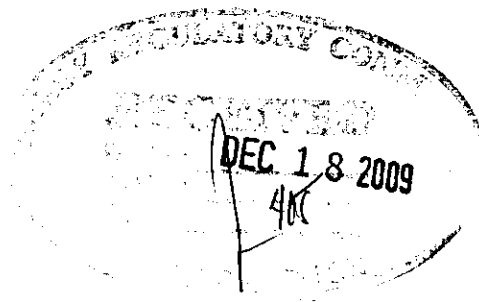


Republic of the Philippines
ENERGY REGULATORY COMMISSION (ERC)
San Miguel Avenue, Pasig City

**IN THE MATTER OF THE APPLICATION
FOR THE APPROVAL OF THE MAXIMUM
ANNUAL REVENUE FOR THE THIRD
REGULATORY PERIOD (2011 TO 2015) OF
THE NATIONAL GRID CORPORATION OF
THE PHILIPPINES (NGCP) DURING THE
REGULATORY RESET PROCESS FOR THE
THIRD REGULATORY PERIOD IN
ACCORDANCE WITH THE ALTERNATIVE
FORM OF RATE SETTING METHODOLOGY
UNDER THE RULES IN SETTING THE
TRANSMISSION WHEELING RATES
(RTWR)**



ERC CASE NO. 2009- 180 RC

**NATIONAL GRID CORPORATION OF THE
PHILIPPINES (NGCP)**

(Applicant)

x ----- x

APPLICATION

Applicant **NATIONAL GRID CORPORATION OF THE PHILIPPINES (NGCP)**,
through counsel, to this Honorable Commission most respectfully states:

The Applicant

1. Applicant NGCP is a corporation created and existing under the laws of the Philippines, with principal office address at NGCP Building, Quezon Avenue corner BIR Road, Diliman, Quezon City. It is the corporate vehicle of the consortium which was awarded the concession to assume the power transmission functions of the National Transmission Corporation (TRANSCO) through the public bidding conducted pursuant to Republic Act No. 9136, otherwise known as the "*Electric Power Industry Reform Act of 2001*" (EPIRA). NGCP may be served with orders, notices and other legal processes through the undersigned counsel.

2. Under Republic Act No. 9511, entitled, "*An Act Granting the National Grid Corporation of the Philippines A Franchise to Engage in the Business of Conveying or Transmitting Electricity Through High Voltage Back-bone System or Interconnected Transmission Lines, Substations and Related Facilities, and For Other Purposes,*" NGCP holds a franchise to construct, install, finance, manage, improve, expand, operate, maintain, rehabilitate, repair and refurbish the present nationwide transmission system of the Republic of the Philippines.

3. Under the Concession Agreement among NGCP, the Power Sector Assets and Liabilities Management Corporation (PSALM) and TRANSCO, which took effect 15 January 2009 (Concession Agreement), PSALM granted NGCP, on exclusive basis, the rights and responsibilities (a) to construct, install, finance, manage, improve, expand, operate, maintain, rehabilitate, repair, refurbish and replace TRANSCO's transmission assets; (b) to, for its own account, bill and collect from transmission customers such charges as it, as a regulated entity, may lawfully demand; (c) to take over and operate the whole of TRANSCO's regulated transmission business as a going concern and, (d) as between TRANSCO and itself, to be the sole representative of the regulated entity before this Honorable Commission.

4. Under the Concession Agreement, NGCP is mandated to provide open and non-discriminatory access to its transmission system to all electricity users and accordingly, assess and collect transmission charges subject to the approval of this Honorable Commission.

Nature of the Application

5. Pursuant to Section 43(f) of the EPIRA and Rule 15, Section 5(a) of the Implementing Rules and Regulations of the EPIRA, this Honorable Commission promulgated the *Rules for the Setting of Transmission Wheeling Rates for 2003 to*

around 2027 (RTWR). The RTWR is an amendment to the *Guidelines on the Methodology for Setting of Transmission Wheeling Rates*.

5.1. For purposes of the RTWR, NGCP is deemed as the Regulated Entity that provides the Regulated Transmission Services, as defined under the RTWR.

