

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

**IN THE MATTER OF THE
APPLICATION FOR
AUTHORITY TO
IMPLEMENT A NEW
CUSTOMER INFORMATION
SYSTEM (CIS), WITH
PRAYER FOR PROVISIONAL
AUTHORITY**

ERC Case No. 2016-182RC

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

D O C K E T E D
Date: **DEC 15 2016**
By: *[Signature]*

NOTICE OF PUBLIC HEARING

TO ALL INTERESTED PARTIES:

Notice is hereby given that on 27 October 2016, Applicant Manila Electric Company (MERALCO) filed an Application for authority to implement its New Customer Information System (CIS) Project with prayer for provisional authority.

In its Application, MERALCO alleged, among others, the following:

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, Barangay Ugong, 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. 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, pursuant to Republic Act No. 9209.

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.
 4. The last year of MERALCO’s Third Regulatory Period expired on 30 June 2015. The Fourth Regulatory Period (4RP) for the First Entry Group commenced on 1 July 2015 and will end on 30 June 2019. However, MERALCO is yet to undergo the reset process and is awaiting the release by this Honorable Commission of the final rules to govern the filing of its reset application for the next regulatory period.
 5. 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 the Honorable Commission before it can establish, construct, maintain, and operate new facilities or make any extension of its existing facilities.
- A. BACKGROUND AND RATIONALE FOR THE NEW CUSTOMER INFORMATION SYSTEM (CIS)**
6. The existing CIS of MERALCO, the CMSv10, stores the transaction records of MERALCO’s close to 6 million customers ranging from residential, general service, small to very large commercial and industrial to flat streetlight services. It directly supports the meter-to-cash activities of MERALCO by integrating the core processes that contribute to MERALCO’s financial viability such as service application, meter reading, and commercial management (contracting, billing, payments and collection) through the interface of the CMSv10 with the different internal systems of MERALCO, such as the following:

- a. Financial Management Systems, the Call Center's Computer Telephony system and the Corporate Data warehouse system;
 - b. Enterprise Asset Management (EAM) – This facilitates compliance with the Energy Regulatory Commission's Order¹ for MERALCO to develop a more integrated Asset Management System;²
 - c. Prepaid Electricity Management System (PEMS) – This formed part of MERALCO's capital expenditure project line-up for the Third Regulatory Period. Integration is necessary to facilitate the monitoring of consumption, monthly true-up adjustment of the Prepaid Billing, and the shifting from postpaid to prepaid programs and vice versa of about 40,000 customers;
 - d. Meter Data Management System (MDMS) - This formed part of MERALCO's approved capital expenditure projects line-up for the Third Regulatory Period. Integration is necessary for management of the 15-minute readings of the smart meter and meter events like disconnection and reconnection. The MDMS is the core application system to support the Smart Grid initiatives; and
 - e. Outage Management System (OMS) - This provides information on outages affecting distribution facilities. This information is linked to customer information in the CIS and allows feedback to affected customers. Moreover, outage reports recorded in the CIS are forwarded to the Outage Manage System to trigger trouble resolution activities.
7. The existing CIS of MERALCO, the CMSv10, is a 10-year old system that was acquired in CY2006 from

¹ Order dated 6 July 2011 in ERC Case No. 2010-069 RC.

² An Application for the approval of the EAM has been filed before the Energy Regulatory Commission (ERC) and docketed as ERC Case No. 2013-014 RC, entitled "*In the Matter of the Application for Authority to Implement an Enterprise Asset Management System, with Prayer for Provisional Authority.*"

Soluziona Philippines, Inc. to support the required activities and processes in anticipation of the Retail Competition and Open Access (RCOA), which was scheduled to start in July 2007.

