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Annex A Rules for Setting Distribution Wheeling Rates (RDWR)	Article 4.8 [page 38] Article 4.13.1 f and g [page 58] Asset Categories and Expense Categories	"Street Lights and Signal Systems" and "Street Lighting and Signal System" cover assets (and expenses) that are not co-owned or shared. For example, a flat streetlight account has only one customer, which is usually a local government unit (LGU). In addition, cross subsidy will occur if Streetlights are placed under Regulated Distribution Services. Thus, we propose that this category be placed under Distribution Connection Services instead of Regulated Distribution Services. "Substations" are included as sub-categories both in operation and maintenance, under the category "Distribution Connection Services". This should not be the case since "Substations" are not part of Distribution Connection Services.	We recommend that "Street Lights and Signal Systems" (asset category) and "Streetlights and Signal System" (expense category) be categorized under Distribution Connection Services, instead of being under Regulated Distribution Services. We recommend the deletion of "Substations" as sub-categories under the category "Distribution Connection Services".
Annex A Rules for Setting Distribution Wheeling Rates (RDWR)	Article 4.8.8(a) Asset Categories – Regulated Distribution Services Assets [page 38]	The RDWR provides for the breakdown of CAPEX asset categories. In line with this, we would like to seek clarification on the treatment of easements or rights of way, especially in light of the more recent related provision under the Pro-forma Connection Agreement in Resolution No. 13, Series of 2013, to wit: "II. DUTIES AND RESPONSIBILITIES OF THE COMPANY xxx Section 2.2. SCF, Line Extensions and Other Associated Equipment. The COMPANY shall install, maintain and operate, in proper operative condition, including easement costs, the SCF, line extensions and other associated equipment and devices (transformers, meters and other apparatus), which may be	Aside from addressing the concern on potential discriminatory practice, we deem that DUs are in the best position to secure the necessary rights of way to connect a customer as they have a better knowledge and expertise on the proposed design of and technical standards for distribution facilities. Further, as mentioned, the easement secured by the DU, being for use to construct a shared asset, will be for the benefit of more than one customer. Thus, for clarity and consistency, we respectfully recommend that the RDWR and Position Paper clearly state and define the inclusion of easement costs as part of the DUs' RAB under the RDS asset category. Also, on a related matter, we respectfully recommend that references to asset categories under Sections 4.12.1 and 4.12.3 be reviewed

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		required for the provision of distribution connection service to the CUSTOMER. All such equipment shall remain to be the property of the COMPANY." (Emphases supplied) Based on the afore-quoted provision, easement costs are included as part of the responsibility of the Distribution Utility (DU) in the provision of distribution connection service to the customer. We note, however, that at present, the above rule is applicable only to contestable customers, since this provision is found in the Pro-forma Connection Agreement between a DU and a Contestable Customer. In view of the foregoing, we respectfully request the Honorable Commission's clarification on whether this new easement provision will also apply to our captive customers. We deem it best that, for consistency and to avoid possible discrimination between the services given to a contestable customer and a captive customer, the securing of easement or rights of way for all customer connections be made part of the DU's responsibility. Consequently, easement costs should be included as part of the DU's regulatory asset base (RAB), specifically under the Regulated Distribution Services (RDS) asset category, being a network/shared asset.	as there appears to be an inadvertent error in specifying Section 4.8.5 as reference therein.
Annex A Rules for Setting Distribution Wheeling Rates (RDWR)	Article 4.13.1 Operating and Maintenance Expenditure [page 59]	We note that Regulatory Liaison and Compliance was added in the OPEX categories and this allows regulate entities to recover reasonable costs associated with complying to applicable ERC Rules. However, the scope of the draft provision is only for ERC Rules. However, there are also other government agencies that set up rules that necessitate the incurring of expense so regulated entities can comply thereto (e.g., PEMC metering requirements).	We suggest that the provision allow regulated entities to recover reasonable costs associated with complying with all government agency rules (e.g., PEMC metering requirements).

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Annex A Rules for Setting Distribution Wheeling Rates (RDWR)	Section 4.8.6 (c) 1st Bullet (Regulated Retail Services Assets)	This only mentions meters for "Consumer consumption metering". Net-Metering is bi-directional meter that measures both consumption and export energy of the Customer. Also, metering of Embedded Generators is mostly on measuring power supply of EGs to the Grid. Thus, it should refer to both consumption and export of power to the system.	We respectfully suggest to reword to "Consumer Import and Export Metering"
Annex A Rules for Setting Distribution Wheeling Rates (RDWR)	Article 9 True Up Adjustment for Other Taxes Levies & Duties	Net efficiency is a PBR incentive to bring down controllable costs. The inclusion of "Other Taxes" in the net efficiency mechanism is improper because it is not as controllable as OPEX and CAPEX forecasts. The recognition of "Other Taxes" as non-controllable is in the provision of a tax event pass-through. It will add to the original approved levels and result to an inefficiency penalty with res. The DU does not have a leeway to reduce "other taxes" aside from challenging their imposition. However, once the tax has been cleared for collection, it will add to the original forecasts and will result to inefficiency penalty with respect to the net efficiency adjustment mechanism.	It is therefore proposed to exclude "Other Taxes" in the Net Efficiency Mechanism.
Annex A Rules for Setting Distribution Wheeling Rates (RDWR)	Article 12 Re-opening and Adjustment Events	There are instances when several re-opening events occur within the same Regulatory Period. In the RDWR, each event constitutes a recalculation of the X-factor. These adjustments may lead to increases or decreases in the rates. For the stability of rates within the Regulatory Period, it is proposed that the various re-opening events be reckoned at one time during the Regulatory Reset Process for the Subsequent Regulatory Period, and not to address every one of them as they occur.	It is suggested that all re-opening events during the Fifth Regulatory Period would be better addressed as deferred amounts during the Regulatory Reset Process for the Subsequent Regulatory Period.
Annex A Rules	Appendix B2.1.3 Performance	The GSL payout level is set during the reset as a 0.5% of the	We suggest the inclusion of a correction factor to the

