

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



**IN THE MATTER OF THE  
APPLICATION FOR  
AUTHORITY TO  
IMPLEMENT PROPOSED  
CAPITAL EXPENDITURE  
PROGRAM FOR  
REGULATORY YEARS (RY)  
2017 AND 2018,**

**ERC CASE NO. 2017-026 RC**

**TARLAC ELECTRIC INC.  
(TEI),**

**Applicant.**

X-----X

**DOCKETED**  
Date: SEP 04 2017  
By: W

**ORDER**

On 31 March 2017, Tarlac Electric Inc. (TEI) filed an *Application* dated 21 March 2017 seeking from the Commission authority to implement the proposed Capital Expenditure Program for Regulatory Years 2017 and 2018.

TEI alleged the following in its *Application*:

1. TEI is a corporation duly organized and existing under Philippine law with principal office address at Mabini Street, Tarlac City; franchised to construct, own, operate and maintain a Distribution System in Tarlac City; and represented herein by its General Manager, Vitus M. Romero.
2. TEI is part of the Third Entry Group (otherwise known as "Group C") that entered the performance-based regulation ("PBR") rate setting methodology on July 1, 2010.
3. The Honorable Commission approved TEI's Capital Expenditure Program for the entire 2<sup>nd</sup> Regulatory Period (RP) from July 1, 2010 to June 30, 2014 in TEI's Final Determination dated March 8, 2010 (ERC Case No. 2009-042RC).
4. The last year of TEI's Second Regulatory Period expired last June 30, 2014. The Third Regulatory Period (3RP) for the Third Entry Group was supposed to have commenced on July 1, 2014 and ending on June 30, 2018. While the Commission has

already released the Modified Rules for Setting Distribution Wheeling Rates (RDWR) under ERC Resolution No. 25, Series of 2016, TEI is still waiting for the go-ahead from the Commission to file its 3<sup>rd</sup> RP reset application.

5. Meantime, 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 prior approval of the Commission before it can construct, operate and maintain new distribution facilities. Given that it has no authority to undertake and implement CAPEX projects after June 30, 2014, TEI is seeking the Commission's approval for its CAPEX Program for Regulatory Year (RY) 2017 and Regulatory Year (RY) 2018, from July 1, 2016 to June 30, 2017 and July 1, 2017 to June 30, 2018, respectively, to enable it to provide a continuous and reliable service and to meet the growing power demand requirements of its customers.
  
6. In this regard, TEI proposes the following CAPEX Program for RY 2017 and RY 2018:

<b>Item No.</b>	<b>Proposed Projects</b>	<b>Technical Description</b>	<b>TOTAL Project Cost</b>
<b>001</b>	Proposed San Vicente SS with 25/33 MVA Transformer at Brgy. San Vicente	The general scope of work of this project is construction of New San Vicente Substation with 25/33 MVA, 69/13.8 kV, OA/FA Transformer and accessories, with building structures. This project also includes around 1.5 km of 69 kV sub transmission line extension using 795MCM ACSR conductor	<b>100,148,142.06</b>
<b>002</b>	Replacement of old 69kV Gas Power Circuit Breaker and Additional Spare Gas Power Circuit Breaker at Tarlac Power Substation	Replacement of the old and leaking 69 kV gas circuit breaker (Siemens SPS model) to a more updated gas (SF6) circuit breaker and additional Spare	<b>8,153,600.00</b>
<b>003</b>	Rotten Pole Replacement	Replacement of rotten creosoted poles in different sizes	<b>6,515,795.00</b>
<b>004</b>	Distribution Transformer Requirement	Installation of various sizes of distribution transformers - 13.8kV primary, 240 volts secondary, pole-mounted, and oil immersed distribution transformers	<b>45,376,398.00</b>
<b>005</b>	Primary Distribution Line Projects	Extension and upgrade of medium voltage (13.8kV) distribution lines	<b>37,998,030.94</b>

