174	1.299	1.2943	1.6258
<b>Wheeling Rate</b>					
<b>Total average rate</b>		1.8699	1.8409	1.8382	1.859

*{To be adapted to the applicant's rate structure}*

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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	19.96	29.93	39.91	49.89	59.87
Customer average interruption duration index (CAIDI)	Minutes	0.20	248.86	373.29	497.72	622.15	746.58
Planned system average interruption duration index (SAIDI)	Minutes	0.15	1204.41	1806.61	2408.82	3011.02	3613.22
Probability of voltage levels falling within prescribed limits	%	0.10		2.5	12.5	25	40
System losses	%	0.05	9.5	10	11.5		
Average time to process applications for Regulated Distribution Services	Days	0.10	1.75	3.5	5	6.5	8.4
Average time to connect premises to the Regulated Distribution System	Days	0.10	1.5	4	5.5	6.8	9
Average time to answer calls at call centre	Seconds	0.10					

*{To be adapted to Applicant's own interim performance incentive scheme}*

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

**Table 14. Summary of proposed Guaranteed Service Level Incentive Scheme**

Performance Measure	Threshold	Penalty level (PhP)
Customer experiencing a total duration of sustained service interruptions in a Regulatory Year that exceeds the threshold	65hours	20.00

Customer experiencing a number of sustained service interruptions in a Regulatory Year that exceeds the threshold	60 times	20.00
Restoration of supply to a customer after a fault on the secondary distribution network taking longer than the threshold time	5.5 days	20.00
Customer connection not provided on the day agreed with the customer		

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
<b>A</b>	<b>Regulatory Asset Base</b>
A1	Summary of the optimized depreciated replacement cost (ODRC) and the depreciated historical cost of the Regulatory Asset Base as at the initial valuation date (the Regulatory Asset Base).
A2	Summary of the optimized depreciated replacement cost and the depreciated historical cost of the Original Regulatory Asset Base as at the start of the Second Regulatory Period, with supporting calculations for indexing applied.
A3	Assets forecast to be acquired during the period between the initial valuation date and the start of the Second Regulatory Period.
A3.1	- Schedule of assets to be acquired
A3.2	- Value of the assets to be acquired
A3.3	- Justification for assets to be acquired
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

<b>Schedule</b>	<b>Information provided</b>
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
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)
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

<b>Schedule</b>	<b>Information provided</b>
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, *IBAAN ELECTRIC AND ENGINEERING CORPORATION* prays, after due notice and hearing and consideration, that the application be approved and that a final authority be issued to applicant authorizing it to adopt the above Annual Revenue Requirements and Performance Incentive Scheme.

Other reliefs and equitable under the premises are likewise prayed for.

Pasig City, Philippines, *(date)* .

ATTY. CHERRY GRACE V. KATIGBAK