

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) 2017, WITH PRAYER  
FOR PROVISIONAL  
AUTHORITY**

**ERC CASE NO. 2016 - 017 RC**

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

**D O C K E T E D**  
Date: APR 27 2016  
By: W

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**NOTICE OF PUBLIC HEARING**

**TO ALL INTERESTED PARTIES:**

Notice is hereby given that on 08 March 2016, Applicant Manila Electric Company (MERALCO) filed an Application for authority to implement the proposed capital expenditure program for Regulatory Year (RY) 2017, 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, Pasig City. It may be served with notices and other processes through its undersigned counsel.
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 in Metro Manila, Bulacan, Cavite, and Rizal, and certain cities,

municipalities, and 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 the Performance Based Regulation (PBR). The Final Determination dated 06 June 2011 in ERC Case No. 2010-069 RC, set out the price control arrangements applicable to MERALCO for the Third Regulatory Period (3RP) covering the period from 01 July 2011 to 30 June 2015. Likewise, included therein was MERALCO's approved 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 01 July 2015 and is scheduled to end on 30 June 2019. However, MERALCO is yet to undergo the reset process and is awaiting the release of the final rules to govern the filing of its 4RP reset application.
5. As such, on 09 February 2015, MERALCO filed an Application for the approval of its CAPEX program for Regulatory Year (RY) 2016. The said Application was docketed as ERC Case No. 2015-016 RC and is pending before the Commission.
6. In the meantime, MERALCO needs to file the instant Application for the approval of its CAPEX program for RY 2017 covering the period 01 July 2016 to 30 June 2017.
7. The Application was 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 Commission's approval before it can establish, construct, maintain, and operate new facilities or make any extension of its existing facilities.
8. MERALCO is constrained to seek the Commission's approval for its CAPEX Program for Regulatory Year (RY) 2017 (01 July 2016 to 30 June 2017) in order to ensure the continued reliable operation of its distribution network, continuous distribution service and connection to meet the growing and future needs of its more than 5.78 million customers.

9. ***Background of MERALCO's RY 2017 CAPEX Program.*** – Applicant MERALCO's RY 2017 CAPEX Program takes into consideration the projects filed during the Third Regulatory Period and RY 2016. It is geared towards providing superior service to its customer by creating an adequate, safe, reliable, efficient, and viable distribution network. Apart therefrom, MERALCO has lined up projects that would ensure the safety, reliability, and efficiency of the distribution system while providing for the forecasted growth of future electricity demand within its franchise area.
10. MERALCO's robust RY 2017 CAPEX Program is a continuation of RY 2016 and is mainly driven by the following factors:
  - a. Adequate Infrastructure to Meet Growth in Peak Demand and Customer Connections.
    - i. The distribution infrastructure must be sufficient to serve MERALCO's current customers while provisioning to meet future needs. MERALCO's peak demand in the RP4 is forecasted to grow at about 3.5% over the second regulatory year (known as RY 2017) of the Fourth Regulatory Period.
    - ii. On the other hand, a robust growth of about 3.1% in MERALCO's customer base is forecasted for RY 2017. 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.
  - b. Renewal/Refurbishment Projects to Ensure Sustained Network Efficiency, Reliability, and Power Quality.
    - i. Capital expenditure is required to maintain existing assets, improve network performance and enhance customer service performance in the 4RP. Major renewal and refurbishment

projects are lined-up in RY 2017 to ensure that the distribution system will continue to provide safe, secure, reliable, and efficient electric service to MERALCO's customers amidst climate and calamity risks.

- ii. This includes electric capital projects that are intended to harden and strengthen the network for resiliency to storm and other calamities.

c. Automation/Innovation/Technology.

- i. With the advent of technological advancements, MERALCO seeks to integrate innovative services and solutions into the distribution system to improve network performance and customer service, and to enhance service quality through consumer empowerment.
- ii. MERALCO likewise seeks to address the new market of energy consumers that are better connected and more demanding of real-time information through projects that seek to offer solutions to customers upon their demand.
- iii. Automation/technology projects will further enable MERALCO to enhance its distribution network, allowing it to respond more effectively to line and network outages which will reduce service interruptions of customers.

d. Compliance to statutory and regulatory requirements.

