Republic of the Philippines
ENERGY REGULATORY COMMISSION
Pasig City

IN THE MATTER OF THE APPLICATION FOR AUTHORITY TO IMPLEMENT THE PROPOSED CAPITAL EXPENDITURE PROGRAM FOR REGULATORY YEAR (RY) 2022, WITH PRAYER FOR PROVISIONAL AUTHORITY

ERC CASE NO. 2021-060 RC

MANILA ELECTRIC COMPANY (MERALCO),
Applicant.
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Promulgated:
August 27, 2021

NOTICE OF VIRTUAL HEARING

TO ALL INTERESTED PARTIES:

Notice is hereby given that on 27 July 2021, Manila Electric Company (MERALCO) filed an *Application* dated 22 June 2021, seeking the Commission's approval for the authority to implement its proposed capital expenditure program for Regulatory Year (RY) 2022, with prayer for provisional authority.

The pertinent allegations in the said *Application* are hereunder quoted as follows:

1. Applicant MERALCO 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 this Honorable Commission through its undersigned counsel at the address indicated herein.

2. Pursuant to Republic Act No. 9209, MERALCO 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.

3. MERALCO is part of the First Entry Group of Distribution Utilities ("DUs") that entered Performance Based Regulation ("PBR").

4. Pending the regulatory reset for the Fifth Regulatory Period,[1] MERALCO is filing the instant application for the approval of its CAPEX projects for implementation in Regulatory Year ("RY") 2022 covering the period from 1 July 2021 to 30 June 2022, 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 this Honorable Commission before it can establish, construct, maintain, and operate new facilities or make any extension of its existing facilities. Primarily, these CAPEX projects for RY 2022 are necessary to avert the foreseen emergency situations and ensure the reliable operation of its distribution network and continuous distribution service and connection to meet the growing needs of its more than seven (7) million customers.

A. BACKGROUND OF MERALCO'S RY 2022 CAPEX PROGRAM

5. MERALCO's RY 2022 CAPEX Program is geared towards providing reliable service to its customers by maintaining an adequate, safe, efficient, and viable distribution network, while providing the needed capacity to address the forecasted load growth within its franchise area. MERALCO's RY 2022 CAPEX Program is mainly driven by the following factors:

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

      The distribution infrastructure must be sufficient to meet MERALCO's current and immediate requirements. MERALCO forecasts its customer base to expand to more than 7.5 million customers and peak demand to grow to 8,003 MW by RY 2022. This increase in peak demand and customer count will require MERALCO to increase the capacity of the electric distribution system in order to continue accommodating customer connections, while maintaining the reliability and power quality of its distribution system. If no capacity augmentation project is undertaken starting 1 July 2021, MERALCO would not be able to provide electric service to its existing and new customers.

   b. *Renewal/Refurbishment Projects to Ensure Sustained Network Efficiency, Reliability and Power Quality*

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[1] Based on the proposed Rules for Setting Distribution Wheeling Rates (RDWR) (2nd Draft) and Regulatory Reset for the July 2022 to June 2026 Fifth Regulatory Period for the First Entry Group of Privately Owned Distribution Utilities subject to Performance Based Regulation, Issues Paper (2nd Draft) dated 15 March 2021.

Capital expenditure is required to maintain existing assets so as not to degrade its network performance and customer service performance in the current regulatory year. The immediate implementation of these projects is not just imperative to say the least, but more so, critical as the reliability of MERALCO's electric distribution system in providing safe, reliable and adequate electric service is at risk.

c. *Automation/Innovation/Technology*

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

d. *Compliance to statutory and regulatory requirements.*

Several RY 2022 CAPEX projects are likewise proposed in order to comply with various law, rules and regulations, including, among other things, compliance with: (a) Distribution Services Open Access Rules ("DSOAR") on MERALCO's provision of the extension of lines and facilities for socialized housing initiatives of both public and private developers; (b) Wholesale Electricity Spot Market ("WESM")/ Independent Electricity Market Operator of the Philippines ("IEMOP") metering requirements; and (c) ERC Resolution No. 03, Series of 2012, which amends Section 2.6 and 2.7 of the DSOAR, that mandates DUs to refund the Contribution in Aid of Construction (CIAC) of customers who paid for the extension of lines and facilities upon its inclusion in the DU's Regulatory Asset Base ("RAB").

e. *Support for Government PPP Initiatives / BBB Program*

The National Government has identified the implementation of Build, Build, Build ("BBB") 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 and replace existing facilities so as not to hamper the construction and development of these critical BBB projects.

