

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

**IN THE MATTER OF THE
APPLICATION FOR
AUTHORITY TO
IMPLEMENT THE
PROPOSED CAPITAL
EXPENDITURE PROGRAM
FOR REGULATORY YEAR
(RY) 2018, WITH PRAYER
FOR PROVISIONAL
AUTHORITY,**

ERC CASE NO. 2017-027 RC

**MANILA ELECTRIC
COMPANY (MERALCO),
Applicant.**

x-----x

D O C K E T E D
Date: MAY 25 2017
By: [Signature]

NOTICE OF PUBLIC HEARING

TO ALL INTERESTED PARTIES:

Notice is hereby given that on 03 April 2017, Manila Electric Company (MERALCO) filed an Application seeking the Commission's approval of MERALCO's implementation of its proposed capital expenditure program for Regulatory Year (RY) 2018, including therein a prayer for provisional authority.

MERALCO alleged the following in its *Application*:

1. Applicant MERALCO is a private corporation duly organized and existing under the laws of the Republic of the Philippines, with principal office located at Lopez Building, Ortigas Avenue, Pasig City. It may be served with notices and other processes of this Honorable Commission through its undersigned counsel at the address indicated herein.

2. Pursuant to Republic Act No. 9209, MERALCO has a legislative franchise to construct, operate and maintain an electric power distribution system for the conveyance of electric power to the end-users in the cities and municipalities of Metro Manila, Bulacan, Cavite and Rizal, and certain cities/municipalities/barangays in Batangas, Laguna, Quezon and Pampanga.

3. MERALCO is part of the First Entry Group of distribution utilities that entered Performance Based Regulation ("PBR"). In its Final Determination dated 6 June 2011 in ERC Case No. 2010-069 RC, the Honorable Commission set out its final position on the price control arrangements that would apply to MERALCO for the Third Regulatory Period ("3RP") covering the period from 1 July 2011 to 30 June 2015, including its approval of MERALCO's proposed Capital Expenditure ("CAPEX") Program, for the said period. MERALCO's 3RP ended on 30 June 2015.

4. The Fourth Regulatory Period ("4RP") for the First Entry Group commenced on 1 July 2015 and will end on 30 June 2019. Absent any regulatory reset, on 9 February 2015, MERALCO filed an application for the approval of its CAPEX program for Regulatory Year ("RY") 2016. The application was docketed as ERC Case No. 2015-016 RC and approved by the Honorable Commission in its Decision dated 12 April 2016.

5. On 8 March 2016, MERALCO filed its application for the approval of its CAPEX program for RY 2017. The said application was docketed as ERC Case No. 2016-017 RC and is awaiting the final approval of the Honorable Commission.

6. MERALCO is filing the instant application for the approval of its CAPEX project for RY 2018 covering the period 1 July 2017 to 30 June 2018. This application is being filed pursuant to Section 20(b) of Commonwealth Act No. 146, as amended, otherwise known as the Public Service Act, which requires any public service to seek the prior approval of this Honorable Commission before it can establish, construct, maintain, and operate new facilities or make any extension of its existing facilities. MERALCO's RY 2018 CAPEX application ensures the reliable operation of its distribution network and continuous distribution service and connection to meet the growing and future needs of its more than six (6) million customers.

A. BACKGROUND OF MERALCO'S RY 2018 CAPEX PROGRAM

7. MERALCO's RY 2018 CAPEX Program considers the projects it filed during the 3RP and RYs 2016 and 2017. It is geared towards providing reliable service to its customers. Apart therefrom, MERALCO has lined up projects that would ensure the safety, reliability, and efficiency of the distribution system, while providing for the forecasted load growth within its franchise area. MERALCO's RY 2018 CAPEX Program is mainly driven by the following factors:

i. *Adequate Infrastructure to Meet Growth in Peak Demand and Customer Connections*

The distribution infrastructure must be sufficient to serve MERALCO's current customers while provisioning to meet future needs. MERALCO forecasts a 3.9% growth in peak demand and a 3.7% growth in MERALCO's customer base

for RY 2018. This increase in peak demand and customer count will require MERALCO to increase the capacity of the electric distribution system in order to accommodate customer connections while maintaining the reliability and power quality of its distribution system.