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for Setting Distribution Wheeling Rates (RDWR)	Incentive Scheme Weighting of Performance Indices [page 127]	average ARR. However, there should be a mechanism to adjust customer payout levels, should the ARR change from the approved ARR under the Final Determination.	GSL payout level to reflect any changes in the ARR.
Annex A Rules for Setting Distribution Wheeling Rates (RDWR)	Appendix B2.1.4 Performance Incentive Scheme Definition of Indices Used [pages 128-131]	It is discussed that for the setting of performance bands for SAIFI, CAIDI, Planned SAIDI, and PVV, the standard deviation of the annual values for a Regulated Distribution System shall be for 8 years ending June 30, 2015. Corollary to that, for Time to Process Service Applications / Time to Provide Connections / Call Center Performance, the standard deviation of the target time to process applications shall be 5 years ending June 30, 2015. This may be construed to mean that for these performance measures, the regulatory year (instead of calendar year) performances shall be used as baseline.	We respectfully suggest that the language be clarified to reflect the intent to continue use of calendar year as basis for performance monitoring. Accordingly, the language in the Tables may be revised to state: "for the 8" [or 5] "years ending on December 31, 2014"; or "for the 8" [or 5] "calendar years ending on June 30, 2015"
Annex A Rules for Setting Distribution Wheeling Rates (RDWR)	Appendix B2.1.4 Performance Incentive Scheme [page 130-131]	For clarification: In Table B3h of the RDWR, it is stated that the call-centre performance target shall be "Target percentage of calls answered within 30 seconds, set by the ERC for Fourth Regulatory Period. (This could also be the average time taken to answer calls.)"	We propose that the performance of call center be measured based on the percentage of calls answered within a standard service time for the following reasons: (a) this manner of measurement is used by most call/contact centers locally and abroad, including utilities, to measure customer access to human operators/agents; (b) this metric better represents customer experience in trying to reach the company's call center as this is based on percentage of customers served; (c) and lastly, further using and possibly tightening the average speed to answer will send the message that call center agents' primary focus should be on speed, even at the expense of quality of customer

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			experience.
Annex A Rules for Setting Distribution Wheeling Rates (RDWR)	Appendix B3.1.d Performance Incentive Scheme Proposed GSL Indices and Payments Levels [page 131]	In B3.1.d of the RDWR, GSL 4 is described as "the Regulated Entity failing to provide a connection to a Customer on the day promised, up to a maximum of five days." Previously, in the RDWRs for the 2nd and 3rd RPs, GSL 4 was described as "the Regulated Entity failing to provide a connection to a Customer on the day promised," without mention of a maximum level. Instead, as part of the reset filing, a DU proposes the maximum level through simulations validated by the ERC and its consultant.	We respectfully suggest that the current practice of allowing DUs to propose the maximum level to provide connection be retained, for validation by the ERC and assessment against the other GSL maximum levels.
Annex A Rules for Setting Distribution Wheeling Rates (RDWR)	Appendix B4 Performance Incentive Scheme Excluded Events [pages 130-131]	It is our understanding that Excluded Events are supposed to include situations that are beyond the reasonable control of DUs. Based on this principle, it is posited that there are power interruptions made necessary by safety-related situations and the completion of government projects.	Accordingly, it is respectfully proposed that the list of Excluded Events include: • Planned outages related to government projects
Annex B Issues Paper for the Regulatory Reset for the First Entry Group for the Fourth and Fifth Regulatory Period	Section 1.2 Use of terms and definitions in the Issues Paper		We respectfully request the proper alignment of terms with their meanings for better clarity. e., "Subsequent Regulatory Period" is already aligned with the meaning of "Revenue Application". Likewise, we also suggest to include the end date of the meaning for the "Fourth Regulatory Period" and "Fifth Regulatory Period"
Annex B Issues	Section 1.3 Services covered	Considering that Metering Services has not been declared as	We recommend that the activities performed by