- i. Included in its Capital Expenditure Program for RY 2017 are projects that are proposed in order to comply with DSOAR Amendments on line extensions for National Housing Authority/HLURB-certified housing project sites.
- ii. Under the amendment to the Distribution Services Open Access Rules (DSOAR), a prospective customer shall be entitled to non-

standard connection at the expense of the Distribution Utility in cases of socialized housing projects, i.e., relocation/resettlement projects, of concerned agencies of the national and local governments undertaken by the government agency itself or through the developer.

iii. There is therefore a requirement for MERALCO to provide extension of lines and facilities for these socialized housing initiatives of both public and private developers.

e. Support for the Government's PPP Initiatives

i. 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.

ii. MERALCO would thus need to relocate existing facilities so as not to hamper the construction and development of these critical PPP projects.

11. A detailed discussion on MERALCO's considerations in forecasting its RY2017 CAPEX Program was attached to the Application as Annex A.

12. **List of CAPEX Projects.** – Taking into consideration the factors above, Applicant MERALCO proposes the following Major Projects<sup>1</sup> for RY 2017:

PROJECT CODE	PROJECT NAME	PROJECT COST (in PhP)	ANNEX
MER-1	Uprating of San Miguel 20 MVA Power Transformer Bank no. 1 to 33 MVA Power Transformer	87,986,830	B-1

<sup>1</sup> Major Projects are defined as a project for which the capital expenditure forecasted in a Regulatory Year for the project is greater than PhP30 million or 20% of the total capital expenditure forecasted for a Regulatory Year, whichever is lower.

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MER-2	Expansion of Sta. Maria 115 kV-34.5 kV Substation (3rd bank)	204,286,747	B-2
MER-3	Expansion of Cubao 115 kV-34.5 kV GIS Substation (3rd bank)	142,358,767	B-3
MER-4	Expansion of CPIP 115 kV-34.5 kV Substation (2nd bank)	216,580,212	B-4
MER-5	Expansion of Veinte Reales 115 kV-34.5 kV Substation (2nd Bank)	178,004,708	B-5
MER-6	Development of Makati 115 kV-34.5 kV GIS Substation	443,216,075	B-6
MER-7	Development of Pulilan 69 kV-13.8 kV Substation	237,557,522	B-7
MER-8	Development of San Mateo 115 kV-34.5 kV Substation	475,796,420	B-8
MER-9	Uprating of 115kV Power Circuit Breakers at Balintawak Substation	118,252,038	B-9
MER-10	Expansion of Tayabas 230kV-115kV Delivery Point Substation	260,601,326	B-10
MER-11	Construction of Biñan-ROHM-LIIP 115kV Line	143,038,512	B-11
MER-12	Replacement of Power Transformer No. 2 (133 MVA, 110 kV-34.5 kV) at Marikina Substation	57,636,840	B-12
MER-13	Replacement of Power Transformer No. 1 (100MVA, 110KV-34.5KV) at Malibay Substation	57,636,840	B-13

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MER-14	Relocation of MERALCO's electrical facilities that are affected by the construction of the National Government's Public-Private Partnership (PPP) Projects	112,263,464	B-14
MER-15	Enterprise Geographic Information System (GIS) - Phase 1	219,558,464	B-15
MER-16	Mobile Work Management System	68,892,013	B-16
MER-17	Replacement of Existing 20 Station 3-Phase Stationary Meter Test Bench at MERALCO's ERC-Accredited Meter Shop	35,407,872	B-17
MER-18	Implementation of Internet Gateway At MERALCO's Secondary Datacenter and Expansion of Existing Secure Web Gateway Infrastructure at MERALCO's Primary and Second Datacenters	63,942,036	B-18
MER-19	Replacement of Meter Seal Tracking System	30,052,752	B-19
MER-20	Mainframe Data Archiving Solution	42,324,294	B-20
MER-21	Power Tech (formerly MCOPE) Segment 2: Installation of Electric Power Technologies for Experiential Training, Research & Development	312,649,855	B-21
MER-22	Enterprise Content Management - Document Management System (Lotus	71,019,830	B-22

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	Notes Apps Migration) Phase 1		
MER-23	Expansion of the Advanced Metering Infrastructure (AMI)	2,028,555,564	B-23

13. Copies of the detailed project justifications of the major projects under MERALCO's RY2017 CAPEX Program were attached to the Application as Annexes B and series.
14. Applicant MERALCO's Residual Projects, broken down by asset categories, are as follows:

PROJECT CODE	ASSET CATEGORY	PROJECT COST (in PhP)	ANNEX
RES - 1B.1	Structures and Improvements (Distribution Purposes)	22,318,597	C-1
RES - 1B.2	Structures and Improvements (Distribution Purposes)	11,445,000	C-2
RES - 1C.1	Structures and Improvements (Distribution Purposes)	37,564,976	C-3
RES - 1C.2	Structures and Improvements (Distribution Purposes)	5,462,463	C-4
RES - 2B	Power transformers	106,428,773	C-5
RES - 3A	Switchgear	5,580,405	C-6
RES - 3B	Switchgear	94,782,745	C-7
RES - 4A	Protective equipment	5,868,122	C-8
RES - 4B	Protective equipment	107,270,866	C-9
RES - 5B	Metering & control equipment	34,384,981	C-10



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RES - 5C	Metering & control equipment	21,658,146	C-11
RES - 6A	Communications equipment	12,391,800	C-12
RES - 6B	Communications equipment	62,077,400	C-13
RES - 7A	Other station equipment	23,925,706	C-14
RES - 7B	Other station equipment	55,230,214	C-15
RES - 8A.1	Poles, Towers and Fixtures – Distribution	173,490,179	C-16
RES - 8A.2	Poles, Towers and Fixtures – Distribution	703,265,987	C-17
RES - 8B	Poles, Towers and Fixtures – Distribution	803,198,770	C-18
RES - 9A.1	Overhead Conductors and Devices – Distribution	173,001,636	C-19
RES - 9A.2	Overhead Conductors and Devices – Distribution	106,735,718	C-20
RES - 9B	Overhead Conductors and Devices – Distribution	962,449,693	C-21
RES - 10B	Underground Conduits – Distribution	53,984,282	C-22
RES - 11A.1	Underground Conductors and Devices – Distribution	45,894,328	C-23
RES - 11A.2	Underground Conductors and Devices – Distribution	232,709,634	C-24
RES - 11B	Underground Conductors and Devices – Distribution	34,904,652	C-25
RES - 12A.1	Distribution Transformers	84,478,197	C-26
RES - 12A.2	Distribution Transformers	1,362,911,341	C-27
RES - 12B	Distribution Transformers	386,362,545	C-28

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RES - 13B	Power Conditioning Equipment	224,717,310	C-29
RES - 14B	Meters, Metering Instruments & Metering Transformers – Distribution	7,583,287	C-30
RES - 15A.1	Information technology equipment (distribution)	10,971,675	C-31
RES - 15A.2	Information technology equipment (distribution)	53,205,018	C-32
RES - 15A.3	Information technology equipment (distribution)	4,791,760	C-33
RES - 15B.1	Information technology equipment (distribution)	53,001,630	C-34
RES - 15B.2	Information technology equipment (distribution)	22,429,369	C-35
RES - 16A	Street Lights and Signal Systems	77,296,247	C-36
RES - 16B	Street Lights and Signal Systems	253,973,385	C-37
RES - 17A	Structures and Improvements (non-network)	80,100,000	C-38
RES - 17B	Structures and Improvements (non-network)	220,200,000	C-39
RES - 17C	Structures and Improvements (non-network)	118,290,240	C-40
RES - 18A	Office Furniture and Equipment	80,000	C-41
RES - 18B	Office Furniture and Equipment	14,166,223	C-42

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RES - 19B	Transportation Equipment	183,395,000	C-43
RES - 20A	Tools, Shop and Garage Equipment	17,458,247	C-44
RES - 20B	Tools, Shop and Garage Equipment	61,769,571	C-45
RES - 21A	Laboratory Equipment	47,240,100	C-46
RES - 21B	Laboratory Equipment	29,525,000	C-47
RES - 22A	Information Systems Equipment (non-network)	220,821,534	C-48
RES - 22B.1	Information Systems Equipment (non-network)	190,547,889	C-49
RES - 22B.2	Information Systems Equipment (non-network)	150,000	C-50
RES - 22C	Information Systems Equipment (non-network)	1,744,533	C-51
RES - 23A	Communication Plant and Equipment	12,471,400	C-52
RES - 23C	Communication Plant and Equipment	11,660,000	C-53
RES - 24A.1	Miscellaneous Equipment	125,919,625	C-54
RES - 24A.2	Miscellaneous Equipment	3,143,700	C-55
RES - 24B.1	Miscellaneous Equipment	3,740,000	C-56
RES - 24B.2	Miscellaneous Equipment	10,556,872	C-57
RES - 25A	Overhead Conductors and Devices (Customer)	381,899,446	C-58
RES - 26A	Underground Conductors and Devices (Customer)	97,426,819	C-59
RES - 27A	Information Systems Equipment (non-network)	10,151,813	C-60