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<b>006</b>	Secondary Distribution Line Projects	Extension and upgrade of various low voltage(230V) secondary lines	<b>8,972,673.81</b>
<b>007</b>	Metering Requirements	Installation of various billing meters including current and potential transformers, service drops and meter boxes	<b>73,375,381.00</b>
<b>008</b>	Service Drop Requirements	Installation of service drops of various type and steel pipes	<b>37,015,228.00</b>
<b>009</b>	Additional two (2) Feeder Breakers at San Rafael Substation	Installation of 2-sets of feeder breakers and accessories at San Rafael Substation	<b>4,012,793.00</b>
<b>010</b>	Installation of 69kV Disconnect Switches and Fault Indicators	Installation of Disconnect Switches and Fault Indicators in specified locations in the 69kV system	<b>4,695,964.00</b>
<b>011</b>	Installation of Fiber Optic Loop	Installation of Fiber Optic Loop from NGCP Concepcion to LIP Substation and from LIP Substation to Maliwalo Substation	<b>5,285,280.00</b>
<b>012</b>	Acquisition of Five (5) units Meter Testing Bench	Acquisition of five (5) units of one position-meter testing bench which has the following specifications: - High accuracy standard meter at least 0.05 class - Three phase and single phase testing - Can test FM2, FM3, FM4, FM5(35), FM9, FM16, FM35(6) (bottom and socket type), at least 5 meters in simultaneous testing - Comparator for Ferraris and electronic meters - 0.1A to 200A - 57V to 480V - Computerized system for automatic sequence of testing, error computation, testing results database, test results printing, bar coding	<b>8,000,000.00</b>
<b>013</b>	Acquisition of Two(2) Software License for Power System Analyzer Tool	Additional two(2) License Copy of the core module and first license for protection coordination module both from Synergi Electric Software	<b>1,700,000.00</b>
<b>014</b>	Purchase of Utility Boom Truck	Purchase of 1 unit, 5-ton Utility Boom Truck	<b>14,500,000.00</b>

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<b>015</b>	Purchase of Service Vehicles	Purchase of two (2) units of Toyota Innova and four (4) units of Toyota Hilux	<b>6,526,000.00</b>
<b>016</b>	Proposed Two-Storey TEI Headquarters along Mabini St., Tarlac City	Construction of Two-Storey TEI Headquarters along Mabini St., Tarlac City	<b>90,716,616.56</b>
<b>017</b>	Additional storage for Primary and Secondary Data Centers	Additional storage for our present data system. The system will be fully redundant. Any drive failure will be addressed automatically	<b>57,342,192.02</b>
<b>018</b>	Acquisition of Data Network Monitoring System	Real time monitoring of our internal network. From servers to workstations and data network facilities. It will add data security on our data system	<b>5,600,000.00</b>
<b>019</b>	Additional Private Branch Exchange (PBX) Hardware and Licenses and Radio Communication System	Acquisition of additional PBX phones and licenses and radio communication system, including communication tower	<b>10,080,000.00</b>
<b>020</b>	Additional Three (3) Units of Uninterruptable Power Supply (UPS)	UPS for current and future IT servers and equipment	<b>5,951,682.00</b>
<b>021</b>	Additional Data Domain Capacity and Disaster Recovery (DR) Site Hardware	Additional data domain backup storage and Disaster Recovery hardware	<b>14,436,665.03</b>
<b>TOTAL CAPEX</b>			<b>546,402,441.42</b>

7. 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 TEI's 3<sup>rd</sup> RP reset calculations.
8. Meantime, a simulation of the estimated rate impact of the proposed CAPEX Program for RY 2017 and RY 2018 is shown below:

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ESTIMATED RATE IMPACT	001	002	003	004
	Proposed San Vicente SS with 25/33 MVA Transformer	Replacement of old 69kV Gas Power Circuit Breaker	Rotten Pole Replacement	Distribution Transformer Requirements
<b>Total Project Cost, net of VAT</b>	<b>89,417,983.98</b>	<b>7,280,000.00</b>	<b>5,817,674.11</b>	<b>40,514,641.07</b>
Add: Working Capital	61,251.32	4,986.80	3,985.11	27,752.53
Total Asset Base Subject to Return	89,479,235.30	7,284,986.80	5,821,659.21	40,542,393.60
Return on Rate Base/WACC	15.01%	15.01%	15.01%	15.01%
Return on Capital	13,430,833.22	1,093,476.52	873,831.05	6,085,413.28
OPEX	894,179.84	72,800.00	58,176.74	405,146.41
Regulatory Depreciation	2,123,677.12	230,533.33	184,226.35	1,282,963.63
Corporate Income tax	0.00	0.00	0.00	0.00
Other Taxes	670,634.88	54,600.00	43,632.56	303,859.81
<b>ARR</b>	<b>17,119,325.06</b>	<b>1,451,409.85</b>	<b>1,159,866.69</b>	<b>8,077,383.13</b>

Forecasted Energy Sales 2017, kWh	403,069,714.00	403,069,714.00	403,069,714.00	403,069,714.00
<b>Rate Impact Php/kWh</b>	<b>0.0425</b>	<b>0.0036</b>	<b>0.0029</b>	<b>0.0200</b>

ESTIMATED RATE IMPACT	005	006	007	008
	Primary Distribution Line Projects	Secondary Distribution Line Projects	Metering Requirements	Service Drop Requirements
<b>Total Project Cost, net of VAT</b>	<b>33,926,813.34</b>	<b>8,011,315.90</b>	<b>65,513,733.04</b>	<b>33,049,310.71</b>
Add: Working Capital	23,239.87	5,487.75	44,876.91	22,638.78
Total Asset Base Subject to Return	33,950,053.21	8,016,803.65	65,558,609.94	33,071,949.49
Return on Rate Base/WACC	15.01%	15.01%	15.01%	15.01%
Return on Capital	5,095,902.99	1,203,322.23	9,840,347.35	4,964,099.62
OPEX	339,268.13	80,113.16	655,137.33	330,493.11
Regulatory Depreciation	1,074,349.09	253,691.67	2,489,521.86	1,046,561.51
Corporate Income tax	0.00	0.00	0.00	0.00
Other Taxes	254,451.10	60,084.87	491,353.00	247,869.83
<b>ARR</b>	<b>6,763,971.31</b>	<b>1,597,211.93</b>	<b>13,476,359.54</b>	<b>6,589,024.06</b>

Forecasted Energy Sales 2017, kWh	403,069,714.00	403,069,714.00	403,069,714.00	403,069,714.00
<b>Rate Impact Php/kWh</b>	<b>0.0168</b>	<b>0.0040</b>	<b>0.0334</b>	<b>0.0163</b>

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	009	010	011	012
<b>ESTIMATED RATE IMPACT</b>	<b>Additional two (2) Feeder Breakers</b>	<b>Installation of 69kV Disconnect Switches and Fault Indicators</b>	<b>Installation of Fiber Optic Loop</b>	<b>Acquisition of Five (5) units Meter Testing Bench</b>
Total Project Cost, net of VAT	3,582,850.89	4,192,825.00	4,719,000.00	7,142,857.14
Add: Working Capital	2,454.25	2,872.09	3,232.52	4,892.86
Total Asset Base Subject to Return	3,585,305.15	4,195,697.09	4,722,232.52	7,147,750.00
Return on Rate Base/WACC	15.01%	15.01%	15.01%	15.01%
Return on Capital	538,154.30	629,774.13	708,807.10	1,072,877.28
OPEX	35,828.51	41,928.25	47,190.00	71,428.57
Regulatory Depreciation	113,456.94	132,772.79	448,305.00	339,285.71
Corporate Income tax	0.00	0.00	0.00	0.00
Other Taxes	26,871.38	31,446.19	35,392.50	53,571.43
<b>ARR</b>	<b>714,311.14</b>	<b>835,921.36</b>	<b>1,239,694.60</b>	<b>1,537,162.99</b>

Forecasted Energy Sales 2017, kWh	403,069,714.00	403,069,714.00	403,069,714.00	403,069,714.00
<b>Rate Impact Php/kWh</b>	<b>0.0018</b>	<b>0.0021</b>	<b>0.0031</b>	<b>0.0038</b>