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Paper for the Regulatory Reset for the First Entry Group for the Fourth and Fifth Regulatory Period	under the RDWR Non-regulated retail services · Provision, installation, commissioning, testing, repair, maintenance and reading of meters that are used to measure delivery of electricity to customers in the Contestable Market or to customers who are not End-users (whether such services are provided to those customers, to Suppliers or to any other person	competitive yet, should provision of metering services be considered non-regulated services? While the continuous migration to the contestable market of contestable customers and the interest on RCOA of stakeholders have been sustained since its initial commercial run on 2013, the fact remains that RCOA's future in the country stays uncertain with its future dependent on the resolution of the TRO, now pending with the Supreme Court. So as not to add further to the uncertainty, it is best to maintain the status quo and maintain the DU as the default Metering Services Provider (MSP) in its franchise. With this, it follows that the services performed by the DU as the default MSP should remain under the Regulated Retail Services. Nonetheless, it is worthwhile to determine the cost-to-serve and the revenue requirement for this service at the onset to establish its base rate and identify the extent to which MSP service to the contestable market differs from the captive market. By establishing such, we will be able to determine if giving them the same rate (which is the current practice) would actually mean one segment subsidizing the other.	Metering Services for Contestable Market (including SoLR customers) or to customers who are not End-users (whether such services are provided to those customers, to Suppliers or to any other person should still be considered under the Regulated Retail Services while Metering Services for contestable customers has not been declared competitive yet.) be considered as Regulated Retail Services while the DU is still the default MSP.
Annex B Issues Paper for the Regulatory Reset for the First Entry Group for the Fourth and Fifth Regulatory	Section 2.2.7 The external auditor of the regulated entities shall certify the Regulated Entities submission on its forecast revenues/expenses with corresponding report to support such values.	What are the qualifications of the external auditors who will be required to submit certification? Is the external auditor limited to the current independent auditor who signs off the regulated entity's audited financial statements? What specific procedures (and what applicable standards on assurance engagements) should the external auditors perform on the regulated entities' forecast? We would like to clarify if the forecast revenues subject to audit	

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Period		is the sales volume or annual revenue requirement.	
Annex B Issues Paper for the Regulatory Reset for the First Entry Group for the Fourth and Fifth Regulatory Period	Section 3.1 Reset Process and Section 3.2 Reset Timetable	The discussion on the Reset Process specifies that ERC will develop a Regulatory Asset Base (RAB) Handbook that Regulated Entities are to adopt for purposes of their Revenue Applications. Each regulated entity will conduct the roll-forward of its Regulatory Asset Base in accordance with the RAB Handbook, with the results forming part of its Revenue Applications. However, in the Reset Timetable, the schedule for the filing of Revenue Applications comes before the final Supplemental RAB Handbook issuance.	We respectfully request that the schedule for the filing of Regulated Entities of their Revenue Applications be adjusted to consider the timetable for issuance of the final Supplemental RAB Handbook. We also respectfully request for clarification on the schedule of release by ERC on the Regulatory WACC and other parameters.
Annex B Issues Paper for the Regulatory Reset for the First Entry Group for the Fourth and Fifth Regulatory Period	Section 4.1 Basis of operating and maintenance expenditure forecasts Comment 2. The ERC seeks comments on whether there are further reasonable categories into which operating and maintenance cost should be subdivided.	We seek clarification if "Outside Services Employed" synonymous to "Contractor Services". We also seek clarification on what is covered under "Miscellaneous Consumer Services Expenses".	We respectfully suggest to add a category for "Contractor Services" under Regulated Retail Services similar to that of Regulated Distribution Service and Distribution Connection Services.
Annex B Issues Paper for the Regulatory Reset for the First Entry	Section 4.1.2 Expense categories and Section 5.1.4 Asset categories	With the continuing digital transformation, various industries recognize that cybersecurity measures are essential in safeguarding assets and operations. Considered as industry best practice, cybersecurity shall now be an integral component of all IT systems.	We propose that all definitions of "Information technology systems" (CAPEX) and "Information technology" (OPEX) in Issues Paper Appendix B include assets and expenditures related to cybersecurity.

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Annex B Issues Paper for the Regulatory Reset for the First Entry Group for the Fourth and Fifth Regulatory Period	Section 4.1.2. Expense Categories ERC seeks comments on the practicality of requiring regulated entities to provide breakdown of Operating and maintenance... (such as meeting safety or network performance requirements)	In the course of operations of the DU, it assumes that the tasks done comply with regulatory and statutory requirements at all times. Breaking OPEX down further in identifying the cost and detailing it further to state requirements will be a tedious and may further cause inefficiencies and additional costs.	The DU recommends not to provide further breakdown of the expense as the delivery of the service of the DU always assumes that it is done in compliance with regulatory and statutory requirements. It is further recommended that a reasonable allowance on the cost be further allowed to be inputted to the OPEX for the DU to be able to recover such expenses.
Annex B Issues Paper for the Regulatory Reset for the First Entry Group for the Fourth and Fifth Regulatory Period	Section 4.1.3 Expenses associated with providing metering services [Page 33] Comment 4 The ERC seeks comments on the expenses related to metering services for contestable and SoLR	Related to the discussion on the Definition of services covered under RDWR (Section 1.3), we recommend that metering services for contestable and SoLR customers should appropriately be included as part of operating and maintenance expenditure in the RDWR for the 4RP/5RP.	For consistency with Section 1.3 on inclusion of contestable and SoLR customer as regulated services, it is suggested to adopt language for Section 4.1.3 to: "XXX For purposes of the operating and maintenance expenditure to be included as part of the Regulated Entities' expenditure forecasts in terms of the RDWR, **expenses related to providing metering services for customers in the captive and contestable markets shall be included**, as Regulated Retail Services. The DSOAR