6. The RTWR sets out the pricing principles that this Honorable Commission shall comply with for purposes of regulating the maximum transmission wheeling rates that may be charged for the provision of Regulated Transmission Services by NGCP during a Regulatory Period. It also sets the annual rate verification and adjustment process which this Honorable Commission shall undertake in relation to the maximum transmission wheeling rates that may be charged for the provision of the Regulated Transmission Services by NGCP during a Regulatory Period.

6.1. The RTWR provides that there shall be regulatory periods designated as First Regulatory Period (which ended on 31 December 2005), Second Regulatory Period (to end on the fifth anniversary of the First Regulatory Period End Date) and Subsequent Regulatory Periods each of which must be five (5) calendar years in duration). This Application pertains to the Third Regulatory Period covering the regulatory years 2011 to 2015, inclusive, and will commence on 01 January 2010.

7. Under Section 7.1.1 of the RTWR, this Honorable Commission shall, prior to the commencement of the Third Regulatory Period, undertake a Regulatory Reset Process pursuant to Article VII (Regulatory Reset Process) of the RTWR. The purpose of the Regulatory Reset Process is to establish, after public consultations, the price control arrangements that are to be applied during the Third Regulatory Period.

7.1. Such price control arrangements include the cap on the revenue of NGCP for the Third Regulatory Period, which revenue cap must be determined during the Regulatory Reset Process for said regulatory period.

8. Under Section 7.1.2 of the RTWR, this Honorable Commission shall publish a Regulatory Reset Issues Paper which must (a) provide its initial views on the issues raised by the pending Regulatory Reset Process, and (b) specify the information to be provided by NGCP for the purposes of the Regulatory Reset Process and the time by which that information must be provided.

8.1. In accordance with the foregoing, this Honorable Commission published its Regulatory Reset Issues Paper on 16 February 2009 (ERC Position Paper). In addition to the purposes above-stated, the ERC Position Paper is intended to guide NGCP in preparing its application for a new revenue cap for the Third Regulatory Period under Article IV of the RTWR.

9. In its Position Paper, this Honorable Commission required NGCP to submit its application for a regulatory reset review, including all the data, reports, forecasts and information required therefor under the RTWR.

10. In compliance with the RTWR and this Honorable Commission's directive, NGCP respectfully submits this Application which contains the data, reports, forecasts, and information required under the RTWR for NGCP's application for its proposed revenue cap for the Third Regulatory Review during the Regulatory Reset Process for the Third Regulatory Period. As discussed hereunder, the data thus required, as well as the assumptions and the approach adopted by NGCP in the preparation of this Application, are summarized in **Annex "A"** hereof.

11. NGCP respectfully manifests that, as discussed hereunder, the present Application includes TRANSCO's proposed capital and operating expenditures for the

Third Regulatory Period. Such inclusion was made pursuant to TRANSCO's request, and in accordance with Section 5.08¹ of the Concession Agreement.

NGCP's Application for the Regulatory Reset Process for the Third Regulatory Period

12. In compliance with Section 7.1.5 of the RTWR, NGCP retained independent experts who undertook and prepared written reports with respect to each of the following:

- (a) *Asset re-valuation referred to in Section 5.6 of the RTWR.* – For this purpose, this Honorable Commission engaged the services of Sinclair Knight Merz (SKM) in association with Cuervo Appraisers, Incorporated. NGCP examined the report of SKM and put forward its comments and findings resulting in a proposed re-computation of the assets cost and list as of December 2008 in order to consider vital information. The details of the foregoing are discussed in **Annex "A"** hereof;

- (b) *Report on the condition and lives of assets used in providing regulated transmission services referred to in Section 4.8.3 of the RTWR;*

- (c) *Determination of the Weighted Average Cost of Capital (WACC) referred to in Section 5.9 of the RTWR.* – The report on this matter was prepared by Professor Tony van Zijl, Ph.D., a professor of Accounting and Finance at Victoria University with a Doctorate in Finance, and a Director of LECG. A copy of the said report is attached hereto as **Schedule 5 of Annex "A"** hereof;

¹ "x x x Upon request from TRANSCO, the Concessionaire shall include such expenses incurred by TRANSCO for all the above Subsections (a) to (f) in the appropriate regulatory filing. In the event that the ERC allows the recovery of such TRANSCO-incurred expenses, the Concessionaire shall give the same to TRANSCO within fifteen (15) days from the Concessionaire's receipt of the same. The Concessionaire shall not be liable in the event that the ERC does not approve such TRANSCO-incurred expenses."