	013	014	015	016
<b>ESTIMATED RATE IMPACT</b>	<b>Acquisition of Two(2) Software License</b>	<b>Purchase of Utility Boom Truck</b>	<b>Purchase of Service Vehicles</b>	<b>Proposed Two-Storey TEI Headquarters along Mabini St., Tarlac City</b>
Total Project Cost, net of VAT	1,517,857.14	12,946,428.57	5,826,785.71	81,042,675.50
Add: Working Capital	1,039.73	8,868.30	3,991.35	55,514.23
Total Asset Base Subject to Return	1,518,896.88	12,955,296.88	5,830,777.06	81,098,189.73
Return on Rate Base/WACC	15.01%	15.01%	15.01%	15.01%
Return on Capital	227,986.42	1,944,590.06	875,199.64	12,172,838.28
OPEX	15,178.57	129,464.29	58,267.86	810,426.76
Regulatory Depreciation	288,392.86	1,757,015.31	553,544.64	1,924,763.54
Corporate Income tax	0.00	0.00	0.00	0.00
Other Taxes	11,383.93	97,098.21	43,700.89	607,820.07
<b>ARR</b>	<b>542,941.78</b>	<b>3,928,167.87</b>	<b>1,530,713.03</b>	<b>15,515,848.64</b>

Forecasted Energy Sales 2017, kWh	403,069,714.00	403,069,714.00	403,069,714.00	403,069,714.00
<b>Rate Impact Php/kWh</b>	<b>0.0013</b>	<b>0.0097</b>	<b>0.0038</b>	<b>0.0385</b>

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ESTIMATED RATE IMPACT	017	018	019	020
	Additional storage for Primary and Secondary Data Center	Acquisition of Data Network Monitoring System	Additional Private Branch Exchange (PBX) Hardware and Licenses and Radio Communication System	Additional Three (3) Units of Uninterruptable Power Supply
<b>Total Project Cost, net of VAT</b>	<b>51,198,385.72</b>	<b>5,000,000.00</b>	<b>9,000,000.00</b>	<b>5,314,001.79</b>
Add: Working Capital	35,070.89	3,425.00	6,165.00	3,640.09
<b>Total Asset Base Subject to Return</b>	<b>51,233,456.61</b>	<b>5,003,425.00</b>	<b>9,006,165.00</b>	<b>5,317,641.88</b>
Return on Rate Base/WACC	15.01%	15.01%	15.01%	15.01%
Return on Capital	7,690,141.84	751,014.09	1,351,825.37	798,178.05
OPEX	511,983.86	50,000.00	90,000.00	53,140.02
Regulatory Depreciation	9,727,693.29	950,000.00	855,000.00	1,009,660.34
Corporate Income tax	0.00	0.00	0.00	0.00
Other Taxes	383,987.89	37,500.00	67,500.00	39,855.01
<b>ARR</b>	<b>18,313,806.87</b>	<b>1,788,514.09</b>	<b>2,364,325.37</b>	<b>1,900,833.42</b>
Forecasted Energy Sales 2017, kWh	403,069,714.00	403,069,714.00	403,069,714.00	403,069,714.00
<b>Rate Impact Php/kWh</b>	<b>0.0454</b>	<b>0.0044</b>	<b>0.0059</b>	<b>0.0047</b>

ESTIMATED RATE IMPACT	021	TOTAL
	Additional Data Domain Capacity and Disaster Recovery (DR) Site Hardware	
<b>Total Project Cost, net of VAT</b>	<b>12,889,879.49</b>	<b>487,905,019.11</b>
Add: Working Capital	8,829.57	334,214.94
<b>Total Asset Base Subject to Return</b>	<b>12,898,709.06</b>	<b>488,239,234.05</b>
Return on Rate Base/WACC	15.01%	15.01%
Return on Capital	1,936,096.23	73,284,709.03
OPEX	128,898.79	4,879,050.19
Regulatory Depreciation	2,449,077.10	29,234,492.08
Corporate Income tax	0.00	0.00
Other Taxes	96,674.10	3,659,287.64
<b>ARR</b>	<b>4,610,746.22</b>	<b>111,057,538.95</b>