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	customers should appropriately be included as part of operating and maintenance expenditure in the RDWR.		also indicates that meters are not part of Distribution Connection Assets and metering therefore does not form part of Distribution Connection Services."
Annex B Issues Paper for the Regulatory Reset for the First Entry Group for the Fourth and Fifth Regulatory Period	Section 4.1.6 Historical expenditure patterns	In the absence of a Regulatory Reset Process for the Fourth Regulatory Period, the ERC will assess the operating and maintenance expenditure forecasts, as well as the forecast expenditure for taxes, levies and duties (other than corporate income tax) using a bottom-up approach, or analysis of historical patterns. The cost of new regulatory requirements shall also be separately identified and determined.	
Annex B Issues Paper for the Regulatory Reset for the First Entry Group for the Fourth and Fifth Regulatory Period	Section 4.2 Levies, duties and taxes other than corporate income tax	What is the ERC's position on the treatment of real property taxes on certain machineries and equipment (TWIP-M) for settled including previous years and amounts still expected to be settled?	The RPT (including arrearages) of all machineries and equipment located in the regulated entity's franchise area should form part of the recoverable taxes.
Annex B Issues	Section 5.1	• The RDWR cites various methods of asset valuation such as	We respectfully request that the updated draft of the

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Paper for the Regulatory Reset for the First Entry Group for the Fourth and Fifth Regulatory Period	Regulatory Asset Base	the optimized depreciated replacement cost (ODRC) that was used in Group A's 2nd RP and 3rd RP and the rolled-forward methodology. • Under the timeline provided by the ERC, the draft RAB handbook, that prescribes a rolled-forward methodology was issued in November 2016 and had undergone a public consultation in January 2017. However, the timeline shows that the ERC intends to release a draft supplemental on RAB handbook on September 2019. As such, it will be not be possible for Regulated Entities to assess the rolled-forward methodology until after the supplemental has been released. • Updated RAB Handbook and its supplemental should be released after thorough discussions in public consultations. It is of utmost importance to discuss the appropriateness of ODRC, roll forward, inflation-indexing or some other internationally accepted valuation methodology. There are also other issues such as the review of asset lives of critical assets in the 3rd RP RAB handbook that are no longer reflective of their true economic life (e.g., electronic meters, IS/IT equipment/devices). • If the intent of the draft handbook is to use the DU's last ODRC valuation as a starting point for the roll forward, there is already a long 8-year gap from the last ODRC valuation of Group A in 2011 up to the start of the 5th RP. We believe that valuing the 5RP Opening RAB via optimized depreciated replacement cost is prudent.	RAB Handbook and its Supplemental be released first and undergo public consultation before finalizing the RDWR. The final choice of asset valuation methodology for the RAB handbook for the 5th RP, whether via ODRC, roll forward, inflation-indexing or some other internationally accepted valuation methodology, will have to be reflected back into the RDWR for the 5th RP.
Annex B Issues	Section 5.1	Please clarify the formula in computing the amount of asset	

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Paper for the Regulatory Reset for the First Entry Group for the Fourth and Fifth Regulatory Period	Regulatory Asset Base – Figure 5.1	disposal/retirement (net of income from disposal). Using the definition of “actual cost of disposed/retired assets less net income from disposal” – what does actual cost mean? Is it the ORC or ODRC value of the asset?	
Annex B Issues Paper for the Regulatory Reset for the First Entry Group for the Fourth and Fifth Regulatory Period	Section 5.1.16 Working Capital Comment 30	“The ERC may allow the regulated entities to recover its latest actual working capital requirement based on its Audited Financial Statements, such that it should reflect its lead/lag analysis for the past three years...” In the ERC’s assessment of working capital, it must consider that the Audited Financial Statements may not necessarily reflect the regulated entity’s distribution business. The ERC should also consider the impact of returning bill deposits of ‘credit worthy’ customers in the lead/lag study.	
Annex B Issues Paper for the Regulatory Reset for the First Entry Group for the Fourth and Fifth	Section 5.1.3 Assets to be rolled forward [page 44] As noted before in the discussion of operating & maintenance expenditure (Section 4.1.3), in terms of the	The ERC seeks comments on the distribution assets related to the provision of service to contestable and SoLR customers should appropriately be included as part of Regulatory Asset Base in the RDWR. Related to the discussion above, we recommend that the distribution assets related to the provision of service to contestable and SoLR customers should appropriately be included as part of Regulatory Asset Base in the RDWR for the 4RP/5RP.	[Page 44] 5.1.3 Assets to be rolled forward As noted before in the discussion of operating & maintenance expenditure (Section 4.1.3), in terms of the DSOAR (Clause 2.11.1), all metering equipment shall be furnished and installed by the Distribution Utility. However, in terms of Clause 4.5.2 of the DSOAR, energy

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Regulatory Period	DSOAR (Clause 2.11.1), all metering equipment shall be furnished and installed by the Distribution Utility. However, in terms of Clause 4.5.2 of the DSOAR, energy meters used for measuring consumption for customers in the Contestable Market may be owned either by end consumers or by Distribution Utilities. For the purposes of the Regulatory Asset Base, all metering equipment used for customers making up the captive market, shall be included as Regulated Retail Services Assets. The DSOAR also indicates that meters are not part of Distribution Connection Assets. Metering equipment supplied for customers in the Contestable Market or those connected under the Supplier of Last Resort provision does not form part of the Regulatory Asset Base, even where this equipment is owned by a		meters used for measuring consumption for customers in the Contestable Market may be owned either by end consumers or by Distribution Utilities. For the purposes of the Regulatory Asset Base, all metering equipment used for customers making up the captive and contestable market, shall be included as Regulated Retail Services Assets. The DSOAR also indicates that meters are not part of Distribution Connection Assets. Metering equipment supplied for customers in the Contestable Market or those connected under the Supplier of Last Resort provision does not form part of the Regulatory Asset Base, even where this equipment is owned by a Regulated Entity.