(d) *Review of NGCP's proposed capital expenditure (CAPEX) referred to in Section 5.10 of the RTWR.* – The report on this matter was prepared by the Parsons Brinckerhoff's World (PB World). A copy of the said report is attached hereto as **Schedule 6 of Annex "A"** hereof; and

(e) *Review of NGCP's proposed operating and maintenance expenditure (OPEX) referred to in Section 5.11 of the RTWR.* – The report on this matter was prepared by the PB World. A copy of the said report is attached hereto as **Schedule 7 of Annex "A"** hereof.

13. NGCP likewise engaged the services of PricewaterhouseCoopers Financial Advisors (PwCFA) to conduct an independent determination of NGCP's compliance with the RTWR and the ERC Position Paper as regards the following matters:

(a) Verification of the taxes paid by TRANSCO;

(b) Review of the actual capital and operating expenditures and compilation of an ex-post or reforecast of capital and operating expenditures for the period 2006 – 2010;

(c) Review and determination of the construction works in progress (CWIP) factor; and

(d) Review and determination of NGCP's working capital;

14. PWC's reports on the foregoing are attached hereto as **Schedules 8, 9, 10 and 11, respectively, of Annex "A"** hereof.

15. Article IV of the RTWR requires NGCP to submit to this Honorable Commission the following information and forecasts:

15.1. *NGCP's forward forecasts of its proposed annual capital expenditure for each Regulatory Year in the Third Regulatory Period.* – NGCP respectfully submits a summary of these forecasts, contained in **Annex "A"** hereof, and the detailed forecasts presented in the format specified by this Honorable Commission in its Position Paper, set out in **Schedule 12** of **Annex "A"** hereof;

15.2. *NGCP's historical operating and maintenance expenditure for each year of the Second Regulatory Period.* – In compliance with this requirement, NGCP respectfully submits a summary of actual data covering the regulatory years 2006, 2007 and 2008, and estimated data covering the regulatory years 2009 and 2010, all contained in **Annex "A"** hereof. NGCP further submits the detailed information presented in the format specified by this Honorable Commission in the ERC Position Paper, set out in **Schedules 14** and **15** of **Annex "A"** hereof;

15.3. *NGCP's forward forecasts of its proposed annual operating and maintenance expenditure for each Regulatory Year of the Third Regulatory Period.* – NGCP respectfully submits the relevant forecasts contained in **Annex "A"** hereof, and the detailed forecasts presented in the format requested by this Honorable Commission in the ERC Position Paper, set out in **Schedule 13** of **Annex "A"** hereof;

15.4. *Summary of NGCP's historical payments of taxes, levies and duties (other than corporate income tax) for each of the calendar years of the Second Regulatory Period.* – In compliance with this requirement, NGCP submits a summary of actual data covering calendar years 2006, 2007 and 2008, and as estimated data covering calendar years 2009 and 2010. This information is summarized in **Schedule 16** of **Annex "A"** hereof;

15.5. *NGCP's forward forecasts of its expected payments of taxes, levies and duties (other than corporate income tax) for each Regulatory Year of the Third Regulatory Period.* – NGCP respectfully submits a summary of these forecasts presented in the format specified by this Honorable Commission in the ERC Position Paper, set out in **Schedule 17 of Annex "A"** hereof;

16. In further compliance with the ERC Position Paper, NGCP obtained independent expert advice, and pursuant to such advice, prepared supporting information and analyses on the following matters:

(a) The roll forward of the Regulated Asset Base (RAB) as of 31 December 2008 up to 31 December 2010. – The foregoing is discussed under the pertinent chapter of Annex "A" hereof;

(b) The roll forward of RAB as of 31 December 2010 to the end of the Third Regulatory Period pursuant to Sections 4.7 and 4.8 of the RTWR. – The foregoing is discussed under the pertinent chapter of Annex "A" hereof;