A detailed discussion on MERALCO's considerations and justifications in forecasting its RY2022 CAPEX Program is attached hereto as Annex "A" and made an integral part hereof.

B. LIST OF CAPEX PROJECTS

6. Taking into consideration the factors above, MERALCO proposes the following thirty-two (32) major projects for RY 2022:

PROJECT CODE	PROJECT NAME	TOTAL (PhP)	ANNEX
MER-1	Development of Island Cove 115 kV-34.5 kV GIS Substation	489,816,859	"B-1"
MER-2	Development of Lawang Bato 115 kV-34.5 kV Substation	560,830,630	"B-2"
MER-3	Development of San Ildefonso 69 kV-13.8 kV Substation	328,849,421	"B-3"
MER-4	Development of San Joaquin 115 kV-34.5 kV GIS Substation	633,697,465	"B-4"
MER-5	Expansion of FBGC-2 115 kV-34.5 kV GIS Substation (2nd Bank)	226,491,447	"B-5"
MER-6	Expansion of Malinta 115 kV-34.5 kV GIS Substation (2nd Bank)	188,409,000	"B-6"
MER-7	Development of Antipolo 230 kV-115 kV Delivery Point Substation - Phase 2	1,635,510,533	"B-7"
MER-8	Construction of CND-Alagao 69 kV Line 3	685,292,853	"B-8"
MER-9	Construction of Makban (Bay)-Batangas Paper Corp. (BPC)-Los Baños 69 kV Line	47,285,316	"B-9"
MER-10	Reliability Improvement of Kamuning Substation	85,815,992	"B-10"
MER-11	Uprating of Biñan-San Pedro 115 kV Line	68,475,949	"B-11"
MER-12	Relocation of MERALCO's Electrical Facilities Affected by the Construction of the National Government's Public-Private Partnership (PPP) Projects	55,968,361	"B-12"
MER-13	Acquisition of 33MVA Mobile Substation	150,000,000	"B-13"
MER-14	Replacement of the ABB HMB-1 Breaker Mechanism of the 115kV ABB Gas Insulated Switchgear (GIS) at Hillcrest Substation	59,724,245	"B-14"
MER-15	Retail Competition and Open Access (RCOA) Meter Conversion and System Support	725,924,853	"B-15"
MER-16	Firewall Tiering and Segmentation	89,934,794	"B-16"
MER-17	Enterprise Service Delivery System	125,175,162	"B-17"
MER-18	Streamlined and Integrated Vendor Management System (SIVMS)	68,000,000	"B-18"
MER-19	Hybrid Integration Platform	135,857,650	"B-19"
MER-20	SAP Server Refresh and Application Upgrade	56,880,045	"B-20"
MER-21	Expansion of ESRM to Support 5-min Interval Implementation	51,136,620	"B-21"
MER-22	Implementation of Multi-Factor Authentication (MFA) for IT and OT	79,000,000	"B-22"
MER-23	Implementation of Layer 3/4 Anti-DDoS (Anti-Distributed Denial of Service) Security Appliance	56,000,000	"B-23"
MER-24	Construction of New Stores Warehouse Building at Manila Sector	90,000,000	"B-24"
MER-25	Structural Retrofitting of Lopez Building – Phase 1	520,000,000	"B-25"
MER-26	MERALCO Emergency Response Capability Enhancement	162,900,000	"B-26"
MER-27	Structural Retrofitting of Pasig Sector Administration Building	52,440,000	"B-27"
MER-28	Structural Retrofitting of Corporate Wellness Center	65,835,000	"B-28"

MER-29	Structural Retrofitting of Pasig Sector Logistics Building	89,604,000	"B-29"
MER-30	Structural Retrofitting of Paranaque Sector Administration Building	65,550,000	"B-30"
MER-31	Structural Retrofitting of Subtransmission Services Building	66,500,000	"B-31"
MER-32	Structural Retrofitting of Technical Services Building – Phase 1	236,000,000	"B-32"

Copies of the detailed project justifications of the major projects under MERALCO's RY2022 CAPEX program are attached hereto as Annexes "B and series" and made integral parts hereof.