8. In 2007, the CMSv10 was used to handle the demand aggregation of customers under the Customer Choice Program (CCP) in as much as the program requires the monitoring of customers' 15 minute readings and the application of different prices for each time period which cannot be supported by the obsolete CMS Mainframe (CMS MF).
9. In 2011, the intended use of the CMSv10 was further realized when the system was used to support the growing complexities of handling the concerns of MERALCO's General Power (GP) or medium and large commercial / industrial customers.
10. In March 2013, MERALCO filed an application to migrate the rest of its captive customers from the CMS MF, which has been in service for fifteen (15) years back then, to the existing CMSv10 in order to address the technological obsolescence of the CMS MF.
11. The application for the migration of the rest of MERALCO's customers to the CMSv10 was approved by the Honorable Commission on September 2, 2013 under Energy Regulatory Commission (ERC) Case No. 2013-32 RC. The migration was done in phases and was completed in April 2014.

B. PROJECT DESCRIPTION AND COMPONENTS

12. At present, MERALCO is faced with rapidly evolving changes and developments in the electric power industry, and its ever-growing customer base. Accordingly, and in order to address the problems posed by technological obsolescence as well as requirements of future customers, including regulatory, technological and industry requirements, MERALCO proposes to purchase a new Customer Information System (CIS) to replace the existing CMSv10. Attached as **Annex "A"** and made an integral part hereof is the Project Justification for the proposed new CIS Project, which document includes a more detailed description of the Project, the various

options considered by MERALCO, and the Qualitative and Quantitative Analyses of the options considered.

13. The project will include the acquisition of a new application system, database licenses and hardware. More particularly, the project will involve the following activities:
 - a. Process Review and Design – this involves the review of MERALCO’s current business processes and aligning them with global utility best practices in order to determine the most effective and efficient way of providing customer service. This will also help determine the right application system for MERALCO.
 - b. Procurement – this involves the selection and acquisition of the replacement system and the implementation service provider of the project. This involves also the acquisition of the necessary hardware and licenses needed for the development phase.
 - c. Detailed Design – this involves the system design that will incorporate the business requirements into the replacement system.
 - d. Build and Test – this involves the actual development of the changes in the replacement system and the testing of its components and its integration with other application systems.
 - e. Procurement – this involves the acquisition of the necessary hardware and licenses for the go-live phase.
 - f. Data Migration – this involves the migration of the data from the existing CIS to the replacement system.
 - g. Deployment – this involves the preparatory activities prior to go-live. This includes user trainings, communication activities to internal users and external customers of the system and process changes, and the actual system deployment activities.

The need for a new Customer Information System (CIS)

14. Since the promulgation of the EPIRA, the ERC was already preparing for RCOA by issuing rules which were considered by MERALCO in setting up a CIS. New business requirements were expected to emerge with open access and deregulation, requiring MERALCO to be more agile in responding to the needs of its customers. The three main drivers that required further system development/customization were as follows:
 - a. New business processes triggered by the then upcoming market situation (deregulation, competitive market, regulatory requirements). Aside from the customer process typical of a regulated market, new processes like marketing, accounting, billing and settlement of energy transactions (including losses and energy imbalances) between the distribution utility, retail suppliers and market operator settlement of financials with other distribution utilities, market operators and generating companies and demand forecasting were to emerge. Not only were new processes defined and implemented, but processes that were well established in regulated markets would also be redefined and adapted to the new market reality. These included shifts to flexible pricing, quarter-hour/hourly meter readings, non-electricity product offers and sales and bundling of different products and services.
 - b. Advances in technology such as those for remote meter reading, hourly reading, among other things.
 - c. Need for data interchange between different market players (distribution utility, retail suppliers and the market operator other distribution companies, retail companies, market operators). This included handling customer requests to change suppliers, comparison of meter reading data between distribution and supply companies and

transfer of billing information for settlement purposes.

