

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



**IN THE MATTER OF THE  
APPLICATION FOR AUTHORITY  
TO IMPLEMENT THE PROPOSED  
CAPITAL EXPENDITURE  
PROGRAM FOR REGULATORY  
YEAR (RY) 2016, WITH PRAYER  
FOR PROVISIONAL AUTHORITY**

**ERC CASE NO. 2015-016 RC**

**MANILA ELECTRIC COMPANY  
(MERALCO),**

**Applicant.**

X-----X

**DOCKETED**  
Date: APR 24 2015  
By: *[Signature]*

**NOTICE OF PUBLIC HEARING**

**TO ALL INTERESTED PARTIES:**

Notice is hereby given that on February 9, 2015, the Manila Electric Company (MERALCO) filed an application for authority to implement the proposed capital expenditure program for Regulatory Year (RY) 2016, with prayer for provisional authority.

In the said application, MERALCO alleged, among others, that:

1. It is a private corporation duly organized and existing under the laws of the Republic of the Philippines, with principal office located at Lopez Building, Ortigas Avenue, Pasig City. It may be served with notices and other processes of the Commission through its counsel at the address indicated herein;
2. It has a legislative franchise to construct, operate and maintain an electric power distribution system for the conveyance of electric power to the end-users in the cities and municipalities of Metro Manila, Bulacan, Cavite and

Rizal, and certain cities/municipalities/barangays in Batangas, Laguna, Quezon and Pampanga, pursuant to Republic Act No. 9209;

3. It is part of the First Entry Group of distribution utilities that entered Performance Based Regulation ("PBR"). In its Final Determination dated 6 June 2011 in ERC Case No. 2010-069 RC, the Honorable Commission set out its final position on the price control arrangements that would apply to MERALCO for the Third Regulatory Period (3RP) covering the period from 1 July 2011 to 30 June 2015, including its approval of MERALCO's proposed Capital Expenditure (CAPEX) Program, for the said period;
4. The last year of its Third Regulatory Period is set to expire on 30 June 2015. The Fourth Regulatory Period (4RP) for the First Entry Group shall commence on 1 July 2015 and end on 30 June 2019. However, it is still to undergo the reset process and is awaiting the release by the Commission of the final rules to govern the filing of its 4RP reset application. Hence, it anticipates that it may not be able to file its 4RP reset application and secure approval of its forecast CAPEX before the end of 3RP;
5. This application is being filed pursuant to Section 20(b) of Commonwealth Act No. 146, as amended, otherwise known as the Public Service Act, which requires any public service to seek the prior approval of the Commission before it can establish, construct, maintain, and operate new facilities or make any extension of its existing facilities. Given that it has no authority to undertake and implement CAPEX projects after 30 June 2015, it is constrained to seek the Commission's approval for its CAPEX Program for Regulatory Year (RY) 2016 (1 July 2015 to 30 June 2016) in order to ensure the continued reliable operation of its distribution network and ensure continuous distribution service and connection to meet the growing and future needs of its more than 5.6 million customers;

#### **A. BACKGROUND OF MERALCO'S RY 2016 CAPEX PROGRAM**

6. Its 2016 CAPEX Program is geared towards ensuring the safety, reliability, efficiency and performance of the

distribution system while providing for the forecasted growth of future electricity demand within its franchise area. Its robust RY 2016 CAPEX Program is mainly driven by the following factors:

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

The distribution infrastructure must be sufficient to serve MERALCO's current customers while provisioning to meet future needs. MERALCO's peak demand in the RP4 is forecasted to grow at about 3.8% over the first regulatory year (known as RY 2016) of the Fourth Regulatory Period. On the other hand, a robust growth of about 2.91% in MERALCO's customer base is forecasted for RY 2016. This increase in peak demand and the additional customer connections will require MERALCO to increase the capacity of the electric distribution system in order to accommodate customer connections while maintaining the reliability and power quality of its distribution system.

6.2 *Renewable/Refurbishment Projects to Ensure Sustained Network Efficiency, Reliability and Power Quality*

Capital expenditure is required to maintain existing assets, improve network performance and enhance customer service performance in the 4RP. Major renewal and refurbishment projects are lined-up in RY 2016 to ensure that the distribution system will continue to provide secure, reliable and efficient electric service to our millions of customers amidst climate and calamity risks. This will include electric capital projects that are intended to harden and strengthen the network for resiliency to storm and other calamities.

