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	General comments	• Performance Based Regulation ("PBR") is a forward-looking rate-setting mechanism that considers approved expenditure forecasts in order to meet pre-set performance targets. • Since 4th RP has already ended, the PBR mechanism will not work and will not be applicable if there will be a look back on actual expenditures and performance. • PBR would only be applicable if the spending and performance targets are approved prior to the start of the period. With the First Entry Group already entering 5th RP, there will now potentially be a portion of the regulatory period where the PBR mechanism would no longer be applicable.	• We support the ERC view to implement a hybrid framework for the 4th RP that decouples the period with historical expenditures and performances from the subsequent regulatory period. Since this will be different set of ruling for First Entry Group, this should not be prejudiced by the outcome of the reset process of the 5th RP. • However, it is proposed that the start of the 5th RP be moved to such time when all the PBR-related rules are in place and after the DUs have filed the applications and have been given approvals from the ERC to maintain the forward-looking nature of PBR
	General comments	• PBR is a mechanism that is poised to undergo changes based on necessary improvements as viewed by both the ERC and DUs. However, any proposed rule change under PBR should only be prospective in character. Otherwise, such rule change would be unreasonable and unfair and goes against the regulatory principle against retroactive rate-making. • The proposed timetable for 5th RP does not allow the DU to make the appropriate reset application if the rules are not yet finalized.	• We propose that the reset process be adjusted to give ample time for DUs and other stakeholders to study and provide positions to the RDWR, Issues Paper and other issuances, such as the RAB handbook and Risk Assessment Guidelines. The reasonability, transparency and practicality of the rules is of utmost importance. Only after all the rules have been promulgated, can DUs make a reset application. • We propose moving the start of the 5th RP to such a time when all the PBR-related rules are in place and after the DUs have filed the applications and have been given approvals

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			from the ERC to maintain the forward-looking nature of PBR
Annex A Rules for Setting Distribution Wheeling Rates (RDWR) Annex B Issues Paper for the Regulatory Reset for the First Entry Group for the Fourth and Fifth Regulatory Period	Reset Timetable RDWR Article 7.1 Section 3.2 – Table 3.1 Timeline for the Regulatory Reset Process RDWR Article 7.1	• Considering the impact of the rules to DU operations, the 2-week lead time does not provide the DUs with sufficient time to study and craft comments thereto. • The proposed timeline only has one public consultation in Manila before the revised RDWR and Position Paper are released. There are no public consultations for the Luzon, Visayas and Mindanao regions. • It should be noted that one of the DUs which forms part of the First Entry Groups is CEPALCO, which is located in Mindanao. However, there is no public consultation in the area where it is located which does not allow CEPALCO customers to participate in the public consultations. • It should be noted that, any changes to the RDWR for the First Entry Group, would necessarily have an impact on the other DUs in other Entry Groups.	We propose that stakeholders be allowed to submit additional comments even after the scheduled July 5 public consultations. Further, additional public consultations and hearings should be scheduled to allow stakeholders, especially customers, to fully participate in the rule-making process.
Annex A Rules for Setting Distribution Wheeling Rates (RDWR) Annex B Issues Paper	Reset Timetable RDWR Article 7.1 Section 3.2 – Table 3.1 Timeline for the Regulatory Reset Process	• The Reset timetable established a step for an "Initial Review Process" in lieu of the issuance of the Draft Determination and hearings • The Draft Determination is critical to DUs since it provides the initial outcome of the review of	We propose to the ERC retain the process of issuing a Draft Determination and holding hearings for discussion in the reset process.