15. Furthermore, some initiatives and programs offered by MERALCO are not sufficiently supported by the current system. Programs, such as RCOA, PRES and Net Metering, require varying functionalities that the current system cannot provide without major program code changes. MERALCO currently undertakes manual processing of these data in order to provide the necessary services to the customers. For these manual processes to be automated in the current CIS, major code changes are required which necessitates the presence of an extensive support organization to continually streamline system architectures by revisiting the same in order to make it more cost effective.
16. In fact, the existing CIS, the CMSv10, has been customized a number of times to allow the processing and handling of RCOA, Prepaid Metering, Feed-in-Tariff and Net Metering to name a few. Such customizations limit the system upgrades that can be availed of by MERALCO from the system vendor. A new CIS will not only enable MERALCO to perform all of the customer service processes as stated above but it will also enable MERALCO to timely launch, implement and support new programs and comply with new system and regulatory requirements with minimal program code changes. New generation customer information systems are already equipped to handle different tariff designs (i.e. flat, volume-based, time-of-use) and monthly, bi-monthly or quarterly usage data, which accompany smart metering implementations. Less program code changes not only mean less use of system and infrastructure resources but would also enable MERALCO to avail of vendor driven upgrades at no additional cost.
17. In the event that the current CIS is maintained in its current form, which means enhancements to the CMSv10 and purchases for hardware technology upgrades will not be performed, and only hardware to consider customer / load growth shall be purchased, the risk of system breakdown and system unavailability increases. In turn, MERALCO would be forced to manually process applications, meter readings, bills, payments and complaints. To illustrate the impact of

an unexpected system breakdown, it is worth stressing that a one day disruption will result in the following:

a. Manual Processing of Service Applications

This translates to 1,800 ordinary service applications (assuming 1 customer is to 1 ordinary service application) per day or approximately 304,000 kWh of unserved energy per day of delay in processing service applications (based on current average figures) in case of system breakdown or unavailability.

b. Unaccounted Meter Readings

In the event of a system breakdown, there will be unaccounted meter reading data, which will result in either non-billing or inaccuracy of amount billed to customers.

c. Delays in Billing Customers

Should the CMS v10 break down for a day, billing of at least 275,000 services will not be generated, resulting in delay in customers' receipt of their bills.

d. Manual Payment Collection at Business Centers and Delayed Posting of Payments

With an average of 82,400 bills or PhP 392 million being collected on a day-to-day basis by business centers, such volume and amount of payments and Official Receipts collecting payments and issuing official receipts shall be done manually during unexpected system breakdown.

System unavailability also results in delays in posting payments, whether payments are received at MERALCO Business Centers or at third-party collection agents (TPAs, e.g., Bayad Center, banks). Manually accepted payments at Business Centers would be reflected in the customers' accounts only after the system becomes available and the payments are encoded. Likewise, payments

received at TPAs would be reflected in the customers' accounts only after the system becomes available to process payment records sent to MERALCO by the TPAs. Because of the delay in payment posting, customers whose services are disconnected and who have paid their bills would remain disconnected despite the payment, because it is the system that generates the reconnection field order.

e. Manual Concern Handling

Customer concerns such as complaints, requests, and inquiries received during periods of system unavailability are handled manually, and this generally results in delay in concern resolution.

18. More importantly, the inability to maintain the present CIS could lead to damaging repercussions to customers and government programs and initiatives that empower the customers to manage their consumption. In particular, these would include:
- a. Inability to Support Full Implementation of Retail Competition and Open Access (RCOA);
 - b. Inability to Support Advanced Metering Infrastructure;
 - c. Inability to Support Renewables; and
 - d. Inability to Support Other Emerging Requirements
19. In sum, aside from the efficiency benefits of having a next generation CIS, there is an urgent need for MERALCO to replace its existing CIS, the CMSv10, in order to adopt with the rapidly evolving changes and developments in the electric power industry, and its ever-growing customer base, to one that can handle the complex management of a more complicated array of functionality requirements.

C. PROJECT COST

20. The estimated cost of the CIS Project is **ONE BILLION SEVEN HUNDRED FIFTY EIGHT MILLION, Philippine Currency, (PhP 1,758,000,000.00)**.
21. Based on the Least Cost Analysis (as shown in **Annex "A"**), it is least costly to purchase a new CIS than to keep enhancing the current CIS to address future requirements as the latter will result in substantially higher OPEX costs in addition to the programming costs, hardware and licensing costs and a significantly higher level of manpower resources in order to maintain the system.
22. In light of the resulting benefits of the new CIS Project 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 with the new CIS Project, from the time it is put to service and considered used and useful should be considered as a deferred amount to be included in MERALCO's Fourth Regulatory Period reset calculations.