ii. *Renewal/Refurbishment Projects to Ensure Sustained Network Efficiency, Reliability and Power Quality*

Capital expenditure is required to maintain existing assets, improve network performance, and enhance customer service performance in the current regulatory period.

iii. *Automation/Innovation/Technology*

Automation/technology projects will further allow MERALCO to enhance its distribution network, allowing it to respond more effectively to line and network outages, thereby reducing service interruptions of customers. CAPEX Projects are likewise filed in consideration of, and in compliance with, the Rules to Govern the Implementation of an Advanced Metering Infrastructure System by Distribution Utilities and ERC-Authorized Entities ("AMI Rules").

iv. *Compliance to statutory and regulatory requirements*

Several RY 2018 CAPEX projects are likewise proposed in order to comply with various laws, rules and regulations, including, among other things, compliance with: (a) Distribution Services Open Access Rules (DSOAR) on MERALCO's provision of the extension of lines and facilities for socialized housing initiatives of both public and private developers, (b) Wholesale Electricity Spot Market metering requirements for contestable customers; and (c) AMI Rules.

v. *Support for Government PPP Initiatives*

The National Government has identified the implementation of Public-Private Partnership (PPP) programs and projects as a cornerstone strategy of the national development plan to accelerate the infrastructure development of the country and to sustain economic growth. MERALCO would thus need to relocate existing facilities so as not to hamper the construction and development of these critical PPP projects.

A detailed discussion on MERALCO's considerations and justifications in forecasting its RY2018 CAPEX Program is attached hereto as Annex "A" and made an integral part hereof.

B. LIST OF CAPEX PROJECTS

8. Taking into consideration the factors above, MERALCO hereby proposes the following major projects for RY 2018:

ERC CASE NO. 2017-027 RC
NOTICE OF PUBLIC HEARING/ 15 MAY 2017
PAGE 4 OF 9

PROJECT CODE	PROJECT NAME	TOTAL	ANNEX
MER-1	Expansion of Balibago 115 kV-34.5 kV Substation	183,000,170	"B-1"
MER-2	Expansion of Santolan 115 kV-34.5 kV Substation (2nd bank)	181,979,477	"B-2"
MER-3	Development of Eton Centris 115 kV-34.5 kV GIS Substation	461,625,636	"B-3"
MER-4	Development of Bridgetowne 115 kV-34.5 kV GIS Substation	552,310,241	"B-4"
MER-5	Development of Carmona 115 kV-34.5 kV Substation	518,739,519	"B-5"
MER-6	Development of McKinley Hills 115 kV-34.5 kV GIS Substation	440,064,667	"B-6"
MER-7	Construction of New CND-Baliuag 69 kV Line	159,716,398	"B-7"
MER-8	Installation of Balintawak 5th 300 MVA Power Transformer	196,805,463	"B-8"
MER-9	Upgrading of 115 kV Power Circuit Breakers at Dolores Substation	53,390,494	"B-9"
MER-10	Upgrading of 115 kV Power Circuit Breakers at Paco Substation	89,224,759	"B-10"
MER-11	Replacement of Power Transformer No. 6 (133 MVA, 110 kV-34.5 kV) at North Port Substation	76,601,744	"B-11"
MER-12	Relocation of MERALCO's electrical facilities affected by the construction of the National Government's Public-Private Partnership (PPP) Projects	385,966,043	"B-12"
MER-13	Enterprise Geographic Information System (Enterprise GIS) – Year 2	199,829,641	"B-13"
MER-14	Enterprise Data Management - Data Quality Management	87,418,858	"B-14"
MER-15	Expansion of the Advanced Metering Infrastructure	2,432,051,985	"B-15"
MER-16	Meter Conversion Program for Retail Competition and Open Access (RCOA)	71,325,888	"B-16"
MER-17	Expansion of Paranaque Sector with Purchase of Adjacent Lot Ph1	289,050,000	"B-17"
MER-18	Purchase of Spare 150MVA 230kV-69kV-13.8kV Power Transformer with OLTC	133,770,928	"B-18"

Copies of the detailed project justifications of the major projects under MERALCO's RY2018 CAPEX Program are attached herewith as Annexes "B and Series" and made integral parts hereof.