(c) The computation of the Net Efficiency Adjustment that considers the ex-post or reforecast capital and operating expenditures for the Second Regulatory Period. – The foregoing is summarized and discussed in Annex "A" hereof;

(d) Service quality measures and targets, including a performance incentive scheme pursuant to Article VIII of the RTWR. – The foregoing is summarized in **Schedule 18 of Annex "A"** hereof;

(e) Issues identified in the ERC Position Paper, such as side constraints and customer segmentation. – These issues are addressed in the pertinent chapter of **Annex "A"** hereof;

(f) Information regarding NGCP services, business processes and cost drivers. – This information is provided in the pertinent chapter of **Annex “A”** hereof.

17. NGCP commissioned a pool of independent experts, led by Mr. Kieran Murray of LECG, to review the computerized MAR model provided by this Honorable Commission (“ERC MAR Model”). To the extent possible, NGCP used the ERC MAR Model as delivered.

17.1. NGCP respectfully proposes certain adjustments to the ERC MAR Model as regards the following, to reflect the intent of the RTWR:

- (a) Calculation of the WACC;
- (b) Use of MAR for 2010 in the computation of the Smoothed Maximum Allowable Revenue (SMAR);
- (c) Inclusion of optimized depreciated replacement cost (ODRC) valuation as of December 2010; and
- (d) Computation of the Net Efficiency Adjustment.

17.2. The proposed adjustments to the ERC MAR Model are discussed in the pertinent chapter of **Annex “A”** hereof.

18. NGCP respectfully submits to this Honorable Commission particular transitional issues associated with taxation and under-recovery sustained during the Second Regulatory Period. These issues, which are discussed in the pertinent chapter of **Annex “A”** hereof, pertain to the following:

- (a) Overview of the intent of RTWR to compensate for actual tax paid;

- (b) Corporate income tax paid by TRANSCO;
- (c) Impact of Republic Act No. 9511 on NGCP's costs in 2009 and 2010, and on forecast costs for the period 2011 to 2015;
- (d) Calculation of the corporate income tax adjustments required under the RTWR;
- (e) Review of the taxes other than the corporate income tax paid by TRANSCO and NGCP, and calculation of the adjustment that would have applied had such other taxes been subject to the same adjustment as the income tax adjustment (ITA) applied to corporate income tax; and
- (f) NGCP's proposal to off-set the effect of the ITA with the determined under-recoveries incurred during the Second Regulatory Period.

NGCP's calculations on the likely net under-recoveries during the Second Regulatory Period, after allowing for the ITA, and proposes that this Honorable Commission consider these shortfalls as it determines the MAR of NGCP for the Third Regulatory Period.

19. **Annex "A"** of this Application further sets out the following:

(a) Inclusion and treatment of the relevant forecast capital and operating expenditures of TRANSCO for its continuous activities relative to the TRANSCO-Retained Obligations under Section 5.08 of the Concession Agreement, as discussed herein. The data on the said expenditures are summarized in **Schedule 19 of Annex A** hereof.

(b) Key assumptions, statements, calculations, and declarations made in order to come up with a preliminary indication of the Maximum Allowable

Revenue (MAR) for the Third Regulatory Period, and the Annual Revenue Requirement (ARR) for each year within that five (5)-year period;

(c) NGCP's position and comments on the following issues:

- i. Treatment of CWIP;
- ii. Treatment of Working Capital;
- iii. Determination and Treatment of Bad Debts;
- iv. Efficiency carry-forward mechanism; and
- v. Form of regulation.

20. The following tables summarize the key forecasts and information submitted by NGCP as well as the results it obtained from the ERC MAR Model:

a) The table below sets out the proposed annual capital expenditures of NGCP from calendar years 2011 to 2015, including amounts for 2009 and 2010:

FORECAST CAPEX², PMn Nominal

CAPEX In PMn	2009	2010	2011	2012	2013	2014	2015
	Forecast, Total Pesos, equivalent						
RAB	8,747.4	18,871.7	31,218.9	20,792.3	17,635.1	10,208.5	7,427.4
Connection Asset	536.9	1,127.9	309.8	289.8	47.3	-	-
Residual Subtransmission Asset	120.3	719.8	549.4	393.9	376.4	374.	314.6
Total CAPEX	9,404.6	19,704.9	32,078.2	21,476.1	18,058.9	10,582.5	7,742.0

Note: Amount does not tally due to rounding-off.