D. URGENT NEED TO ISSUE PROVISIONAL AUTHORITY

23. As can be seen from the attached Project Schedule, a project of this magnitude will require a preparation period of at least 30 months prior to the target commissioning date in June 2019.
24. It is submitted that the replacement system needs to be meticulously planned and developed as core application projects take years before the same can be implemented, since activities ranging from planning, procurement, design, development, testing and deployment have to be executed.
25. During the period while the new CIS is being developed, installed and implemented and prior to commissioning, the existing CIS, the CMSv10, will still serve MERALCO's meter to cash processes – i.e., service application, meter reading, billing, payments, field orders and customer assistance - for all its customers in parallel until operations using the

replacement system is stabilized. This will ensure minimal disruption to customer processes during the transition from the existing to the new CIS.

26. Thus, there is an urgent need for a provisional authority to be issued to allow MERALCO to immediately start the implementation of the new CIS Project and complete the same on schedule, and therefore, enable it to implement a modern integrated customer information system as soon as possible so as to better serve its consumers. Unless a provisional authority is immediately issued, MERALCO will be unable to start the procurement process for the different components of the project and the longer it takes to implement the new CIS project, the longer it will take for MERALCO to comply with new regulatory and customer requirements. Worse, the risk of system breakdown of the existing CMSv10 greatly increases with the delay in the implementation of the new CIS project.
27. It bears emphasis that the issuance of a provisional authority would not affect the retail rates of MERALCO.
28. In support of the prayer for the grant of a provisional authority, attached as Annex "B" is the Judicial Affidavit of Ms. Liza Rose G. Serrano-Diangson, Vice President and Head of MERALCO's Customer Process Office.

PRAYER

WHEREFORE, it is most respectfully prayed to this Honorable Commission that the instant Application for Authority to implement a new Customer Information System Project be APPROVED and that the building block components associated with the foregoing project from the time the same are put in service and considered use and useful be recognized as a deferred amount to be included in MERALCO's subsequent regulatory reset calculations.

Pending hearing, it is likewise prayed that a provisional authority be immediately issued authorizing Applicant MERALCO to implement the new Customer Information System Project.

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

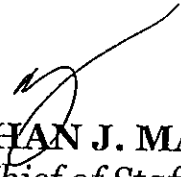
The Commission has set the said Application for initial hearing for the determination of compliance with the jurisdictional requirements, expository presentation, Pre-Trial Conference, and presentation of evidence on initial hearing for determination of compliance with the jurisdictional requirements, expository presentation, Pre-trial Conference, and presentation of evidence on **25 January 2017 (Wednesday) at ten o'clock in the morning (10:00 A.M.), at the ERC Hearing Room, 15th Floor, Pacific Center Building, San Miguel Avenue, Pasig City.**

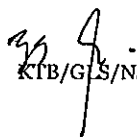
All persons who have an interest in the subject matter of the proceeding may become a party by filing, at least five (5) days prior to the initial hearing and subject to the requirements in the ERC's Rules of Practice and Procedure, a verified petition with the Commission giving the docket number and title of the proceeding and stating: (1) the petitioner's name and address; (2) 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 (3) 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 proceeding may file their opposition to the Application or comment thereon at any stage of the proceeding before the Applicants conclude the presentation of their evidence. No particular form of opposition or comment is required, but the document, letter or writing should contain the name and address of such person and a concise statement of the opposition or comment and the grounds relied upon.

All such persons who wish to have a copy of the Application may request the Applicants, prior to the date of the initial hearing, that they be furnished with a copy of the Application. The Applicants are hereby directed to furnish all those making a request with copies of the Application and its attachments, subject to 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 Chairman **JOSE VICENTE B. SALAZAR** and the Honorable Commissioners **ALFREDO J. NON**, **GLORIA VICTORIA C. YAP-TARUC**, **JOSEFINA PATRICIA A. MAGPALE-ASIRIT**, and **GERONIMO D. STA. ANA**, Energy Regulatory Commission, this 5th day of December 2016 in Pasig City.


ATTY. NATHAN J. MARASIGAN
Chief of Staff
Office of the Chairman and CEO


KTB/G/S/NJM