6.3 *Automation/Innovation/Technology*

With the advent of technological advancements, MERALCO seeks to integrate innovative services and solutions into the distribution system to improve network performance and customer service and to enhance service quality through consumer empowerment.

MERALCO likewise seeks to address the new market of energy consumers that are better connected and more demanding of real-time information through projects that seek to offer solutions to customers upon their demand.

Automation/technology projects will further allow MERALCO to optimize its distribution network, allowing it to respond more effectively to line and network outages which will reduce service interruptions of customers.

#### 6.4 *Compliance to statutory and regulatory requirements*

Included in its Capital Expenditure Program for RY 2016 are projects that are proposed in order to comply with a number of new regulatory requirements and government prescriptions.

6.4.1 *Retail Competition and Open Access (RCOA)*. According to Section 5 of the Rules for Contestability, “end-users in the contestable market shall have installed time-of-use (TOU) metering facilities capable of measuring energy use and demand in a fashion consistent with WESM energy settlement intervals, and distribution and transmission demand change intervals.” MERALCO, being the default metering services provider for the contestable market, needs to replace existing meters with TOU-capable meters.

6.4.2 *Compliance to DSOAR Amendments on line extensions for National Housing Authority/HLURB-certified housing project sites*. Under the amendment to the Distribution Services Open Access Rules (DSOAR), a prospective customer shall be entitled to non-standard connection at the expense of the Distribution Utility in cases of socialized housing projects, i.e., relocation/resettlement projects, of concerned agencies of the national and local governments undertaken by the government agency itself or through the developer. There is therefore a requirement for MERALCO to provide extension of lines and facilities for these socialized housing initiatives of both public and private developers.

**6.5 Support for Government PPP Initiatives**

The National Government has identified the implementation of Public-Private Partnership (PPP) programs and projects as a cornerstone strategy of the national development plan to accelerate the infrastructure development of the country and to sustain economic growth. MERALCO would thus need to relocate existing facilities so as not to hamper the construction and development of these critical PPP projects.

A detailed discussion on its considerations in forecasting its RY2016 CAPEX Program is attached to the application as Annex "A" and made an integral part thereof;

**B. LIST OF CAPEX PROJECTS**

7. Taking into consideration the factors above, it hereby proposes the following Major Projects<sup>1</sup> for RY 2016:

**List RY2016 Major Capex Projects**

<b>Project Code</b>	<b>Project Name</b>	<b>Project Cost</b>	<b>Annex</b>
MER-1	Development of Malacañang 115 kV-34.5 kV GIS Substation	435,788,536	B-1
MER-2	Expansion of Bagbaguin 115 kV-34.5 kV Substation (2nd Bank)	162,580,219	B-2
MER-3	Expansion of Masingag 115 kV-34.5 kV Substation (2nd Bank)	214,620,971	B-3
MER-4	Installation of 34.5 kV Metalclad Switchgear at Dasmariñas 83 MVA Power Transformer	68,161,085	B-4
MER-5	Installation of 34.5 kV Metalclad Switchgear at LIIP 3rd 83 MVA Power Transformer	48,085,691	B-5
MER-6	Development of Lucena 115 kV-34.5 kV Substation	478,911,544	B-6
MER-7	Expansion of Tabang 69 kV-13.8 kV Substation (2nd Bank)	162,082,948	B-7
MER-8	Installation of 34.5 kV Metalclad Switchgear at NGCP-San Jose 83 MVA Power Transformer	63,122,508	B-8
MER-9	Construction of San-Jose Delivery Point's 115 kV Lines	580,394,526	B-9
MER-10	Construction of BF Paranaque-NAIA 3-Malibay 115kV Line	336,277,849	B-10
MER-11	Rebuilding of Portion of Dasmariñas-FCIE 115kV Line	75,913,229	B-11

<sup>1</sup> Major Projects are defined as a project for which the capital expenditure forecasted in a Regulatory Year for the project is greater than PhP30 million or 20% of the total capital expenditure forecasted for a Regulatory Year, whichever is lower.