² Includes Proposed CAPEX from the National Transmission Corporation, PMn

2009	2010	2011	2012	2013	2014	2015
883.17	2,364.75	1,569.73	1,725.91	1,652.38	1,504.17	1,431.31

b) The table below sets out the proposed forecast operating expenditures for the period from 2011 to 2015.

FORECAST OPEX PMn, Nominal³

OPEX in PMn	2009	2010	2011	2012	2013	2014	2015
	Forecast, Total Pesos, equivalent						
RAB	5,726.3	7,483.8	7,968.6	7,667.9	7,891.4	8,710.8	8,648.7
Connection Asset	188.4	295.5	283.9	299.4	313.5	366.9	343.9
Residual Subtransmission Asset	257.1	396.7	382.4	403.6	423.1	494.7	465.1
Total	6,171.8	8,176.1	8,634.9	8,371.	8,628.0	9,572.5	9,457.8

Note: Amount does not tally due to rounding-off.

c) The table below sets out the assumptions used by NGCP in the calculation of the applicable taxes, levies, and duties:

Taxes	Tax Rate	Basis
1. Franchise Tax	3% of gross receipt	RA 9511
3. Real Property Tax		Inputs from the Regional Finance

d) The value of the RAB over the Third Regulatory Period with adjustments set out in the table below:

Particulars (Php, Mn)	2009	2010	2011	2012	2013	2014	2015
RAB(t)0	160,936.3	169,723.1	191,233.8	215,508.0	228,494.2	238,165.3	240,023.9
CAPEX (t) note (ii)	9,251.5	20,188.4	31,218.9	20,792.3	17,635.1	10,208.5	7,427.4
RAB RegDeprn(t)+ Capex RegDeprn (t)	(5,951.2)	(5,880.4)	(6,932.9)	(7,772.3)	(7,964.0)	(8,349.9)	(8,039.4)

³ Includes Forecast OPEX proposal from the National Transmission Corporation of (P.Mn)

2009	2010	2011	2012	2013	2014	2015
9.22	10.22	284.88	11.81	12.85	13.98	15.22

Disposals(t) (note iii)	135.6	20.4	(11.8)	(33.7)	0	0	(21.7)
Holding value for negative net receipts (note iv)	762.2	1,957.9	Added to RAB	Added to RAB	Added to RAB	Added to RAB	Added to RAB
Indexing in roll forward period	4,588.6	5,224.4	N/A	N/A	N/A	N/A	N/A
RAB (t)	169,723.1	191,233.8	215,508.0	228,494.2	238,165.3	240,023.9	239,390.2

Notes:

(i) Assumed WACC of 19%

(ii) Capex in 2009 and 2010 is as spent, rather than as commissioned

(iii) Disposals in the roll-forward period is net receipts from disposals

(iv) The holding values are not amortised in 2009 and 2010. Amortisation begins in 2011

e) The proposed performance indicators and the corresponding weights are set out in the table below. The proposed weightings are based on an assessment of the impacts of the different performance indicators for end users.

<u>Performance Indicator</u>	<u>Weighted Percentage, %</u>
1. System Interruption Severity Index (SISI)	35%
2. Frequency of Tripping per 100 ckt-km (FOT/100ckt-km)	25%
3. System Availability (SA)	10%
4. Frequency Limit Compliance (FLC)	10%
5. Voltage Limit Compliance (VLC)	10%
6. Power Factor Optimization	10%

TRANSCO's Proposed Capital and Operational Expenditures for the Third Regulatory Period

21. As stated earlier, the present Application includes TRANSCO's proposed capital and operating expenditures for the Third Regulatory Period.