9. On the other hand, MERALCO's residual projects, broken down by asset categories, are as follows:

PROJECT CODE	ASSET CATEGORY	TOTAL	ANNEX
RES - 1B.1	Structures and Improvements (Distribution Purposes)	46,938,463	"C-1"

ERC CASE NO. 2017-027 RC
NOTICE OF PUBLIC HEARING/ 15 MAY 2017
PAGE 5 OF 9

RES - 1B.2	Structures and Improvements (Distribution Purposes)	38,277,070	"C-2"
RES - 1C.1	Structures and Improvements (Distribution Purposes)	41,310,004	"C-3"
RES - 1C.2	Structures and Improvements (Distribution Purposes)	14,900,000	"C-4"
RES - 2B	Power transformers	21,713,727	"C-5"
RES - 3A	Switchgear	5,580,405	"C-6"
RES - 3B	Switchgear	175,397,519	"C-7"
RES - 3C	Switchgear	30,412,000	"C-8"
RES - 4A	Protective equipment	9,698,414	"C-9"
RES - 4B	Protective equipment	158,060,080	"C-10"
RES - 5B	Metering & control equipment	73,326,322	"C-11"
RES - 6A	Communications equipment	92,017,993	"C-12"
RES - 6B	Communications equipment	54,050,000	"C-13"
RES - 7A	Other station equipment	23,925,706	"C-14"
RES - 7B	Other station equipment	61,389,263	"C-15"
RES - 8A.1	Poles, Towers and Fixtures - Distribution	274,420,296	"C-16"
RES - 8A.2	Poles, Towers and Fixtures - Distribution	1,071,848,001	"C-17"
RES - 8B	Poles, Towers and Fixtures - Distribution	847,772,702	"C-18"
RES - 9A.1	Overhead Conductors and Devices - Distribution	135,212,116	"C-19"
RES - 9A.2	Overhead Conductors and Devices - Distribution	341,535,241	"C-20"
RES - 9B	Overhead Conductors and Devices - Distribution	777,254,161	"C-21"
RES - 10B	Underground Conduits - Distribution	43,187,425	"C-22"
RES - 11A	Underground Conductors and Devices - Distribution	198,553,198	"C-23"
RES - 11B	Underground Conductors and Devices - Distribution	29,205,146	"C-24"
RES - 12A.1	Distribution Transformers	80,256,456	"C-25"
RES - 12A.2	Distribution Transformers	1,700,179,558	"C-26"
RES - 12B	Distribution Transformers	276,123,207	"C-27"
RES - 13B	Power Conditioning Equipment	180,557,009	"C-28"
RES - 14B	Meters, Metering Instruments & Metering Transformers - Distribution	13,270,752	"C-29"
RES - 15A.1	Information technology equipment (distribution)	4,987,125	"C-30"
RES - 15A.2	Information technology equipment (distribution)	85,403,436	"C-31"
RES - 15A.3	Information technology equipment (distribution)	186,829,585	"C-32"
RES - 15B.1	Information technology equipment (distribution)	38,592,675	"C-33"
RES - 15B.2	Information technology equipment (distribution)	27,065,444	"C-34"
RES - 16A	Street Lights and Signal Systems	65,299,276	"C-35"
RES - 16B	Street Lights and Signal Systems	206,369,393	"C-36"
RES - 17A	Structures and Improvements (non-network)	96,000,000	"C-37"
RES - 17B	Structures and Improvements (non-network)	243,616,400	"C-38"
RES - 17C	Structures and Improvements (non-network)	191,095,875	"C-39"
RES - 18A	Office Furniture and Equipment	683,000	"C-40"
RES - 18B	Office Furniture and Equipment	14,452,720	"C-41"
RES - 19B	Transportation Equipment	423,510,000	"C-42"