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	Regulated Entity.		
Annex B Issues Paper for the Regulatory Reset for the First Entry Group for the Fourth and Fifth Regulatory Period	Section 5.1.4	To align with the comments to Section 5.2.1 and 5.1.3, a separate asset category shall be added for Microgrid assets or assets used for electrifying off-grid and/or unviable areas	We propose the inclusion of a separate asset category for "Generation assets used for electrifying off-grid and/or unviable areas"
Annex B Issues Paper for the Regulatory Reset for the First Entry Group for the Fourth and Fifth Regulatory Period	Section 5.1.4 Asset Categories	17. Asset categories that should be included as Non-Network Assets	We respectfully suggest the inclusion of micro-grid assets that the DU installed to serve customers in unelectrified areas as Non-Network Assets.
Annex B Issues Paper for the Regulatory Reset for the First Entry	Section 5.2.1	With the advent of emerging grid technologies, the definition of capital expenditure stated in this section does not explicitly recognize the assets that are being used to test and evaluate new and emerging technologies.	We suggest adding to the definition another bullet: "deploy or upgrade existing asset to adapt new and emerging technologies that are anticipated to further improve the overall performance of supply and delivery of electric service"

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Annex B Issues Paper for the Regulatory Reset for the First Entry Group for the Fourth and Fifth Regulatory Period	Section 5.2.1 ERC Comment 32. The ERC seeks comments on its definition of capital expenditure and seeks to understand if there are circumstances where this definition should be wider.	In the 4th Regulatory Period, we have filed Capex projects in compliance with new ERC issuances and promulgations, in support for national government's big-ticket infrastructure projects, to meet new customer requirements through automation and technological advancements, to harden the network for storm and disaster resiliency, and for off-grid electrification like Micro-grid.	Thus, MERALCO respectfully submits the following additional items to be included in the definition of Capex: (1) Projects for the extension of facilities in compliance to DSOAR Amendments for NHA/HLURB-certified housing projects and Socialized Housing projects (2) DOE Electrification projects for unserved households that are beyond the serving distance of MERALCO's existing facilities which enables the DU in fulfilling its mandate under R.A. 9136 (EPIRA) to provide universal service within the franchise area. (3) Relocation of facilities in support for national government's BBB and PPP infrastructure projects, wherein the cost is for the account of the project proponents. However, since these are big-ticket relocation projects, they involve provisioning for future load growth and maintaining network reliability performance in which the project costs shall be shouldered by the DU. Hence, the Capex shall be considered in the DU's Regulatory Asset Base; (Note: the accelerated depreciation of MERALCO's assets

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			retired due to relocation shall be considered in the RAB valuation.) (4) Relocation of existing meters to Elevated Metering Centers in compliance with the ERC rules on elevated metering centers, (5) Automation and technology projects for consumer empowerment and choice and for the provision of improved service like AMI-related projects/services; (6) Projects to harden the network infrastructure for storm and disaster resiliency because of the worsening weather disturbances; (7) Green Energy Initiatives to pave the way for a more environmentally friendly future. MERALCO supports the Renewable Energy Law and its laudable objectives such as projects related to the connection of Renewable Energy embedded generators, and off-grid electrification projects like Micro-grid.
Annex B Issues Paper for the Regulatory Reset for the First Entry Group for the Fourth and Fifth	Section 5.2.1 ERC Comment. Also, ERC seeks comments on forecast capital expenditure projects which have not progressed, but where the capital expenditure funds which	Meralco supports the proposal of the ERC to consider for inclusion into the RAB alternative projects for those forecast Capex projects which have not progressed in the 4th RP. In fact, MERALCO has implemented alternative projects in lieu of the original forecast Capex proposals due to RoW problems, unavailability of space for facilities, dwindling negotiations with the project proponents, technological obsolescence, availability of more efficient equipment, etc. MERALCO supports that	

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Regulatory Period	were allowed into the revenue path have been used for alternative higher-priority capital projects, can be considered for inclusion into the RAB where the ERC decides that those previously unapproved capital expenditure are efficient and prudent. The approach to examine these new capital expenditure projects shall be on the same basis as new forecast capital expenditure projects. The Regulated Entity will need to justify that the project is of efficient capacity and cost. Optimization principles will still apply.	Optimization Principles will still apply to these substitute projects.	
Annex B Issues Paper for the Regulatory Reset for the First Entry Group for the Fourth and Fifth Regulatory	Section 5.2.3 Capitalization of operating and maintenance expenses	Effective January 1, 2019, PFRS 16, Leases, requires lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Upon commitment date, the lessee recognizes a right-to-use asset and lease liability.	We suggest that the ERC consider the right-to- use asset as part of the Regulated Entity's asset base.

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Period			
Annex B Issues Paper for the Regulatory Reset for the First Entry Group for the Fourth and Fifth Regulatory Period	Section 5.2.11 Data Requirements 40. The ERC seeks comments on its proposed approach to the estimation, review and approval of efficient capital expenditure forecast, as well as the data templates provided.	MERALCO strongly suggests to follow the existing templates being used by the ERC. These existing templates (as used by the ERC in the Group A's Regulatory Reset Process for the Third Regulatory Period) would easily facilitate submission of Capex following the requirements in the RDWR.	
Annex B Issues Paper for the Regulatory Reset for the First Entry Group for the Fourth and Fifth Regulatory Period	Section 5.2.4 Comment 3. Comments are sought on the inclusion other capital expenditure categories such as innovation and electrification.		We agree that Innovation and Electrification projects be considered as other capital expenditure categories. Assets to be classified under these categories should be further defined by ERC.
Annex B Issues Paper for the Regulatory Reset for the First Entry	Section 5.3.3 Risk Free Rate in the Philippines	Please take note that PDST – R2 has ceased in October 2018 and is no longer available. On October 29, 2018, the Bankers Association of the Philippines (BAP) launched the PHP BVAL Reference Rates to replace the PDST Reference Rates (PDST-R1 & PDST-R2).	

