

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

**IN THE MATTER OF THE
APPLICATION FOR
AUTHORITY TO IMPLEMENT
THE PROPOSED VERY
URGENT/EMERGENCY
CAPITAL EXPENDITURE
PROGRAM FOR
REGULATORY YEAR (RY)
2020, WITH PRAYER FOR
PROVISIONAL AUTHORITY**

ERC CASE NO. 2019-050 RC

**MANILA ELECTRIC
COMPANY (MERALCO)
APPLICANT.
X ----- X**

JUL 16 2019

NOTICE OF PUBLIC HEARING

TO ALL INTERESTED PARTIES:

Notice is hereby given that on 01 July 2019, Manila Electric Company (MERALCO) filed an *Application* dated 27 June 2019, seeking authority to implement their proposed emergency capital expenditure (CAPEX) program for the regulatory year (RY) 2020, with prayer for the issuance of provisional authority (*Application*).

The pertinent provisions of the *Application* are hereunder quoted as follows:

The pertinent provisions of the *Application* are hereunder quoted as follows:

1. 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.
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”).

4. Pending the regulatory reset for the Fifth Regulatory Period (1 July 2019 to 30 June 2023), MERALCO is filing the instant application for the approval of its very urgent CAPEX projects for implementation in Regulatory Year (RY) 2020 covering the period 1 July 2019 to 30 June 2020, 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 very urgent RY 2020 Capital Expenditure (“CAPEX”) application is intended to avert the foreseen emergency situations. Primarily, these CAPEX projects are necessary to ensure the reliable operation of its distribution network and continuous distribution service and connection to meet the growing needs of its more than six (6) million customers. The remaining RY2020 CAPEX, together with the CAPEX of the last three (3) Regulatory Years (2021-2023) will be filed during the Fifth Regulatory Period Reset Process.

BACKGROUND OF MERALCO’S RY 2020 CAPEX PROGRAM

5. MERALCO’s very urgent RY 2020 CAPEX Program is geared towards providing reliable service to its customers by maintaining an adequate, safe, efficient, and viable distribution network, while providing the needed capacity to address the forecasted load growth within its franchise area. MERALCO’s RY 2020 CAPEX Program is mainly driven by the following factors:

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

Capital expenditures are required to maintain existing assets so as not to degrade its network performance and customer service performance in the current regulatory year. The immediate implementation of these projects is not just imperative to say the least, but more so, critical as the reliability of MERALCO’s electric distribution system in providing safe, reliable and adequate electric service is at risk.

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

The distribution infrastructure must be sufficient to meet MERALCO’s current and immediate requirements. MERALCO forecasts its customer base to expand to 7.0 million and peak

demand to grow to 7,750 MW by RY 2020. This increase in peak demand and customer count will require MERALCO to increase the capacity of the electric distribution system in order to continue accommodating customer connections, while maintaining the reliability and power quality of its distribution system. If no capacity augmentation project has been undertaken starting 1 July 2019, MERALCO would not be able to provide electric service to its existing and new customers.

c. Automation/Innovation/Technology

MERALCO has lined up automation/technology projects to continue its AMI program due to customer's need for this service and in compliance with the requirements of the Rules to Govern the Implementation of an Advanced Metering Infrastructure System by Distribution Utilities and ERC-Authorized Entities ("AMI Rules").

d. Compliance to statutory and regulatory requirements

Included in its very urgent RY 2020 CAPEX program are projects to comply with a number of regulatory requirements and government prescriptions, which includes: (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; and (c) ERC Resolution No. 03, Series of 2012, which amends Sections 2.6 and 2.7 of the DSOAR, that mandates DUs to refund the Contribution in Aid of Construction (CIAC) of customers who paid for the extension of lines and facilities upon its inclusion in the DU's regulatory asset base.

e. Support for Government PPP Initiatives / BBB Program

The National Government has identified the implementation of Build, Build, Build (BBB) 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 and replace existing facilities so as not to hamper the construction and development of these critical BBB projects.

A detailed discussion on MERALCO's considerations and justifications in forecasting its very urgent RY2020 CAPEX Program is attached hereto as **Annex "A"** and made an integral part hereof.

List of CAPEX Projects

6. Taking into consideration the factors above, MERALCO hereby proposes the following twenty-one (21) very urgent major projects for RY 2020:

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PROJECT CODE	PROJECT NAME	TOTAL	ANNEX
MER-1	Development of Pamplona Uno 115 kV-34.5 kV GIS Substation	382,777,486	"B-1"
MER-2	Development of North Caloocan 115 kV-34.5 kV GIS Substation	442,322,046	"B-2"
MER-3	Expansion of FPIP 115 kV-34.5 kV Substation (3 rd Bank)	206,536,263	"B-3"
MER-4	Expansion of Grace Park 115 kV-34.5 kV GIS Substation (3 rd Bank)	155,344,490	"B-4"
MER-5	Expansion of LISP 115 kV-34.5 kV Substation (2 nd Bank)	184,890,797	"B-5"
MER-6	Expansion of Pulilan 69 kV-13.8 kV Substation (2 nd Bank)	133,572,924	"B-6"
MER-7	Expansion of San Pablo II 115 kV-34.5 kV Substation (2 nd Bank)	229,489,942	"B-7"
MER-8	Expansion of Valencia 115 kV-34.5 kV GIS Substation (2 nd Bank)	144,461,727	"B-8"
MER-9	Expansion of Amadeo 220 kV-115 kV Delivery Point Substation	208,873,660	"B-9"
MER-10	Uprating Portion of Amadeo-Gateway-FCIE 115 kV Line	112,155,744	"B-10"
MER-11	Reliability Improvement of LIIP Substation	168,427,473	"B-11"
MER-12	Development of Arca South 115 kV-34.5 kV GIS Substation	596,588,928	"B-12"
MER-13	Relocation of MERALCO's Electrical Facilities Affected by the Construction of the National Government's Public-Private Partnership (PPP) Projects	475,543,423	"B-13"
MER-14	Replacement of SCADA-DAS Master Station Server Hardware	60,890,669	"B-14"
MER-15	Rehabilitation of the Control System of ABB 115kV Gas Insulated Switchgear at Legaspi Substation	48,000,000	"B-15"
MER-16	Replacement of Existing 20 Station Three-Phase Stationary Meter Test Bench at MERALCO's ERC-Accredited Meter Shop	41,802,949	"B-16"
MER-17	Operational Technology Intrusion Detection System (OT IDS) for the SCADA Master Station	70,000,000	"B-17"
MER-18	Acquisition of Two (2) Enveloping Machines	82,281,720	"B-18"
MER-19	Expansion of the Prepaid Retail Electricity Service (PRES) and Development of Meter Data Collection System (MDCS)	879,524,443	"B-19"
MER-20	Spare 83 MVA 115 kV-34.5 kV-13.8 kV Power Transformer with On Line Tap Changer (OLTC) for Conventional Substations, with authority to re-purchase	51,441,035	"B-20"

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MER-21	Spare 83 MVA 115 kV-34.5 kV-13.8 kV Power Transformer with On Line Tap Changer (OLTC) for GIS Substations, with authority to re-purchase	57,268,562	"B-21"
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Copies of the detailed project justifications of the major projects under MERALCO's RY2020 CAPEX program are attached hereto as **Annexes "B and Series"** and made integral parts hereof.

7. On the other hand, MERALCO's fifty ("50") very urgent residual projects, broken down by asset categories, are as follows:

PROJECT CODE	ASSET CATEGORY	TOTAL	ANNEX
RES - 1A	Structures and Improvements (Distribution Purposes)	23,877,014	"C-1"
RES - 1B	Structures and Improvements (Distribution Purposes)	11,056,060	"C-2"
RES - 2B	Power transformers	120,887,627	"C-3"
RES - 3A.1	Switchgear	1,463,149	"C-4"
RES - 3A.2	Switchgear	4,304,333	"C-5"
RES - 3B	Switchgear	148,854,587	"C-6"
RES - 3C	Switchgear	18,206,000	"C-7"
RES - 4A.1	Protective equipment	5,191,915	"C-8"
RES - 4A.2	Protective equipment	2,408,007	"C-9"
RES - 4B	Protective equipment	96,606,134	"C-10"
RES - 5A	Metering & control equipment	804,491	"C-11"
RES - 5B	Metering & control equipment	58,402,441	"C-12"
RES - 6A	Other station equipment	18,417,689	"C-13"
RES - 6B	Other station equipment	76,177,067	"C-14"
RES - 7A.1	Poles, towers and fixtures - Distribution	125,355,080	"C-15"
RES - 7A.2	Poles, towers and fixtures - Distribution	906,142,135	"C-16"
RES - 7B	Poles, towers and fixtures - Distribution	1,418,185,169	"C-17"
RES - 8A.1	Overhead conductors and devices - Distribution	69,380,408	"C-18"
RES - 8A.2	Overhead conductors and devices - Distribution	516,839,643	"C-19"
RES - 8B	Overhead conductors and devices - Distribution	1,277,646,942	"C-20"
RES - 9B	Underground conduits - Distribution	40,057,498	"C-21"
RES - 10A	Underground conductors and devices - Distribution	251,160,670	"C-22"
RES - 10B	Underground conductors and devices - Distribution	59,049,721	"C-23"
RES - 11A.1	Distribution transformers	85,438,068	"C-24"
RES - 11A.2	Distribution transformers	1,787,723,825	"C-25"
RES - 11B	Distribution transformers	259,240,008	"C-26"
RES - 12B	Power Conditioning Equipment	86,274,812	"C-27"
RES - 13B	Meters, Metering instruments & Metering transformers - Distribution	3,791,644	"C-28"