22. Section 5.08 of the Concession Agreement provides:

5.08 TRANSCO-Retained Obligations. TRANSCO shall be liable for the following:

- (a) except those assumed by the Concessionaire under the Loan Covenants Agreement, **obligations in relation to loans existing prior to Commencement Date** contracted by NPC relating to the Transmissions Assets;
- (b) claims relating to **existing rights of way whose cause of action accrued prior to Commencement Date**, provided that should the Concessionaire through any act or omission cause any liability or claim to arise or be aggravated, It shall be liable for the incremental liability resulting from such act or omission;
- (c) **obligations to TRANSCO employees under employment agreements** (except for costs and expenses that are to be reimbursed by the Concessionaire under the Interim Assignment Agreement, including Cost of Service and Miscellaneous Expenses (both as defined in the Interim Assignment Agreement));
- (d) liabilities and costs for **all orders, judgments, awards, interests, costs of suit and reasonable expenses (including attorney's fees) rendered in connection with any claim, controversy, action, arbitration, litigation or other similar proceeding (including tax disputes) involving TRANSCO, or any of its property or assets, contracts, business or operations (collectively, the "Litigations") filed and pending as of Commencement Date**, provided however, that the Concessionaire, to the extent permitted by Applicable Law, shall be entitled to exercise all of TRANSCO's rights, orders, judgments and awards in favor or for the benefit of TRANSCO under all Litigations that may affect the operation of its regulated transmission business. TRANSCO and the Concessionaire shall agree on the consideration payable by the Concessionaire to TRANSCO for the grant of the right to exercise all of TRANSCO's rights, orders, judgments and awards referred to in this Subsection (d) for each and every Litigation.

To the extent permitted by Applicable Law and as long as this Agreement is in force, TRANSCO appoints and authorizes the Concessionaire as its attorney-in-fact with right of substitution, so that either the Concessionaire or any Person empowered by the Concessionaire, provided that the Concessionaire shall be responsible and liable for the acts of the Persons it empowered, shall be authorized without need of further act from TRANSCO, to enforce such rights, orders, judgments and awards rendered under the Litigations that affect the operation of its regulated transmission business. TRANSCO hereby confirms and ratifies all lawful actions performed or done by the Concessionaire or any Person empowered by the Concessionaire in accordance with this Subsection (d);

- (e) existing or future claims against TRANSCO or the Concessionaire made after the Commencement Date arising from TRANSCO's acts or omissions before the Commencement Date; and
- (f) liability for unpaid Taxes that are payable in respect of tax periods ending before the Commencement Date.

If any of the above Subsections (a) to (f) was caused or aggravated by the Concessionaire's act or omission, the Concessionaire shall be liable for the same. Upon request from TRANSCO, **the Concessionaire shall include such expenses incurred by TRANSCO for all the above Subsections (a) to (f) in the appropriate regulatory filing.** In the event that the ERC allows the recovery of such TRANSCO-incurred expenses, the Concessionaire shall give the same to TRANSCO within fifteen (15) days from the Concessionaire's receipt of the same. **The Concessionaire shall not be held liable in the event that the ERC does not approve such TRANSCO-incurred expenses.** (Emphasis supplied.)

22.1. Under said Section 5.08 of the Concession Agreement, NGCP shall, upon the request of TRANSCO, include certain expenses incurred by TRANSCO in relation to the above quoted retained obligations, in the appropriate regulatory filing. NGCP, however, shall not be held liable in the event that such expenses are not approved by this Honorable Commission.

22.2. In this regard, TRANSCO formally requested NGCP to include the expenses enumerated below, which TRANSCO deem and represented to be reasonable expenses in relation to its retained obligations as enumerated above, and should thus be included in NGCP's application for Regulatory Reset for the Third Regulatory Period pursuant to the said Section 5.08 of the Concession Agreement:

- (a) Capital Expenditures for the following:
 - (l) Right of Way claims; and
 - (j) Acquisition of Hanjin's Connection Assets per Executive Order 701;
- (b) Operational Expenditures for the following:

- (ii) Expenses incurred in the sale of sub-transmission assets;
- (iii) Expenses incurred in the processing of right of way claims;
- (iv) Supervision/ Permit Fees paid by TRANSCO for projects approved by this Honorable Commission for the Second Regulatory Period; and
- (v) Permit Fee paid by TRANSCO for the ERC Decision in ERC Case No. 2007-148 RC.