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Annex B Issues Paper for the Regulatory Reset for the First Entry Group for the Fourth and Fifth Regulatory Period	Section 5.4 Accelerated Depreciation for CAPEX Recovery	There are cases when a DU may not be able to fully recover its CAPEX cost due to circumstances beyond its control. For example, in the case of PPP projects where the relocation of poles is needed, old posts have to be retired even before the end of their asset life without the DU being able to fully recover the costs thereof. In such situations, the DU should be allowed to accelerate depreciation so that the DU can recover the cost of capitalized assets that it would not be able to fully recover. We therefore propose that the concept of accelerated depreciation be included in the RDWR for situations where DUs would not be able to recover its full CAPEX. In addition, there are instances when CAPEX are submitted and approved for implementation by the ERC in the middle of an RP (e.g., Emergency CAPEX), but the ARR is not [immediately] adjusted as a consequence. For such instances, we propose that adjustments on the building block component for RAB and CAPEX be included as a deferred amount in the succeeding RP, but reckoned from the time capitalized assets are put in service and considered used and useful.	We suggest that accelerated depreciation be allowed for cases where an asset is retired prematurely, the cost of which has not been fully recovered yet for circumstances beyond the DU's control. We also propose that adjustments on the building block component for RAB and CAPEX be included as a deferred amount in the succeeding RP, but reckoned from the time capitalized assets are put in service and considered used and useful.
Annex B Issues Paper for the Regulatory	Section 7 Corporate Income Tax		In the RDWR for the Third Regulatory Period for Group A entrants, a provision states that the corporate income tax will be set to zero in the 3rd RP but will be reinstated

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Reset for the First Entry Group for the Fourth and Fifth Regulatory Period			in the 4th RP unless compelling reasons are presented. May we be enlightened what the compelling reasons are in setting it to zero. It is our position that income tax should no longer set to zero in the Fourth and Fifth Regulatory Period and succeeding regulatory periods.
Annex B Issues Paper for the Regulatory Reset for the First Entry Group for the Fourth and Fifth Regulatory Period	Section 10, 2nd paragraph PERFORMANCE INCENTIVE SCHEME "During the Third Regulatory Period the ERC allowed Regulated Entities to adopt an interim performance scheme while preparing to be ready for the full scheme by the Fourth and Fifth Regulatory Period. The scheme described below will therefore be required from all Regulated Entities."	We would like to clarify if the ERC meant 2nd Regulatory Period (RP) instead of 3rd RP	*Suggest the following revisions:* *"During the ~~Third~~ **Second** Regulatory Period the ERC allowed Regulated Entities to adopt an interim performance scheme while preparing to be ready for the full scheme by the Fourth and Fifth Regulatory Period. The scheme described below will therefore be required from all Regulated Entities."*
Annex B Issues Paper for the Regulatory	Section 10.3 Price-Linked Incentives	The ERC intends to benchmark the performance of all Regulated Entities against each other.	We respectfully request clarification on the methodology for this benchmarking. As noted in the Issues Paper, there are many factors which may impact

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<tr><td>Reset for the First Entry Group for the Fourth and Fifth Regulatory Period</td><td>Comment 66</td><td></td><td>one Regulated Entity's performance which may not be present in another Regulated Entities. Benchmarking is an internationally recognized methodology and what we respectfully request from ERC is participation in the conduct of the benchmarking.</td></tr>
<tr><td>Annex B Issues Paper for the Regulatory Reset for the First Entry Group for the Fourth and Fifth Regulatory Period</td><td>Section 10.3.2

Comment 64, 66 & 67

SETTING PERFORMANCE TARGETS FOR THE APPLICABLE REGULATORY PERIOD

64. The ERC seeks comments on its intention to set targets that may in some instance require performance levels to be improved over historical levels.

66. The ERC seeks comments on its intention to benchmarking the service performance of all Regulated Entities and their Regulated Distribution Systems as basis</td><td>Under the Rules for Setting Distribution Wheeling Rates (RDWR) – Annex A Appendix B2.1.4, setting of performance bands for each performance indices are based on historical performance of a DU for a period ranging from 5 to 8 years depending on the PIS indicator.

We respectfully note, however, that historical performances spanning very long periods may not be reflective of the actual status of the subject DU facilities being measured, and performance bandwidths may no longer result in realistic ranges for some indicators particularly for those indicators whose performance have consistently met level A targets over several years.

For example, in the case of a DU whose historical performances for a certain indicator had greatly improved in the most recent years as shown on the table below:
<table>
<tr><th>Calendar Year</th><th>Sample Indicator</th></tr>
<tr><td>CY 2011</td><td>12.00</td></tr>
<tr><td>CY 2012</td><td>14.00</td></tr>
<tr><td>CY 2013</td><td>13.00</td></tr>
</table></td><td>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.).