**ERC CASE NO. 2015-016 RC**

**NOTICE/April 20, 2015**

Page 6 of 11

MER-12	Rebuilding Portion of LIIP-Balibago 115kV Line	35,687,313	B-12
MER-13	Cut-in of Pinagbuhatan Switching Station	58,635,873	B-13
MER-14	Replacement of Power Transformer No.2 at Mandaluyong Substation	52,908,466	B-14
MER-15	Spare 83MVA 110 kV-34.5 kV-13.8 kV Power Transformer with OLTC for GIS Substation	46,443,027	B-15
MER-16	Relocation of Facilities Affected by Public-Private Partnership (PPP) Projects	516,477,546	B-16
MER-17	Customer Outage Portal	54,962,212	B-17
MER-18	Energy Sourcing and Risk Management	97,381,494	B-18
MER-19	Acquisition of a Next Generation Firewall For Third Party-Hosted Applications	63,097,401	B-19
MER-20	Acquisition of 115 kV Line and 115 kV Switchyard at the Navotas Fishport Complex	118,478,179	B-20
MER-21	Replacement of Call Center System (CTI, Voice Logger and Telephony Infrastructure)	120,418,762	B-21
MER-22	Retail Competition and Open Access (RCOA) Meter Conversion Program	1,278,045,286	B-22
MER-23	Expansion of the Advanced Metering Infrastructure to Support Prepaid Retail Electric Service (AMI-PRES)	781,262,598	B-23
MER-24	Advanced Metering Infrastructure to Support Postpaid (AMI-Postpaid)	216,490,675	B-24
MER-25	Construction of Meralco Center of Excellence on Power and Energy (MCOPE) Training Facility	150,000,000	B-25
MER-26	Lot Acquisition and Construction of New Building for Montalban Auxilliary Business Center	41,000,000	B-26
MER-27	Lot Acquisition and Construction of New Sapang Palay Auxiliary Business Center	41,000,000	B-27

Copies of the detailed project justifications of the major projects under its RY2016 CAPEX program are attached to the application as Annexes "B" and series and made integral parts thereof;

8. On the other hand, its Residual Projects, broken down by asset categories, are as follows:

**List RY2016 Residual Capex Projects**

<b>Project Code</b>	<b>Asset Category</b>	<b>Project Cost</b>	<b>Annex</b>
RES - 1B.1	Structures and Improvements (Distribution Purposes)	19,600,000	C-1
RES - 1C	Structures and Improvements (Distribution Purposes)	66,654,800	C-2
RES - 1A	Structures and Improvements (Distribution	883,988	C-3

**ERC CASE NO. 2015-016 RC**

**NOTICE/April 20, 2015**

Page 7 of 11

	Purposes)		
RES - 2B	Power transformers	95,969,191	C-4
RES - 3B	Switchgear	128,630,028	C-5
RES - 3C	Switchgear	50,618,000	C-6
RES - 4B	Protective equipment	76,684,308	C-7
RES - 4A	Protective equipment	1,492,991	C-8
RES - 5B	Metering & control equipment	22,396,938	C-9
RES - 5C	Metering & control equipment	22,306,101	C-10
RES - 5A	Metering & control equipment	777,431	C-11
RES - 6A.1	Communications equipment	17,159,000	C-12
RES - 6B	Communications equipment	62,962,000	C-13
RES - 6A.2	Communications equipment	3,693,116	C-14
RES - 7B	Other station equipment	31,890,338	C-15
RES - 8A.1	Poles, Towers and Fixtures - Distribution	945,333,693	C-16
RES - 8A.2	Poles, Towers and Fixtures - Distribution	314,424,011	C-17
RES - 8B.1	Poles, Towers and Fixtures - Distribution	942,807,202	C-18
RES - 8B.2	Poles, Towers and Fixtures - Distribution	27,011,919	C-19
RES - 9A.1	Overhead Conductors and Devices - Distribution	108,192,583	C-20
RES - 9A.2	Overhead Conductors and Devices - Distribution	252,176,247	C-21
RES - 9B.1	Overhead Conductors and Devices - Distribution	1,376,009,908	C-22
RES - 9B.2	Overhead Conductors and Devices - Distribution	3,165,697	C-23
RES - 10B	Underground Conduits - Distribution	59,101,115	C-24
RES - 11A.1	Underground Conductors and Devices - Distribution	94,845,553	C-25
RES - 11A.2	Underground Conductors and Devices - Distribution	17,561,178	C-26
RES - 11B	Underground Conductors and Devices - Distribution	64,812,279	C-27
RES - 12A.1	Distribution Transformers	1,558,939,898	C-28
RES - 12A.2	Distribution Transformers	139,827,271	C-29
RES - 12B	Distribution Transformers	377,748,012	C-30
RES - 13B	Power Conditioning Equipment	213,601,672	C-31
RES - 14A	Meters, Metering Instruments & Metering Transformers - Distribution	5,868,531	C-32
RES - 14B.1	Meters, Metering Instruments & Metering Transformers - Distribution	3,791,644	C-33
RES - 14C.1	Meters, Metering Instruments & Metering Transformers - Distribution	9,748,346	C-34
RES - 15A.1	Information technology equipment (distribution)	31,769,021	C-35
RES - 15A.2	Information technology equipment (distribution)	23,738,715	C-36
RES - 15A.3	Information technology equipment (distribution)	10,644,061	C-37
RES - 15B.1	Information technology equipment (distribution)	51,467,130	C-38
RES - 15B.2	Information technology equipment (distribution)	1,100,000	C-39