ERC CASE NO. 2017-027 RC
NOTICE OF PUBLIC HEARING/ 15 MAY 2017
PAGE 6 OF 9

RES - 19C	Transportation Equipment	3,200,000	"C-43"
RES - 20A	Tools, Shop and Garage Equipment	56,504,859	"C-44"
RES - 20B	Tools, Shop and Garage Equipment	67,786,752	"C-45"
RES - 21A	Laboratory Equipment	84,971,230	"C-46"
RES - 21B	Laboratory Equipment	33,036,400	"C-47"
RES - 22A	Information Systems Equipment (non-network)	646,204,770	"C-48"
RES - 22B	Information Systems Equipment (non-network)	178,990,727	"C-49"
RES - 22C	Information Systems Equipment (non-network)	5,965,078	"C-50"
RES - 23A	Communication Plant and Equipment	26,080,547	"C-51"
RES - 23C	Communication Plant and Equipment	39,000,000	"C-52"
RES - 24A	Miscellaneous Equipment	50,307,752	"C-53"
RES - 24B.1	Miscellaneous Equipment	4,460,000	"C-54"
RES - 24B.2	Miscellaneous Equipment	13,824,445	"C-55"
RES - 25C	Materials and Supplies	17,240,052	"C-56"
RES - 26A	Overhead Conductors and Devices (Customer)	488,373,709	"C-57"
RES - 27A	Underground Conductors and Devices (Customer)	82,772,116	"C-58"
RES - 28A	Information Systems Equipment (non-network)	1,350,000	"C-59"
RES - 28B	Information Systems Equipment (non-network)	11,461,634	"C-60"
RES - 28C	Information Systems Equipment (non-network)	662,786	"C-61"
RES - 29A	Meters, Instruments & Metering Transformers (Consumer Consumption Metering)	750,636,832	"C-62"
RES - 29B	Meters, Instruments & Metering Transformers (Consumer Consumption Metering)	587,145,136	"C-63"
RES - 30A	Structures and Improvements (non-network)	56,660,000	"C-64"
RES - 30B	Structures and Improvements (non-network)	1,700,000	"C-65"
RES - 30C	Structures and Improvements (non-network)	20,070,000	"C-66"
RES - 31A	Office Furniture and Equipment	148,000	"C-67"
RES - 31B	Office Furniture and Equipment	9,213,672	"C-68"
RES - 32A	Transportation Equipment	10,500,000	"C-69"
RES - 32B	Transportation Equipment	11,640,000	"C-70"
RES - 33A.1	Laboratory Equipment	3,200,000	"C-71"
RES - 33A.2	Laboratory Equipment	2,521,500	"C-72"
RES - 33B.1	Laboratory Equipment	12,000,000	"C-73"
RES - 33B.2	Laboratory Equipment	762,100	"C-74"
RES - 34A	Information Systems Equipment	399,916,233	"C-75"
RES - 34B	Information Systems Equipment	154,469,208	"C-76"
RES - 34C	Information Systems Equipment	6,700,604	"C-77"
RES - 35A	Communication Plant and Equipment	8,771,500	"C-78"
RES - 35B	Communication Plant and Equipment	13,105,000	"C-79"
RES - 36A	Miscellaneous Equipment	8,804,149	"C-80"
RES - 36B.1	Miscellaneous Equipment	1,600,000	"C-81"
RES - 36B.2	Miscellaneous Equipment	18,655,913	"C-82"

Copies of the project justifications of the residual projects under MERALCO's RY2018 CAPEX Program are attached

herewith as Annexes "C and Series" and made integral parts hereof.

10. In light of the resulting benefits of MERALCO's RY 2018 CAPEX Program in the overall service to the electricity consumers, MERALCO respectfully submits that the building block components, particularly the return of capital and return on capital associated therewith, should be considered as a deferred amount to be included in the calculation of MERALCO's next reset rates, from the time the CAPEX is put in service and considered used and useful.

11. The filing of the instant Application is without prejudice to the subsequent filing by MERALCO of any unforecasted or emergency CAPEX as the need therefor arises.