22.3. Thus, NGCP included the foregoing capital and operating expenditures of TRANSCO in the present Application.

23. As agreed between NGCP and TRANSCO, TRANSCO shall be fully and solely responsible for presenting and justifying its capital and operating expenditures during the course of the proceedings. In particular, TRANSCO, through its own counsel, witnesses and resources, shall conduct the expository presentation and present the necessary evidence and justifications in support of said expenses.

Capital Projects Requiring Immediate Regulatory Approval

24. NGCP respectfully manifests that certain transmission projects included NGCP's forecast of its annual capital expenditures for the Third Regulatory Period in this Application require immediate implementation. These projects are as follows:

- (a) Compostela Substation Expansion – a project component of the Visayas Substation Reliability Project-1;
- (b) Dasmariñas Substation Expansion;

(c) San Esteban-Laoag 230 kV Transmission (Stage 1) – a project that corresponds to the first stage of the two-stage implementation of the San Esteban – Laoag 230 kV Transmission Line Project;

(d) Nuling and Tindalo Substations Expansions;

(e) Kalayaan-Makban 230 kV T/L Upgrading;

(f) Luzon Substation Reliability Project-1;

(g) Northeastern Transmission Development (Magapit Capacitor);

(h) Mindanao Reliability Compliance Project 1 (Mindanao Shunt Reactors and Capacitors);

(i) New Antipolo 230 kV Substation;

(j) New Naga-Banilad Transmission;

(k) Tayabas Substation Expansion Project-1; and

(l) Visayas Substation Expansion Project-1 -- the acquisition of three (3) units of 50 MVA transformers to installed in the Ormoc (Leyte), Talavera (Cebu) and Kabankalan (Negros) Substations.

11. NGCP respectfully manifests that while the proposed capital expenditures for the said projects are included in its forecast of capital expenditures herein, the approval of this Honorable Commission of such projects is urgently needed for purposes of immediate project implementation.

12. NGCP intends to file the appropriate applications, separate from the present Application, for purposes of securing this Honorable Commission's provisional authority, as well as final approval, to implement the said projects.

25. NGCP manifests that herein Application was approved by its Board of Directors 16 December 2009.

26. This Application and its supporting attachments comprise the required regulatory filing of NGCP, as the Regulated Entity, for purposes of the Regulatory Reset Process the Third Regulatory Period.

27. This Application contains the following proposals for the Third Regulatory Period of NGCP, covering its Regulatory Asset Base, Connection and Residual Subtransmission Assets:

(a) The offset of the income tax adjustment with the sustained under-recoveries during the Second Regulatory Period;

(b) Optimized Depreciated Replacement Cost of NGCP's RAB rolled forward from 2008 to 2015;

(c) Forecast Capital Expenditures;

(d) Forecast Operating and Maintenance Expenditures;

(e) Tax Items and Assumptions;

(f) Working Capital;

(g) Net Efficiency Adjustment

(h) Performance Incentive Schemes;

(i) WACC as recommended by Professor Tony Van Zijl, Ph.D.; and

(j) TRANSCO's Proposed Capital and Operating Expenditures.

28. NGCP respectfully submits that the said proposals are designed and developed in accordance with the provisions of the RTWR and this Honorable Commission's Regulatory Reset Issues Paper, which would lay down the basis for fair and reasonable set of smoothed maximum annual revenue for the Third Regulatory Period, which in turn, will promote efficient utilization of transmission facilities that will ultimately redound to the best interest and benefit of the consumers.

PRAYER

WHEREFORE, it is most respectfully prayed of this Honorable Commission to

1. Approve the following in this Honorable Commission's determination of NGCP's set of smoothed Maximum Allowable Revenue (MAR) for the Third Regulatory Period for NGCP's services from the Regulatory Asset Base; and revenue from the Connection and Residual Subtransmission Assets, based on NGCP's proposals:

(a) Off-setting of the Income Tax Adjustments with the sustained revenue Under-recovery during the Second Regulatory Period; or in the alternative, allow full recovery during the Third Regulatory Period of the Under-recovery from the Second Regulatory Period;

(b) Optimized Depreciation Replacement Cost of TRANSCO's rolled forward Regulatory Asset Base (RAB) from 2008 to 2015;

(c) The Forecast Capital Expenditures;

(d) The Forecast Operating and Maintenance Expenditures;

(e) The Working Capital Proposals;

(f) The Tax items and assumptions;

(g) Net Efficiency Adjustment;

(h) The Performance Incentive Schemes;

(i) Weighted Average Cost of Capital; and

(j) TRANSCO's Proposed Capital and Operating Expenditures.