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RES - 14A	Information technology equipment (distribution)	598,455	"C-29"
RES - 14B	Information technology equipment (distribution)	60,492,109	"C-30"
RES - 15A	Street lights and signal systems	97,576,354	"C-31"
RES - 15B	Street lights and signal systems	322,519,240	"C-32"
RES - 16A	Structures and improvements (non-network)	12,800,000	"C-33"
RES - 16B	Structures and improvements (non-network)	6,942,000	"C-34"
RES - 16C	Structures and improvements (non-network)	33,000,000	"C-35"
RES - 17A	Laboratory equipment	34,556,000	"C-36"
RES - 17B	Laboratory equipment	35,078,100	"C-37"
RES - 18A	Information systems equipment (non-network)	49,888,658	"C-38"
RES - 19A	Communication Plant and Equipment	12,781,500	"C-39"
RES - 20A	Overhead conductors and devices (customer)	430,161,566	"C-40"
RES - 21A	Underground conductors and devices (customer)	202,407,150	"C-41"
RES - 22A	Meters, Instruments & Metering transformers (Consumer Consumption Metering)	831,406,650	"C-42"
RES - 22B	Meters, Instruments & Metering transformers (Consumer Consumption Metering)	818,593,259	"C-43"
RES - 23A	Structures and improvements (non-network)	501,396	"C-44"
RES - 23B	Structures and improvements (non-network)	4,715,000	"C-45"
RES - 23C	Structures and improvements (non-network)	5,594,335	"C-46"
RES - 24A	Laboratory equipment	5,000,000	"C-47"
RES - 24B.1	Laboratory equipment	8,890,659	"C-48"
RES - 24B.2	Laboratory equipment	188,000	"C-49"
RES - 25A	Information systems equipment	13,332,766	"C-50"

Copies of the project justifications of the residual projects under MERALCO's RY2020 CAPEX program are attached herewith as **Annexes "C-series"** and made integral parts hereof.

8. Moreover, MERALCO shall refund to customers their payments for projects funded under the CIAC scheme. Pursuant to ERC Resolution No. 03, Series of 2012, which amends Sections 2.6 and 2.7 of the DSOAR, DUs are mandated to refund the CIAC payments of customers for the extension of lines and facilities upon its inclusion in the DU's regulatory asset base. The CIAC-funded projects are eligible for refund considering that the lines and facilities where the customers are connected are now distribution assets as they already serve more than one customer. A copy of the project justification document of CIAC-funded projects is attached hereto as **Annex "D"** and made an integral part hereof.

9. In light of the resulting benefits of MERALCO's RY 2020 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 the CAPEX is put in service and considered used and useful, should be considered as a deferred amount to be included in the calculation of MERALCO's next regulatory reset rates.

10. 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. Apart therefrom, MERALCO will file its remaining RY2020 CAPEX projects as part of its Regulatory Reset Application for the Fifth Regulatory Period or at any time hereafter, during the Fifth Regulatory Period Reset Process.

Urgent Need for the Issuance of a Provisional Authority

11. 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 non-approval of the CAPEX projects for RY 2020 will severely hamper MERALCO's operations and severely affect its ability to deliver electric service to its customers. It is imperative for MERALCO to implement its very urgent RY2020 CAPEX projects starting 1 July 2019 for the expansion and rehabilitation of its network facilities through acquisition of new assets in order to ensure continuous delivery of reliable service and comply with safety, performance and other statutory/regulatory requirements, while addressing the growing needs of its more than six (6) million customers.

12. Thus, pending final approval, there is an urgent need for a provisional authority to be issued in favor of MERALCO to allow it to immediately implement its proposed very urgent RY 2020 CAPEX program. In support of the prayer for the grant of a provisional authority, attached as **Annex "E"** 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) 2020 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 very urgent RY 2020 CAPEX Program.

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

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Applicant MERALCO prays for such other relief as are deemed just and equitable under the premises.
Pasig City, 27 June 2019.

The Commission has set the *Application* for determination of compliance with the jurisdictional requirements, expository presentation, Pre-trial Conference, and presentation of evidence on **20 August 2019 (Tuesday) at two o'clock in the afternoon (02:00 P.M.)**, at the **15th Floor, ERC Hearing Room, Pacific Center Building, 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 ERC Rules of Practice and Procedure, indicating therein the docket number and title of the case and stating the following:

- 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 case may file their Opposition or Comment thereon at any stage of the proceeding before Applicant rests its case, subject to the requirements under Rule 9 of the 2006 ERC 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.


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,

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 Chairperson and CEO **AGNES VST DEVANADERA** and the Honorable Commissioners **ALEXIS M. LUMBATAN**, **CATHERINE P. MACEDA**, and **PAUL CHRISTIAN M. CERVANTES**, Energy Regulatory Commission, this 09 July 2019 in Pasig City.

09 July 2019, Pasig City.

FOR AND BY AUTHORITY
OF THE COMMISSION:


LS: BSA/GLO


JOSEFINA PATRICIA A. MAGPALE-ASIRIT
Oversight Commissioner for the Legal Service 