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for the Regulatory Reset for the First Entry Group for the Fourth and Fifth Regulatory Period		the Commission and its reset experts. This document is a basis for DUs for making make additional justifications or appeals.	
Annex A Rules for Setting Distribution Wheeling Rates (RDWR) Annex B Issues Paper for the Regulatory Reset for the First Entry Group for the Fourth and Fifth Regulatory Period	Risk Adjustment Factor (RAf) RDWR Article 4.11.7, 4.11.8 Section 5.3.4 Return on Equity	• The Group A RDWR for the 2nd RP and 3rd RP adopted the Capital Asset Pricing Model (CAPM) theory. An Equity Beta is used as part of the estimation of the return of equity. The Equity Beta indicated the level of risk of distribution utilities related to market. • The introduction of the Risk Adjustment Factor (RAf) aims to supplant the Equity Beta as used in the CAPM. The nature of the RAf is scoring system approximating the risk of a DU. The RAf is not verifiable by market observation and thus is seen to allow much room for arbitrariness and subjectivity. It is incompatible with the CAPM formula related to risk premium which is a description of the market. As such the RAf cannot supplant the theoretical use of Equity Beta. • This approach penalizes well-run companies (with reference to Susceptibility to losses, Management and Governance) with a lower RAf while providing badly-run companies with a higher RAf which seems inconsistent with the objective of improving the overall performance of Regulated Entities.	We propose the WACC calculation remain as close as possible to the Capital Asset Pricing Methodology. In this case, the estimation of return on equity via the equity beta should be maintained.

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		• PBR is an internationally accepted methodology and the WACC calculation via CAPM has been deemed consistent with that adopted in other jurisdictions. There is no other regulator using a parameter similar to RAf.	
Annex A Rules for Setting Distribution Wheeling Rates (RDWR) Annex B Issues Paper for the Regulatory Reset for the First Entry Group for the Fourth and Fifth Regulatory Period	Weighted Average Cost of Capital RDWR Article 4.11 Section 5.3 Weighted Average Cost of Capital	• It is possible that DUs can be accorded either a single point WACC over all its assets or multiple values of the WACC associated with assets acquired over the different regulatory periods. • Risk over regulatory decisions that are subject to challenges and delays which is one of the major risks faced by a Regulated Entity is the same across the entire industry and hence can be considered as a systematic risk. It is also one of the major risk raised by potential investors.	We respectfully suggest the use of multiple values of WACC to account for the return on assets when they were put in service. This is similar to the case of generators where one fixed return is set over the expected life of the investment.
Annex B Issues Paper for the Regulatory Reset for the First Entry Group for the Fourth and Fifth Regulatory Period	Recognition of Micro-grid CAPEX and OPEX Section 5.1.3 Assets to be rolled forward	In support of the Government's drive to achieve 100% household electrification by 2022, Regulated Entities have deployed micro- or mini-grids using hybrid energy systems normally composed of solar PV, energy storage, and diesel generators.	• We propose that "Generation assets O&M including fuel expense" shall be added in the list of Distribution Related Activities (Issues Paper Table 4.1) • We propose the inclusion of a separate asset category and CAPEX category for "Generation assets used for electrifying off-grid and/or unviable areas"
Annex A Rules for Setting Distribution Wheeling Rates (RDWR) Annex B Issues Paper for the Regulatory	Performance Targets RDWR Article 4.17 RDWR Appendix B2 Section 10.3.2	• ERC intends to benchmark the performance of all Regulated Entities against each other. ERC also intends to use international benchmarks to assess the performance of Philippines Regulated Entities and Regulated Distribution Systems.	We respectfully recommend that the DU be allowed to propose the methodology for the target setting (i.e., number of years to be used for the historical data; step per standard deviation for the performance bands; etc.).