**ERC CASE NO. 2015-016 RC****NOTICE/April 20, 2015**

Page 8 of 11

RES - 15B.3	Information technology equipment (distribution)	16,755,729	C-40
RES - 16A	Street Lights and Signal Systems	44,709,412	C-41
RES - 16B	Street Lights and Signal Systems	121,717,788	C-42
RES - 17A	Structures and Improvements (non-network)	95,184,000	C-43
RES - 17B	Structures and Improvements (non-network)	96,761,337	C-44
RES - 17C	Structures and Improvements (non-network)	243,588,765	C-45
RES - 18A	Office Furniture and Equipment	180,000	C-46
RES - 18B	Office Furniture and Equipment	15,143,680	C-47
RES - 19B	Transportation Equipment	113,966,000	C-48
RES - 19C	Transportation Equipment	3,200,000	C-49
RES - 20A	Tools, Shop and Garage Equipment	50,454,583	C-50
RES - 20B	Tools, Shop and Garage Equipment	120,178,961	C-51
RES - 21A	Laboratory Equipment	37,328,000	C-52
RES - 21B	Laboratory Equipment	41,082,800	C-53
RES - 22A	Information Systems Equipment (non-network)	208,821,759	C-54
RES - 22B.1	Information Systems Equipment (non-network)	11,025,000	C-55
RES - 22B.2	Information Systems Equipment (non-network)	100,380,772	C-56
RES - 22C	Information Systems Equipment (non-network)	11,008,908	C-57
RES - 23A	Communication Plant and Equipment	944,396	C-58
RES - 23B	Communication Plant and Equipment	10,420,000	C-59
RES - 23C	Communication Plant and Equipment	8,019,510	C-60
RES - 24A	Miscellaneous Equipment	71,492,031	C-61
RES - 24B.1	Miscellaneous Equipment	6,450,000	C-62
RES - 24B.2	Miscellaneous Equipment	750,000	C-63
RES - 24B.3	Miscellaneous Equipment	7,474,000	C-64
RES - 25A	Poles, Towers and Fixtures (Customer)	7,218,742	C-65
RES - 26A	Overhead Conductors and Devices (Customer)	570,967,103	C-66
RES - 27A	Underground Conductors and Devices (Customer)	63,088,788	C-67
RES - 28A	Information Systems Equipment (non-network)	5,776,336	C-68
RES - 28B	Information Systems Equipment (non-network)	4,006,517	C-69
RES - 28C	Information Systems Equipment (non-network)	665,972	C-70
RES - 29A	Meters, Instruments & Metering Transformers (Consumer Consumption Metering)	883,078,431	C-71
RES - 29B	Meters, Instruments & Metering Transformers (Consumer Consumption Metering)	546,906,821	C-72
RES - 30A	Structures and Improvements (non-network)	19,096,000	C-73
RES - 30B	Structures and Improvements (non-network)	33,150,000	C-74
RES - 30C	Structures and Improvements (non-network)	101,525,000	C-75
RES - 31A	Office Furniture and Equipment	2,497,028	C-76
RES - 31B	Office Furniture and Equipment	5,604,092	C-77