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RES - 27B	Information Systems Equipment (non-network)	7,378,387	C-61
RES - 27C	Information Systems Equipment (non-network)	193,837	C-62
RES - 28A	Meters, Instruments & Metering Transformers (Consumer Consumption Metering)	582,431,713	C-63
RES - 28B	Meters, Instruments & Metering Transformers (Consumer Consumption Metering)	544,896,006	C-64
RES - 29A	Structures and Improvements (non-network)	28,070,000	C-65
RES - 29B	Structures and Improvements (non-network)	21,150,000	C-66
RES - 29C	Structures and Improvements (non-network)	38,122,000	C-67
RES - 30B	Office Furniture and Equipment	5,501,251	C-68
RES - 31A	Transportation Equipment	3,350,000	C-69
RES - 31B	Transportation Equipment	17,065,000	C-70
RES - 32A.1	Laboratory Equipment	9,800,000	C-71
RES - 32A.2	Laboratory Equipment	3,001,200	C-72
RES - 32B	Laboratory Equipment	12,975,649	C-73
RES - 32C	Laboratory Equipment	2,069,957	C-74
RES - 33A	Information Systems Equipment	54,736,450	C-75

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RES - 33B	Information Systems Equipment	127,236,408	C-76
RES - 33C	Information Systems Equipment	1,938,371	C-77
RES - 34A	Communication Plant and Equipment	12,973,550	C-78
RES - 34B	Communication Plant and Equipment	37,917,587	C-79
RES - 34C	Communication Plant and Equipment	2,946,400	C-80
RES - 35B.1	Miscellaneous Equipment	2,340,000	C-81
RES - 35B.2	Miscellaneous Equipment	13,207,029	C-82

15. Copies of the project justifications of the Residual Projects under MERALCO's RY2017 CAPEX Program were attached to the Application as Annex C.
16. In light of the resulting benefits of MERALCO's RY 2017 CAPEX Program in the overall service to the electricity consumers, MERALCO argued that the building block components, particularly the return of capital and return on capital associated therewith, from the time it is put in service and considered used and useful, should be considered as a deferred amount to be included in MERALCO's 4RP reset calculations.
17. The filing of the instant Application is without prejudice to the subsequent filing by MERALCO for any unforecasted or emergency CAPEX as the need therefor arises.
18. ***Allegations in Support of the Prayer for Provisional Authority.*** – 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.<sup>2</sup> Applicant argued that it will have no approved CAPEX projects by the start

<sup>2</sup> Republic Act. No. 9136, Section 23; EPIRA Implementing Rules and Regulations, Rule 7, Section 4.

of the 4RP on 01 July 2015 and this will severely hamper its operations and affect its ability to deliver electricity service to its customers.

19. It is thus imperative, Applicant argued, for it 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 5.78 million customers.<sup>3</sup>
20. Thus, pending final approval, there is an urgent need for a provisional authority for MERALCO to immediately implement its proposed RY 2017 CAPEX program.
21. In support of the prayer for the grant of a provisional authority, Applicant MERALCO attached to the Application as Annex D the Judicial Affidavit of Mr. Froilan J. Savet, Head of MERALCO's Network Planning and Project Management Office.
22. Applicant MERALCO prayed that the Commission would:
  - a. Approve the instant Application for authority to implement MERALCO's proposed Capital Expenditure (CAPEX) Program for Regulatory Year (RY);
  - b. Consider as a deferred amount to be included in MERALCO's subsequent Fourth Regulatory Period reset calculation the building block components associated with the CAPEX Program from the time it is put in service and considered used and useful;
  - c. Issue, pending hearing, a provisional authority authorizing MERALCO to implement its RY 2017 CAPEX Program; and
  - d. Grant 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

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<sup>3</sup> As of January 2016.

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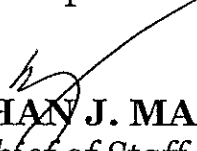
**03 June 2016 at ten o'clock in the morning (10:00 A.M.), at the ERC Hearing Room, 15<sup>th</sup> Floor, Pacific Center Building, San Miguel Avenue, Pasig City.**

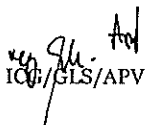
All persons who have an interest in the subject matter of the proceeding may become a party by filing, at least five (5) days prior to the initial hearing and subject to the requirements in the ERC's Rules of Practice and Procedure, a verified petition with the Commission giving the docket number and 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 13th day of April 2016 in Pasig City.

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

  
ICG/GLS/APV