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Reset for the First Entry Group for the Fourth and Fifth Regulatory Period		• Performance indices and targets should be based on the DU's own historical performance and not through benchmarking of other DUs that are at different levels of performance and not through benchmark performance indices from international jurisdictions.	
Annex B Issues Paper for the Regulatory Reset for the First Entry Group for the Fourth and Fifth Regulatory Period	Performance of Micro-grid systems Section 10.3.7	Micro-grids within the Meralco franchise were put up to achieve 100% electrification. The operation and maintenance of micro-grids is distinct from the operations and maintenance of the DU's regular distribution system.	We respectfully recommend that performance of the micro-grid systems be excluded from the PIS and be just part of the information disclosure until there is enough historical data to establish performance standards.
Annex A Rules for Setting Distribution Wheeling Rates (RDWR) Annex B Issues Paper for the Regulatory Reset for the First Entry Group for the Fourth and Fifth Regulatory Period	Excluded Events RDWR Appendix B4 Section 10.3.7	The ERC listed acceptable excluded events and the use of the IEEE's 2.5 beta method to identify major event days.	• We propose that interruptions due to relocation of facilities initiated by projects of the National Government should also be excluded in the calculation of network or service performance • We propose for the exclusion of all interruption events directly related to force majeure event but beyond the days identified by the IEEE's 2.5 beta method as Major Event Days
Annex A Rules for Setting Distribution Wheeling Rates (RDWR) Annex B Issues Paper for the Regulatory Reset for the First Entry Group for the	Service Performance Indices to be measured RDWR Appendix B2.1.1 Section 10.3.3	The Issues Paper is silent on the provisions of ERC Resolution 20, Series of 2017 wherein the new caps are applied on the Feeder Loss while the Subtransmission and Substation Losses are fully recoverable. However, since an acceptable, uniform and accurate methodology to compute for Feeder Losses is not yet in place, the System Loss performance indicator should remain at the Total System Loss level.	MERALCO proposes the addition of the following provision in Section 10.3.3 of the Issues Paper. "In view of the effectivity of ERC Resolution No. 20, Series of 2017, system loss caps are now set at the feeder distribution level. However, because an acceptable, uniform and accurate system or methodology to compute for such

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Fourth and Fifth Regulatory Period			losses is not yet in place, the service performance index, where system loss is concerned, will remain at the total system loss level (i.e., metered Total Energy Input less metered Total Energy Output) up to the Fifth Regulatory Period. Once the ERC comes out with a standard methodology to compute for feeder distribution losses and sufficient historical data to establish feeder losses of Regulated Entities, the service performance indicator for system loss based on the feeder distribution level may be considered."
Annex A Rules for Setting Distribution Wheeling Rates (RDWR)	Tax Change Event Article 1.3 Definitions "Tax Change Event" RDWR Article 1.3 Definitions RDWR Article 11	The threshold for invoking Tax Change Event filing is currently 1% of annual OPEX. It is also the Commission's policy that Other Taxes forecast should be based on established tax liabilities of the DU upon reset filing. However, it is expected that new tax imposition will come every year and the DU will be obliged to pay them on top of forecasts. However, the threshold is too high which does not allow for the recovery of additional taxes. It is proposed that the threshold be lowered to 0.5% of annual OPEX for DUs to be able to manage better its financial exposure to new taxes.	We suggest that the threshold be lowered to 0.5% of OPEX from 1%.
Annex B Issues Paper for the Regulatory Reset for the First Entry Group for the Fourth and Fifth Regulatory Period	4RP Capital Expenditure Section 5.2	• Pending the regulatory reset process, DUs have applied for CAPEX for the 4th RP which are currently pending approval with the ERC. Some of these projects have been implemented due to its emergency nature . • Since Group A DUs already have started the 5th RP, there is an accumulation of CAPEX coming	We propose that the 4th RP carry-over CAPEX be recognized as part of the RAB in addition to the new CAPEX proposals of the 5th RP.

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		from the 4th RP which will be carried over for completion in the 5th RP	
Annex A Rules for Setting Distribution Wheeling Rates (RDWR)	Price Control Formula RDWR Article 4.2	• The current PBR rules use the formula: $MAP_t = [MAP_{t-1} \times \{1 + CWI_t - X\}] + S_t - K_t + ITA_t$ where: the expression $\{1 + CWI_t - X\}$ is a slope of smoothed MAP and the variables S_t, K_t and ITA_t refer to annual adjustments made during the annual verification and rate translation • In the proposed rules prescribes the DUs may file it annually or every two years. Also, DUs are also be given an option to use smoothed or raw MAP. Such alternative mechanism should be reflected as a separate section in the RDWR	We propose that the alternative mechanism be reflected as an entirely new section in the RDWR and that adequate details be provided on how annual adjustments in terms of CWI_t, S_t, K_t and ITA_t are considered.