

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 YEARS  
(RY) 2017 AND 2018,**

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

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

**Applicant.**

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**DOCKETED**

Date: SEP 04 2017

By: [Signature]

**NOTICE OF PUBLIC HEARING**

**TO ALL INTERESTED PARTIES:**

Notice is hereby given that on 31 March 2017, Tarlac Electric Inc. (TEI) filed an *Application* dated 21 March 2017 seeking for authority from the Commission 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).

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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>

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<b>005</b>	Primary Distribution Line Projects	Extension and upgrade of medium voltage (13.8kV) distribution lines	<b>37,998,030.94</b>
<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>

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<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>
<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
Total Project Cost, net of VAT	89,417,983.98	7,280,000.00	5,817,674.11	40,514,641.07
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
Total Project Cost, net of VAT	33,926,813.34	8,011,315.90	65,513,733.04	33,049,310.71
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>
<b>Total Project Cost, net of VAT</b>	<b>3,582,850.89</b>	<b>4,192,825.00</b>	<b>4,719,000.00</b>	<b>7,142,857.14</b>
Add: Working Capital	2,454.25	2,872.09	3,232.52	4,892.86
<b>Total Asset Base Subject to Return</b>	<b>3,585,305.15</b>	<b>4,195,697.09</b>	<b>4,722,232.52</b>	<b>7,147,750.00</b>
<b>Return on Rate Base/WACC</b>	<b>15.01%</b>	<b>15.01%</b>	<b>15.01%</b>	<b>15.01%</b>
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>
<b>Total Project Cost, net of VAT</b>	<b>1,517,857.14</b>	<b>12,946,428.57</b>	<b>5,826,785.71</b>	<b>81,042,675.50</b>
Add: Working Capital	1,039.73	8,868.30	3,991.35	55,514.23
<b>Total Asset Base Subject to Return</b>	<b>1,518,896.88</b>	<b>12,955,296.88</b>	<b>5,830,777.06</b>	<b>81,098,189.73</b>
<b>Return on Rate Base/WACC</b>	<b>15.01%</b>	<b>15.01%</b>	<b>15.01%</b>	<b>15.01%</b>
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
Total Project Cost, net of VAT	51,198,385.72	5,000,000.00	9,000,000.00	5,314,001.79
Add: Working Capital	35,070.89	3,425.00	6,165.00	3,640.09
Total Asset Base Subject to Return	51,233,456.61	5,003,425.00	9,006,165.00	5,317,641.88
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	
Total Project Cost, net of VAT	12,889,879.49	487,905,019.11
Add: Working Capital	8,829.57	334,214.94
Total Asset Base Subject to Return	12,898,709.06	488,239,234.05
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:

Annex	Description of Document
1.A	Technical Analysis:
	a. Performance Assessment
	b. Transformer Loading
	c. Adjacent Transformer Group Loading

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



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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.

The Commission has set the *Application* 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.**

All persons who have an interest in the subject matter of the instant case may become a party by filing with the Commission a verified Petition to Intervene at least five (5) days prior to the initial hearing and subject to the requirements under Rule 9 of the 2006 Rules of Practice and Procedure, indicating therein the docket number and title of the case and stating the following:

- 1) The petitioner's name and address;
- 2) The nature of petitioner's interest in the subject matter of the proceeding and the way and manner in which such interest is affected by the issues involved in the proceeding; and
- 3) A statement of the relief desired.

All other persons who may want their views known to the Commission with respect to the subject matter of the case may file their Opposition or Comment thereon at any stage of the proceeding before Applicant rests its case, subject to the requirements under Rule 9 of the 2006 Rules of Practice and Procedure. No particular form of Opposition or Comment is required, but the document, letter, or writing should contain the following:

- 1) The name and address of such person;
- 2) A concise statement of the Opposition or Comment; and
- 3) The grounds relied upon.

All such persons who wish to have a copy of the Application may request from Applicant that they be furnished with the same prior to the date of the initial hearing. Applicant is hereby directed to furnish all those making such request with copies of the Application and their attachments, subject to the reimbursement of reasonable photocopying costs. Any such person may likewise examine the Application and other pertinent records filed with the Commission during the standard office hours.

**WITNESS**, the Honorable Officer-in-Charge of ERC **ALFREDO J. NON**, and the Honorable Commissioners **GLORIA VICTORIA C. YAP-TARUC**, and **GERONIMO D. STA. ANA**, Energy Regulatory Commission, this 14<sup>th</sup> day of August 2017 in Pasig City.

FOR AND BY AUTHORITY  
OF THE COMMISSION:

  
**JOSEFINA PATRICIA A. MAGPALE-ASIRIT**  
*Oversight Commissioner for Legal*