Forecasted Energy Sales 2017, kWh	403,069,714.00	403,069,714.00
<b>Rate Impact Php/kWh</b>	<b>0.0114</b>	<b>0.2755</b>

9. TEI attaches the following documents in support of this application:

<b>Annex</b>	<b>Description of Document</b>
1.A	Technical Analysis:
	a. Performance Assessment
	b. Transformer Loading
	c. Adjacent Transformer Group Loading
	d. Demand not Served
	e. Losses per Alternative
1.B	f. Savings Computation
	Economic Analysis:
	a. Alternative 1 (Preferred Option)
1.C	b. Alternative 2
	c. Alternative 3
1.D	Substation Forecast_existing
1.E	Substation Forecast_upgrading
1.F	Figures:
	a. Topographical Diagram
	b. Location Plan
	c. Vicinity Map
	d. Proposed San Vicente Substation
1.G	e. Single Line Diagram
1.H	Illustrations of Panganiban Substation
1.I	Supplier Quotation 1_Shihlin
2.A	Supplier Quotation 2_NKE (Preferred Option)
2.B	Cost Estimates_Alternatives
2.C	Test Report
3.A	Avoidable Interruption Cost Computation
3.B	Photos
	a. Existing Gas Circuit Breaker
3.C	b. Maintenance Logbook
	Complaints No. 55630, Sitio Estrella_Rotten Pole
4.A	Avoidable Interruption Cost Computation
4.B	Sample Study
	a. Overloaded distribution transformer for upgrading
	b. Overloaded distribution transformer for additional
4.C	c. Defective distribution transformer for replacement
9.A	Sample customer application
9.B	Technical Analysis
9.C	San Rafael Substation new Set-up (Single Line Diagram)
9.D	Cost Estimate



10.A	Summary of Study
10.B	Predictive Reliability Analysis
10.C	Interruption Events
10.D	Economic Analysis
12.A	Project Quotation
12.B	Preferred Option_Specification
13.A	Synergi Electric Price Quotation
14.A	List of Service Vehicles
15.A	Details of Service Vehicle
15.B	Toyota SRP List
15.C	List of Service Vehicles
16.A	Structural Design Brief
16.B	ERC Decision in ERC Case No. 2006-114 MC
16.C	Addendum to the Review of Forecast Capital Expenditure by Geoff Brown and Associates Ltd.
16.D	Building Plan
16.E	Project Cost/Budgetary Drawdown
16.F	TEI Main Building Pictures
17.A	Quotation
20.A	Quotation
21.A	Quotation

**PRAYER**

WHEREFORE, TEI respectfully prays that this application for authority to implement its Capital Expenditure (CAPEX) Program for Regulatory Years (RY) 2017 and 2018 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 TEI's subsequent 3<sup>rd</sup> Regulatory Period reset calculations.

Finding the said *Application* sufficient in substance with the required fees having been paid, the *Application* is hereby set for determination of compliance with the jurisdictional requirements, expository presentation, Pre-trial Conference, and presentation of evidence on **19 October 2017 (Thursday) at ten o'clock in the morning (10:00 A.M.) at TEI's principal office at Mabini Street, Tarlac City, Tarlac.**

Accordingly, TEI is hereby directed to:

- 1) Cause the publication of the attached Notice of Public Hearing in two (2) newspapers of nationwide circulation in the Philippines at its own expense, twice (2x) within two (2) successive weeks, the dates of publication not being less

than seven (7) days apart and the date of the last publication to be made not later than ten (10) days before the date of the scheduled initial hearing;

- 2) Furnish the Offices of the Governor, City Mayor, and the Local Government Unit (LGU) legislative bodies within the affected franchise area with copies of this Order and the attached Notice of Public Hearing for the appropriate posting thereof on their respective bulletin boards;
- 3) Inform the consumers within the affected franchise area of the filing of the Application, its reasons therefor, and of the scheduled hearing thereon, by any other means available and appropriate;
- 4) Furnish the Office of the Solicitor General (OSG), the Commission on Audit (COA), and the Committees on Energy of both Houses of Congress with copies of the Application, and this Order and the attached Notice of Public Hearing. They are hereby requested, if they so desire to send their duly authorized representatives at the scheduled hearing; and
- 5) Furnish all those making requests with copies of the Application and its attachments, subject to reimbursement of reasonable photocopying costs.

