

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,**

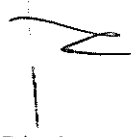

ERC CASE NO. 2016-017RC

**MANILA ELECTRIC COMPANY  
(MERALCO),**

*Applicant.*

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**APPLICATION**

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Applicant **MANILA ELECTRIC COMPANY (MERALCO)**, by counsel, respectfully states that:

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. 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 still to undergo the reset process and is awaiting the release by this Honorable Commission of the final rules to govern the filing of its 4RP reset application.

5. As such, on 9 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 currently for decision by the Honorable Commission.

6. In the meantime, however, MERALCO needs to file the instant application for the approval of its CAPEX project for RY 2017 covering the period 1 July 2016 to 30 June 2017.

7. 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 is constrained to seek the Honorable Commission's approval for its CAPEX Program for Regulatory Year (RY) 2017 (1 July 2016 to 30 June 2017) in order to ensure the continued reliable operation of its distribution network and ensure continuous distribution service and connection to meet the growing and future needs of its more than 5.78 million customers.

#### **A. BACKGROUND OF MERALCO'S RY 2017 CAPEX PROGRAM**

8. MERALCO's RY 2017 CAPEX Program considers the projects it filed during the Third Regulatory Period and RY 2016 and 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. MERALCO's robust RY 2017 CAPEX Program is a continuation of RY2016 and is mainly driven by the following factors:

*a. 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'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. 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*

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 our millions of customers amidst climate and calamity risks. This will include electric capital projects that are intended to harden and strengthen the network for resiliency to storm and other calamities.

*c. Automation/Innovation/Technology*

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.

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.

Automation/technology projects will further allow 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.*

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*. 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. 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 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 in forecasting its RY2017 CAPEX Program is attached hereto as Annex "A" and made an integral part hereof.

**B. LIST OF CAPEX PROJECTS**

9. Taking into consideration the factors above, MERALCO hereby proposes the following Major Projects<sup>1</sup> for RY 2017:

<b>Project Code</b>	<b>Project Name</b>	<b>Project Cost</b>	<b>Annex</b>
MER-1	Uprating of San Miguel 20 MVA Power Transformer Bank no. 1 to 33 MVA Power Transformer	87,986,830	B-1
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-34.5kV 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

<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.

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
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 Notes Apps Migration) Phase 1	71,019,830	B-22
MER-23	Expansion of the Advanced Metering Infrastructure (AMI)	2,028,555,564	B-23

Copies of the detailed project justifications of the major projects under MERALCO's RY2017 CAPEX program are attached herewith as Annexes "B" and series and made integral parts hereof.

10. On the other hand, MERALCO's Residual Projects, broken down by asset categories, are as follows:

<b>Project Code</b>	<b>Asset Category</b>	<b>Project Cost</b>	<b>Annex</b>
RES - 1B.1	Structures and Improvements	22,318,597	C-1

	(Distribution Purposes)		
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
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
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	53,205,018	C-32

	equipment (distribution)		
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
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

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
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

Copies of the project justifications of the residual projects under MERALCO's RY2017 CAPEX program are attached herewith as Annexes "C" and series and made integral parts hereof.

11. In light of the resulting benefits of MERALCO's RY 2017 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, 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.



12. 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.

### **C. URGENT NEED TO ISSUE PROVISIONAL AUTHORITY**

13. 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> It is emphasized that MERALCO will have no approved CAPEX projects by the start of the 4RP on July 1, 2015 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 5.78 million customers.<sup>3</sup>

14. Thus, pending final approval, there is an urgent need for a provisional authority for MERALCO to immediately implement its proposed RY 2017 CAPEX program. In support of the prayer for the grant of a provisional authority, attached as **Annex "D"** is the Judicial Affidavit of Mr. 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) 2017 be **APPROVED** and that the building block components associated with the CAPEX Program from the time it is put in service and considered used and useful be considered as a deferred amount to be included in MERALCO's subsequent Fourth Regulatory Period reset calculations.

Pending hearing, it is likewise prayed that a provisional authority be immediately issued authorizing Applicant MERALCO to implement its RY 2017 CAPEX Program.

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

Pasig City, 4 March 2016.

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

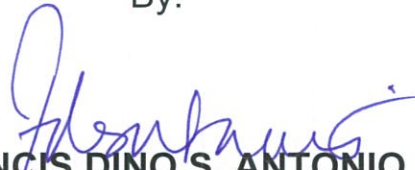
<sup>3</sup> As of January 2016.

**MANILA ELECTRIC COMPANY**

*Applicant*

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By:



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MCLE Compliance No. V-0002586; 9 June 2014

7<sup>th</sup> Floor, Lopez Building, Ortigas Avenue  
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Telephone Number 1622-2260; Fax No. 1622-3550

Republic of the Philippines )  
Pasig City ) S.S.

**VERIFICATION and CERTIFICATION OF NON-FORUM SHOPPING**

I, **JOSE RONALD V. VALLES**, of legal age, married, and with office address at Manila Electric Company (MERALCO), 7<sup>th</sup> Floor, Lopez Building, MERALCO Center, Ortigas Avenue, Barangay Ugong, Pasig City, hereby state under oath that:

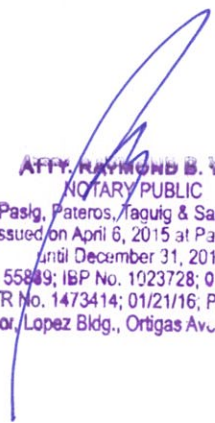
1. I am the Vice-President and Head of the Regulatory Affairs Office of Manila Electric Company, and is authorized to represent it in this Application as per the attached Secretary's Certificate (**Annex "E"**);
2. I have caused the preparation of the instant Application and read the contents thereof, and I attest that the allegations herein contained are true and correct based on my personal knowledge and on authentic records;
3. I have not commenced any other action or proceeding involving the same issues in the Supreme Court, the Court of Appeals or any court, tribunal, or quasi-judicial agency and, to the best of my knowledge, no such other action or claim is pending therein; and
4. Should I hereinafter learn that the same or a similar action or claim has been filed or is pending in the Supreme Court, the Court of Appeals or any court, tribunal, or quasi-judicial agency, I shall report said fact within five (5) days from discovery thereof to this Honorable Commission.

IN WITNESS WHEREOF, I have hereunto affixed my signature this        day of March 2016 at Pasig City, Philippines. MAR 05 2016

  
**JOSE RONALD V. VALLES**  
Affiant

**SUBSCRIBED and SWORN** to before me this        day of March 2016, at Pasig City, Philippines, affiant having exhibited to me his Social Security System ID bearing the number 33-10900088. MAR 05 2016

Doc. No. 267 ;  
Page No. 56 ;  
Book No. I ;  
Series of 2016.

  
**APFY. RAYMOND B. YAP**  
NOTARY PUBLIC  
Pasig, Pateros, Taguig & San Juan  
Issued on April 6, 2015 at Pasig City  
until December 31, 2016  
Roll No. 55889; IBP No. 1023728; 01/08/16; Captz  
PTR No. 1473414; 01/21/16; Pasig City  
7<sup>th</sup> Floor, Lopez Bldg., Ortigas Ave., Pasig City