2. Approval of National Transmission Corporation's proposed capital and operating expenditures for the Third Regulatory Period, subject to the adequate justification and support to be provided therefor by TRANSCO.

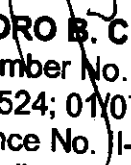
NGCP prays for such other relief as may be just and equitable under the premises.


Respectfully submitted.


Quezon City for Pasig City, 17 December 2009.


OFFICE OF THE GENERAL COUNSEL
NGCP Building, Quezon Avenue corner
BIR Rd., Dillman, Quezon City
Tel. No. 921-33-72

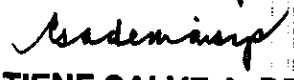
By:


TEODORO B. CRUZ, JR.
IBP Lifetime Member No. 667521; 01/05/06
PTR No. 1572524; 01/07/09; Makati City
MCLE Compliance No. I-008188; 09/26/07
Roll No. 24411


LUIS MANUEL U. BUGAYONG
IBP No. 777155 dated 1/22/09/Rizal
PTR No. 5152986/1/20/09/Pasig
MCLE Compliance No. II 0005002
Roll No. 38002


L.F. CYNTHIA D. PEREZ-ALABANZA
IBP Lifetime Member No. 485777; 01/21/08
PTR No. 1667524; 04/20/09; Quezon City
MCLE Compliance No. II-0001058; 03/15/07
Roll No. 48577


SUNDY LORENCE C. LACHICA
IBP No. 773293; 1/09/09; Makati City
PTR No. 0020841; 1/07/09; Makati City
MCLE Compliance No. II-0016202; 2/05/09
Roll No. 51017


CHRISTIENE SALVE A. DEMAISIP
IBP No. 769308/01-07-09/Rizal
PTR No. 5103328/01-07-09/Pasig City
Admitted to the Bar in 2007.
Roll No. 54475

REPUBLIC OF THE PHILIPPINES
QUEZON CITY

)
)SS.

**VERIFICATION AND
CERTIFICATION ON NON-FORUM SHOPPING**

I, **WALTER W. BROWN**, Filipino, of legal age, married and with office address at the Power Center, Quezon Avenue corner BIR Road, Diliman, Quezon City, after having been duly sworn to law, depose and say:

I am the President and CEO of the National Grid Corporation of the Philippines (NGCP), the Applicant in the present case, and duly authorized to represent NGCP in this Application;

I have caused the preparation of the foregoing Application. I have read the allegations in the Application and certify that the same are true and correct of my own personal knowledge and/or based on authentic records;

I further certify that NGCP has not commenced any other action involving the same issues, before the Supreme Court, Court of Appeals or any division thereof or any tribunal or agency and to the best of my knowledge no such action is pending before the Supreme Court, Court of Appeals or any tribunal agency;


In the event that any action involving the same should be made known, I hereby bind myself to report the same within five (5) days from knowledge thereof to this Honorable Commission.

In witness whereof, I set my hand this ___ day of _____, 2009 at _____.


WALTER W. BROWN
Affiant

SUBSCRIBED and SWORN TO before me this 17th day of December 2009, with affiant **WALTER W. BROWN** presenting to me Passport 22229195 issued on June 14, 2007 at Quezon City, known to me and to me known to be the same person who executed the foregoing document.

Doc. No. 440
Page No. 27
Book No. 1
Series of 2009.


Atty. RICO A. CAGARA
Notary Public
Appointment No. 154-08
Commission Expires December 31, 2009
PTR No. 1119728/1-05-09/Quezon City
IBP OR No. 757212/1-05-09/Bulacan
MCLE Compliance No. 111-0001360
Roll of Attorney's No. 53664