

SCHEDULE G1.4 Justification for Operating and Maintenance Expenditure Forecasts

Definition

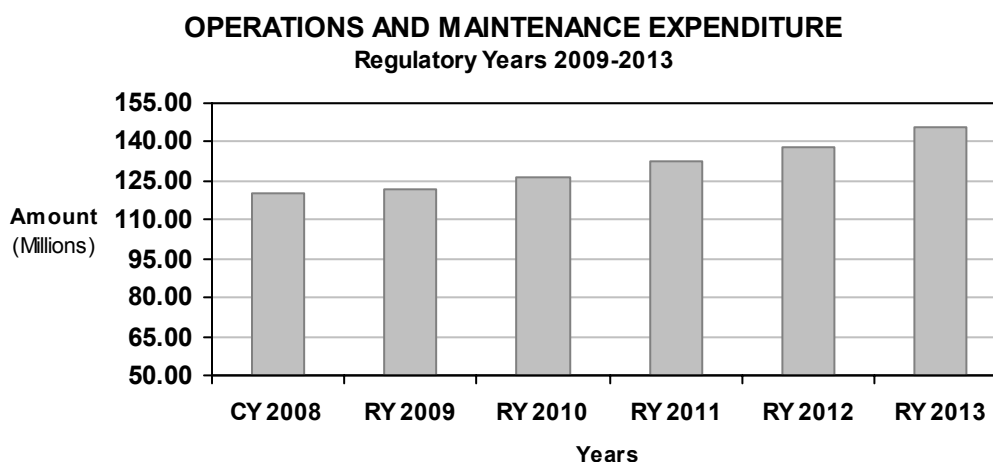
Operating and Maintenance Expenditures (OPEX) are those reasonable and efficient costs incurred by a Regulated Entity to effectively operate a Regulated Distribution System and to maintain its asset base to allow it to remain serviceable at rated capacity for its normal expected life.

OPEX Categorization

Expenditures have to be broken down into categories described in clause 4.13.5 of the RDWR. For ILPI, historical and forecasted OPEX have been matched as reasonably as possible to the categorization required. Allocation factors deemed appropriate were used in order to classify the said expenses. Costs on Distribution Connection Services however, have not been separately identified.

OPEX Forecast Overview

At a glance, these are the OPEX forecasts of ILPI:



Expenditures are forecasted to increase by 15.84% for the year 2008 and at an average of 3.88% within the RP 2009-2013. These increases are attributable to several factors. Among them are:

- **Number of Customers**
Numbers of customers are projected to increase in the next few years entailing additional transactions for the company. Costs for office supplies, printing, postage, communication and other relative costs are anticipated to increase. Also, to address these increments, additional administrative personnel is provided for the year 2008.
- **Asset Base (with regards Volume and Age)**
For the year 2008 and onwards, additional insurance is projected for Machinery Breakdown. This is for ILPI Substations and its appurtenances.

An increase in Fire Insurance Premium is also provided for. The previous policies of the Company were below insurable value, therefore inadequate. This move would ensure that properties are at its appropriate value.

For the general upkeep and security of company assets, costs are allocated for the same especially with the construction of the Luinab (RY 2010) and Zamora (RY 2011) Substations.

Purchase of TransCo Sub-transmission Lines also contributed to the increase in Manpower, Repairs and Maintenance and ROW-related expenses.

- **Efficient Operations and Achievement of Performance Targets**
At present, there are five (5) two-man Emergency Teams that cater to the demands of all 44,000 customers of ILPI. To ensure that all customer needs are adequately met, additional two (2) teams are provided for the years 2008 and 2010.

To aid in planning and over-all engineering of the Distribution System, additional one (1) personnel is provided for each year for the years 2008 to 2010. Also, two (2) additional SYNERGEE Modules are planned to be acquired for the years 2008 and 2010. These are all for the continual improvement of the system.

Transportation Equipments are relatively old and in need of constant repairs. To ensure that operations, specifically construction activities are not hampered, rental of transportation equipments (Flatbed Trucks, Trailers, Crane) are allocated for until such time that new units are purchased.

In the case of Consumer Meters, at present around 5,000 customers have meters inside their homes or in places where it is difficult for the Meter Readers to gather consumption data. To minimize, if not eliminate estimation of customer consumption, Meter Relocation activities are allocated for.

All personnel additions are provided to ensure immediate and efficient response to customer demands and needs. Adequate personnel will make certain that Performance Measures set are achieved.

- Compliance to Regulations
Increase in Professional fees, Publication fees, cost of stationeries due to usage and other incidental costs are provided for with the scheduled activities for Revenue Applications.

Meter Testing costs are allocated for to comply with the provisions of the Magna Carta for Residential Electricity Consumers.

Establishment of a Call Center is also provided with additional manpower of four (4) for 2008 and the purchase of Call Accounting System software. With this, ILPI will establish a one-man-per-shift Call Center.

Basis of Costs and Estimates

Cost estimates are based on contract costs and quotes of service providers.