We also respectfully recommend that the performance of utilities be benchmarked against their historical performance rather than comparing the performance between utilities nor using international benchmarks to assess the performance of Philippines regulated entities and regulated distribution systems.</td></tr>
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	for determining what appropriate service performance levels should be. It also seeks suggestions on further factors that should be considered when comparing the performance between utilities. 67. The ERC seeks comments on the idea to partly use international benchmarks to assess the performance of Philippines Regulated Entities and Regulated Distribution Systems.	CY 2014 — 12.00 CY 2015 — 6.50 CY 2016 — 6.00 CY 2017 — 5.50 CY 2018 — 4.00 As such, using the defined methodology for computing reward and penalty bands, the resulting full-reward level would already be at negative values for the subsequent regulatory period (see table below) **Sample Indicator** Target Sample Indicator 5-year average — 6.80 Standard Deviation From 8-year data — 3.99 Performance greatly below target (+2 Standard Deviations) — 14.78 Target not achieved (+1 Standard Deviation) — 10.79 Performance as per expectation (Average) — 6.80 Target exceeded (-1 Standard Deviation) — 2.81 Target greatly exceeded (-2 Standard Deviations) — -1.18 Thus, in view of the foregoing, we respectfully submit that the DUs be allowed to determine the appropriate factors to consider in setting the performance bands.	

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		In addition, benchmarking would be difficult to be used as basis to determine appropriate performance levels because these are inherent differences in the circumstances of DUs even in the local setting. (e.g. resource level, local regulatory requirements, sales mix, customer profile, length of distribution lines.) Benchmarking though can be useful in terms of identifying best practices on reliability and efficiency. These can serve as input to DUs to improve performance.	
Annex B Issues Paper for the Regulatory Reset for the First Entry Group for the Fourth and Fifth Regulatory Period	SETTING PERFORMANCE TARGETS FOR THE FIFTH REGULATORY PERIOD 65. The ERC seeks comments on its intention to relax performance targets for some exceptional (good) performers, or to provide extra incentives to maintain or improve this performance.	Under the ERC's Resolution No. 6, Series of 2011 *(A Resolution Adopting the Amendments to the Rules and Regulations Implementing Republic Act No. 7832)*, which became effective in 2011, a benefit-sharing scheme to lower DUs' system losses further below the cap is provided, to wit: ***"RULE IX*** ***RATIONALIZATION OF SYSTEM LOSS*** ***xxx*** ***Section 3. <u>Whenever the actual annual system loss level of the DU falls below the prevailing cap set by the ERC, a benefit-sharing scheme shall be implemented</u>,*** *primarily for the benefit of the customers. A separate Guideline shall be promulgated to embody the process and procedures for its implementation." (Emphasis Supplied)*	We would like to reiterate our position that, aside from the incentive scheme for system loss that is pegged to the Maximum Average Price (MAP) of the DU, we recommend that there should be a system loss benefit-sharing scheme that is based on the total customer savings due to the exceptional system loss performance of a DU. Existing rules on system loss are asymmetrical as DUs are penalized if their system loss goes over the cap by absorbing the Purchased Power Costs (PPC), while all pilferage recoveries are required to be passed-on to consumers by deducting the same from the Generation Charge. The proposed incentive scheme therefore seeks to inject a modicum of equitability into the existing rules and framework of penalties and rewards. As such, there will be no double reward for the DU in such a scheme as the DU's share in this proposed scheme will be net of

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		On January 27, 2011 PEPOA, PHILRECA and MERALCO filed a Joint Petition seeking the ERC approval of a Proposed Guidelines relative to a rule change on System Loss (SL) methodology and providing incentives for distribution utilities (DUs) to lower the SL level below the SL cap. Related to this, the ERC has also released its draft *Rules to Govern the Implementation of a Benefit-Sharing Scheme to Lower the System Losses of Electric Distribution Utilities* (1st draft in 2011, 2nd draft in 2012), for comments by stakeholders. Through an Order dated December 21, 2018 (promulgated March 14, 2019) the ERC dismissed the Joint Petition filed by PEPOA, PHILRECA and MERALCO for being moot and academic because of the implementation of ERC Resolution 20, Series of 2017 and Resolution 10, Series of 2018. However, we would like to point out that the ERC resolutions cited in the December 21, 2018 ERC Order still did not address the main issues cited by PEPOA, PHILRECA and MERALCO in their joint petition.	the system loss-related reward under the PIS. Said system loss benefit-sharing scheme may be aligned with the draft Rules/Guidelines previously released by the Honorable Commission, which provided an equitable (50/50) sharing between the DU and the end-users (customers) of the cost difference between the DU's actual annual system loss and whichever is lower between the applicable consecutive five-year average system loss or the prevailing system loss cap. In this way, the DUs that will qualify under this benefit-sharing scheme will be limited only to those DUs that will be able to exhibit/demonstrate continuous improvement in their system loss performance, until they reach their optimal system loss levels. Moreover, the limiting condition/qualifier of having to perform better that its previous 5-year average system loss performance will also address the potential issue of having windfall profits for DUs that are already way below the prevailing system loss cap. The ultimate aim of the incentive scheme is to motivate DUs to go further below the system loss cap and attain their optimum level. Doing so will result in the greater benefit to consumers through decreasing system losses and increased efficiency of the distribution system.