On the date of the initial hearing, Applicant must submit to the Commission its written compliance with the aforementioned jurisdictional requirements attaching therewith, methodically arranged and duly marked the following:

- 1) The evidence of publication of the attached Notice of Public Hearing consisting of affidavits of the Editors or Business Managers of the newspapers where the said Notice of Public Hearing was published, and the complete issues of the said newspapers;
- 2) The evidence of actual posting of this Order and the attached Notice of Public Hearing consisting of certifications issued to that effect, signed by the aforementioned Governor, Mayor, and LGU legislative bodies or their duly authorized representatives, bearing the seals of their offices;

- 3) The evidence of the means employed by Applicant to inform the consumers within the affected franchise area of the filing of the Application, its reasons therefor, and of the scheduled hearing thereon;
- 4) The evidence of receipt of copies of the Application, and this Order and the attached Notice of Public Hearing by the Office of the Solicitor General (OSG), the Commission on Audit (COA), and the Committees on Energy of both Houses of Congress;
- 5) The evidence of receipt of copies of the Application and their attachments by all those making requests therefor, if any; and
- 6) Such other proof of compliance with the requirements of the Commission.

Applicant and all interested parties are also required to submit, at least five (5) days before the date of initial hearing and Pre-Trial Conference, their respective Pre-Trial Briefs containing, among others:

- 1) A summary of admitted facts and proposed stipulation of facts;
- 2) The issues to be tried or resolved;
- 3) The documents or exhibits to be presented, stating the purposes and proposed markings therefor; and
- 4) The number and names of the witnesses, with their written testimonies in a Judicial Affidavit form attached to the Pre-trial Brief.

Failure of Applicant to submit the required Pre-Trial Brief and Judicial Affidavits of its witnesses within the prescribed period shall be a ground for cancellation of the scheduled hearing, and the resetting of which shall be six (6) months from the said date of cancellation.

TEI must also be prepared to make an expository presentation of the instant Application, aided by whatever communication medium that it may deem appropriate for the purpose, in order to put in plain words and explain, for the benefit of the consumers and other

concerned parties, what the Application is all about and the reasons and justifications being cited in support thereof.

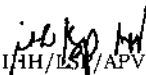
**SO ORDERED.**

Pasig City, 14 August 2017.

FOR AND BY AUTHORITY  
OF THE COMMISSION:



**ALFREDO J. NON**  
*Officer-in-Charge of ERC*

LS: /HH/LSV/APV

Copy Furnished:

1. Atty. Ranulfo M. Ocampo  
*Counsel for Applicant TEI*  
7/F Strata 100 Bldg., F. Ortigas Jr. Road  
Ortigas Center, Pasig City
2. Tarlac Electric Inc. (TEI)  
*Applicant*  
Mabini Street, Tarlac City, Tarlac
3. Office of the Governor  
Province of Tarlac
4. Office of the Local Government Unit (LGU) legislative body  
Province of Tarlac
5. Office of the City Mayor  
Tarlac City, Tarlac
6. Office of the LGU legislative body  
Tarlac City, Tarlac
7. Office of the Solicitor General  
134 Amorsolo Street, Legaspi Village, Makati City
8. Commission on Audit  
Commonwealth Avenue, Quezon City
9. Senate Committee on Energy  
GSIS Bldg. Roxas Blvd., Pasay City
10. House Committee on Energy  
Batasan Hills, Quezon City

11. Philippine Chamber of Commerce and Industry (PCCI)  
3<sup>rd</sup> Floor, Chamber and Industry Plaza (CIP), 1030 Campus Avenue corner Park Avenue,  
McKinley Town Center, Fort Bonifacio, Taguig City
  
12. Regulatory Operations Service – Standards, Compliance and Monitoring Division  
17<sup>th</sup> Floor, Pacific Center, San Miguel Avenue, Pasig City