RES - 32A	Transportation Equipment	30,232,000	C-78
RES - 32B	Transportation Equipment	3,670,000	C-79
RES - 33A.1	Laboratory Equipment	3,200,000	C-80
RES - 33A.2	Laboratory Equipment	8,500	C-81
RES - 33B.1	Laboratory Equipment	12,352,236	C-82
RES - 33B.2	Laboratory Equipment	2,501,000	C-83
RES - 33C	Laboratory Equipment	7,041,652	C-84
RES - 34A	Information Systems Equipment	267,376,428	C-85
RES - 34B	Information Systems Equipment	121,175,380	C-86
RES - 34C	Information Systems Equipment	25,820,717	C-87
RES - 35A	Communication Plant and Equipment	15,923,250	C-88
RES - 36B	Miscellaneous Equipment	14,627,137	C-89

Copies of the project justifications of the residual projects under its RY2016 CAPEX program are attached to the application as Annexes "C" and series and made integral parts thereof;

9. In light of the resulting benefits of its RY 2016 CAPEX Program in the overall service to the electricity consumers, it respectfully submits that the building block components, particularly the return of capital and return on capital associated therewith, from the time it is put in service and considered used and useful, should be considered as a deferred amount to be included in its 4RP reset calculations;

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

10. Section 23 of the EPIRA provides that distribution utilities have an obligation to provide services and connections to its customers consistent with the distribution code.<sup>2</sup> It is emphasized that MERALCO will have no approved CAPEX projects by the start of the 4RP on July 1, 2015 and this will severely hamper its operations and affect its ability to deliver electricity service to its customers. It is imperative for MERALCO to undertake expansion and rehabilitation of its network facilities through acquisition of new assets in order to ensure continuous compliance with safety, performance and other statutory/regulatory requirements, and to address the growing needs of its 5.6 million customers.<sup>3</sup>

<sup>2</sup> Republic Act. No. 9136, Section 23; EPIRA Implementing Rules and Regulations, Rule 7, Section 5.

<sup>3</sup> As of January 2015.

11. Thus, pending final approval, there is an urgent need for a provisional authority for it to immediately implement its proposed RY 2016 CAPEX program. In support of the prayer for the grant of a provisional authority, attached to the application as **Annex "D"** is the Judicial Affidavit of Mr. Froilan J. Savet, Head of MERALCO's Network Planning and Project Management Office; and
  
12. It prays that the instant application for authority to implement its proposed Capital Expenditure (CAPEX) Program for Regulatory Year (RY) 2016 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 its subsequent Fourth Regulatory Period reset calculations; and

Pending hearing, it is likewise prayed that a provisional authority be immediately issued authorizing it to implement its RY 2015 CAPEX Program.

On April 10, 2015, MERALCO filed its "Urgent Motion for Issuance of Provisional Authority".

On April 16, 2015, MERALCO filed its "Motion (To Use Attached List in Lieu of Annex "A" of the Urgent Motion dated 8 April 2015)".

The Commission has set the application for jurisdictional hearing, expository presentation, pre-trial conference and evidentiary hearing on **May 26, 2015 (Tuesday) at ten o'clock in the morning (10:00 A.M.), at the ERC Hearing Room, 15<sup>th</sup> Floor, Pacific Center Building, San Miguel Avenue, Pasig City.**

All persons who have an interest in the subject matter of the proceeding may become a party by filing, at least five (5) days prior to the initial hearing and subject to the requirements in the ERC's Rules of Practice and Procedure, a verified petition with the Commission giving the docket number and title of the proceeding and stating: (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 proceeding may file their opposition to the application or comment thereon at any stage of the proceeding before the applicant concludes the presentation of its evidence. No particular form of opposition or comment is required, but the document, letter or writing should contain the name and address of such person and a concise statement of the opposition or comment and the grounds relied upon.

All such persons who may wish to have a copy of the application may request the applicant, prior to the date of the initial hearing, that they be furnished with a copy of the application. The applicant is hereby directed to furnish all those making a request with copies of the application and its attachments, subject to reimbursement of reasonable photocopying costs. Likewise, any such person may examine the application and other pertinent records filed with the Commission during the usual office hours.

**WITNESS**, the Honorable Chairperson, **ZENAIDA G. CRUZ-DUCUT**, and the Honorable Commissioners, **ALFREDO J. NON**, **GLORIA VICTORIA C. YAP-TARUC**, **JOSEFINA PATRICIA A. MAGPALE-ASIRIT**, and **GERONIMO D. STA. ANA**, Energy Regulatory Commission, this 20<sup>th</sup> day of April 2015 at Pasig City.

  
**ATTY. FRANCIS SATURNINO C. JUAN**  
Executive Director III