C. URGENT NEED FOR ISSUANCE OF A PROVISIONAL AUTHORITY

12. Section 23 of the EPIRA provides that distribution utilities have an obligation to provide services and connections to its customers consistent with the distribution code.¹ It is emphasized that MERALCO will have no approved CAPEX projects starting 1 July 2017 and this will severely hamper its operations and affect its ability to deliver electricity service to its customers. It is imperative for MERALCO to undertake expansion and rehabilitation of its network facilities through acquisition of new assets in order to ensure continuous compliance with safety, performance and other statutory/regulatory requirements, and to address the growing needs of its more than six (6) million customers.

13. Thus, pending final approval, there is an urgent need for a provisional authority for MERALCO to immediately implement its proposed RY 2018 CAPEX Program. In support of the prayer for the grant of a provisional authority, attached as Annex "D" is the Judicial Affidavit of Engr. Froilan J. Savet, Head of MERALCO's Network Planning and Project Management Office.

PRAYER

WHEREFORE, it is most respectfully prayed to this Honorable Commission that the instant application for Authority to implement MERALCO's proposed Capital Expenditure (CAPEX) Program for Regulatory Year (RY) 2018 be APPROVED and that the building block components associated with the CAPEX Program from the time the CAPEX is put in service and considered used and useful be considered as a deferred amount to be included in the calculation of MERALCO's next reset rates.

Pending hearing, it is likewise prayed that a provisional authority be immediately issued authorizing Applicant MERALCO to implement its RY 2018 CAPEX Program.

¹ Republic Act. No. 9136, Section 23; EPIRA Implementing Rules and Regulations, Rule 7, Section 4.

Applicant MERALCO prays for such other relief as are deemed just and equitable under the premises.

The Commission has set the said *Application* for determination of compliance with the jurisdictional requirements, expository presentation, Pre-trial Conference, and presentation of evidence on **22 June 2017 at one o'clock in the afternoon (1:00 P.M.), at the ERC Hearing Room, 15th Floor, Pacific Center, San Miguel Avenue, Pasig City.**

All persons who have an interest in the subject matter of the instant case may become a party by filing with the Commission a verified Petition to Intervene at least five (5) days prior to the initial hearing and subject to the requirements under Rule 9 of the 2006 Rules of Practice and Procedure, indicating therein the docket number and title of the case and stating the following:

- i. The petitioner's name and address;
- ii. The nature of petitioner's interest in the subject matter of the proceeding and the way and manner in which such interest is affected by the issues involved in the proceeding; and
- iii. A statement of the relief desired.

All other persons who may want their views known to the Commission with respect to the subject matter of the case may file their Opposition or Comment thereon at any stage of the proceeding before Applicants rest their case, subject to the requirements under Rule 9 of the 2006 Rules of Practice and Procedure. No particular form of Opposition or Comment is required, but the document, letter, or writing should contain the following:

- 1) The name and address of such person;
- 2) A concise statement of the Opposition or Comment; and
- 3) The grounds relied upon.

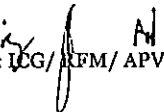
ERC CASE NO. 2017-027 RC
NOTICE OF PUBLIC HEARING/ 15 MAY 2017
PAGE 9 OF 9

All such persons who wish to have a copy of the *Application* may request from Applicant that they be furnished with the same, prior to the date of the initial hearing. Applicant is hereby directed to furnish all those making such request with copies of the *Application* and its attachments, subject to the reimbursement of reasonable photocopying costs. Any such person may likewise examine the *Application* and other pertinent records filed with the Commission during the standard office hours.

WITNESS, the Honorable Officer-in-Charge of the ERC **ALFREDO J. NON**, and Commissioners **GLORIA VICTORIA C. YAP-TARUC** and **GERONIMO D. STA. ANA**, Energy Regulatory Commission, this 15th day of May 2017 at Pasig City.

FOR AND BY AUTHORITY
OF THE COMMISSION:


JOSEFINA PATRICIA A. MAGPALE-ASIRIT
Oversight Commissioner for Legal


LS: ICG/RFM/APV