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Annex B Issues Paper for the Regulatory Reset for the First Entry Group for the Fourth and Fifth Regulatory Period	Section 10.3.3 Comment 69 SERVICE PERFORMANCE INDICES TO BE MEASURED 69. The ERC seeks comments on why outages on secondary lines of Distribution Systems should be excluded from SAIDI, CAIDI and SAIFI statistics. It also seeks information on the implication to Regulated Entities if these outages are to be included in the calculation of these indices.	On the exclusion of Secondary line outages (i.e.., distribution transformer and service drop) to the computation of SAIFI, SAIDI and CAIDI statistics, we maintain our position to follow the definitions set in the Philippine Distribution Code 2017 Edition (Chapter Section 3.3.3. Inclusions and Exclusions of Interruption Events), that is, among the events that *"shall be excluded in the calculation of the reliability indices"* include *"Outages that occur on the secondary lines of the Distribution System* shall be excluded in the calculation of reliability indices."." Also, the performance index for secondary level outages is already covered by the Guaranteed Service Level 3 performance index (Restoration of supply after fault on Secondary Side of Distribution System).	We respectfully recommend that status quo be maintained on the exclusion of service drop level outages from the computation of SAIFI, SAIDI and CAIDI indicators.
Annex B Issues Paper for the Regulatory Reset for the First Entry Group for the Fourth and Fifth	Section 10.3.4, 2nd and 3rd paragraph "Since the assessment period of RY 2016 will fall within the Third Regulatory Period (calendar year ending December 31, 2014). S_{2015} will	We note minor typographical errors on the dates provided in the calculation of the S-factor.	Suggest the following revisions: *"Since the assessment period of RY 2016 will fall within the Third Regulatory Period (calendar year ending December 31, 20164). S_{2015} will be based on the Performance Incentive Scheme approved by the ERC for the Third Regulatory Period.* *The assessment period for RY2017 will fall halfway*

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Regulatory Period	be based on the Performance Incentive Scheme approved by the ERC for the Third Regulatory Period. The assessment period for RY2017 will fall halfway within the Third Regulatory Period (calendar year ending December 31, 2015). xxx"		*within the Third Regulatory Period (calendar year ending December 31, 2017~~5~~). xxx"*
Annex B Issues Paper for the Regulatory Reset for the First Entry Group for the Fourth and Fifth Regulatory Period	Section 10.3.7, Comment 72 EXCLUDED EVENTS 72. The ERC seeks comments on the events that will be excluded from the statistics used to determine performance levels.	Interruptions due to the relocation of facilities initiated as a result of National Government projects contribute a large portion of our Planned SAIDI. However, these relocation activities are largely beyond the control of the DU and is not part of our normal *business as usual* activity. Further, such activities do not contribute to the reliability/capacity improvement of MERALCOs network. Therefore, the exclusion of planned interruptions resulting from relocation activities for National Government Projects should be excluded from determining a DU's SAIDI performance. Further, it is proposed that the performance of off-grid facilities be reported separately (Information Disclosure) from on-grid facilities for both S-factor and GSL performance. The operations and maintenance of on-grid and off-grid facilities are not the same and should be measured in accordance with the particular circumstances. Given that off-grid facilities are not accessible and not connected to the main grid, certain circumstances, such	We respectfully propose that the following events be also considered as events that are allowed to be excluded from the statistics used to determine performance levels under the PIS: • Interruptions due to relocation of facilities initiated by projects of the National Government; and Also, we respectfully recommend that the performance of off-grid facilities be excluded from the S-factor and GSL performance measures. Instead, performance of off-grid facilities will be reported separately as Information Disclosure as SAIFI, SAIDI and GSLs 1,2 & 3.

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		as difficulty in reporting of interruptions and slower response time, among other things, may be experienced. Performance levels for the current indicators (S-Factor and GSL) for off-grid facilities should be established first before it is included in the DU's performance especially for some cases that the DU will operate both the Generation and Distribution side.	
Annex B Issues Paper for the Regulatory Reset for the First Entry Group for the Fourth and Fifth Regulatory Period	EXCLUDED EVENTS 73. The ERC seeks comments on methods that can be used to identify extreme events which should be excluded from performance calculations. 74. The ERC seeks comments on the appropriateness of the IEEE test (IEEE Std 1366TM – 2003) for identifying severe event days or extreme events in the Philippines.	We support the use of IEEE's 2.5 Beta Method to identify Major Event Days. However, we would want the scope of exclusion to extend beyond the days identified by the method if the interruptions are still related to the cause that drove the Major Event Day (e.g., effects of Typhoons that spill over to more than just the identified MED, and influx of customer complaints received through the DU's Call Center as an aftermath of a typhoon).	We respectfully recommend for the continued use of the IEEE Std 1366TM-2003 "2.5 Beta Method", but with extended exclusion of all interruption events directly related to the extreme event even beyond the days identified under said method as Major Event Days.
Annex B Issues Paper for the Regulatory Reset for the First Entry Group for the	Section 10.4.1, Comment 75 GSL INDICES AND PAYMENT LEVELS 75. The ERC seeks comments on the proposed measures	There is difficulty in differentiating GSL performance level between rural or island and urban/sub-urban parts since there are no clear definitions for these in the Philippine Distribution Code or in the Rules for Distribution Wheeling Rates. Only when clear guidelines are provided on how to identify/classify areas and facilities will be (i.e. facilities serving cities are urban) can	Status quo in reporting total GSL performance and not broken down into area types.

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Fourth and Fifth Regulatory Period	that will make up the GSL scheme. It also seeks comments on the ability of Regulated Entities to differentiate between the performance of the rural and urban/semi-urban parts of their Regulated Distribution Systems.	Regulated Entities start setting up systems to monitor urban vs. rural. Say for example, there are cases wherein some circuits maybe serving both rural and urban areas.	