7. On the other hand, MERALCO's seventy-eight (78) residual projects, broken down by asset categories, are as follows:

PROJECT CODE	ASSET CATEGORY	TOTAL (PhP)	ANNEX
RES - 1A.1	Structures and Improvements (Distribution Purposes)	20,709,087	"C-1"
RES - 1A.2	Structures and Improvements (Distribution Purposes)	24,385,528	"C-2"
RES - 1B	Structures and Improvements (Distribution Purposes)	3,914,414	"C-3"
RES - 1C.1	Structures and Improvements (Distribution Purposes)	200,862,653	"C-4"
RES - 1C.2	Structures and Improvements (Distribution Purposes)	10,120,000	"C-5"
RES - 2B	Power transformers	129,090,817	"C-6"
RES - 3A.1	Switchgear	32,499,801	"C-7"
RES - 3A.2	Switchgear	3,482,247	"C-8"
RES - 3B	Switchgear	281,876,056	"C-9"
RES - 4A.1	Protective equipment	5,975,139	"C-10"
RES - 4A.2	Protective equipment	2,050,491	"C-11"
RES - 4B	Protective equipment	85,762,595	"C-12"
RES - 5A	Metering & control equipment	1,188,944	"C-13"
RES - 5B	Metering & control equipment	66,959,474	"C-14"
RES - 6A.1	Communications equipment	2,055,784	"C-15"
RES - 6A.2	Communications equipment	83,827,680	"C-16"
RES - 6B	Communications equipment	110,799,225	"C-17"
RES - 7A.1	Other station equipment	1,934,048	"C-18"
RES - 7A.2	Other station equipment	114,910,437	"C-19"
RES - 7B	Other station equipment	32,387,966	"C-20"
RES - 8A.1	Poles, Towers and Fixtures - Distribution	269,245,157	"C-21"
RES - 8A.2	Poles, Towers and Fixtures - Distribution	1,427,544,568	"C-22"
RES - 8B	Poles, Towers and Fixtures - Distribution	1,455,067,138	"C-23"
RES - 9A.1	Overhead Conductors and Devices - Distribution	159,133,593	"C-24"
RES - 9A.2	Overhead Conductors and Devices - Distribution	500,775,078	"C-25"
RES - 9B	Overhead Conductors and Devices - Distribution	1,700,567,431	"C-26"
RES - 10B	Underground Conduits - Distribution	80,114,995	"C-27"
RES - 11A	Underground Conductors and Devices - Distribution	296,397,715	"C-28"

RES - 11B	Underground Conductors and Devices - Distribution	75,053,097	"C-29"
RES - 12A.1	Distribution Transformers	147,742,595	"C-30"
RES - 12A.2	Distribution Transformers	3,109,873,611	"C-31"
RES - 12B	Distribution Transformers	317,923,247	"C-32"
RES - 13B	Power Conditioning Equipment	161,485,083	"C-33"
RES - 14B	Meters, Metering Instruments & Metering Transformers - Distribution	3,791,644	"C-34"
RES - 15A.1	Information technology equipment (distribution)	4,852,988	"C-35"
RES - 15A.2	Information technology equipment (distribution)	28,165,631	"C-36"
RES - 15A.3	Information technology equipment (distribution)	38,941,630	"C-37"
RES - 15B.1	Information technology equipment (distribution)	101,427,445	"C-38"
RES - 15B.2	Information technology equipment (distribution)	10,278,471	"C-39"
RES - 15B.3	Information technology equipment (distribution)	52,026,221	"C-40"
RES - 16A	Street Lights and Signal Systems	34,663,098	"C-41"
RES - 16B	Street Lights and Signal Systems	318,971,570	"C-42"
RES - 17A	Structures and Improvements (non-network)	477,910,388	"C-43"
RES - 17B	Structures and Improvements (non-network)	64,148,370	"C-44"
RES - 17C	Structures and Improvements (non-network)	271,512,675	"C-45"
RES - 18B	Office Furniture and Equipment	21,055,684	"C-46"
RES - 19A	Transportation Equipment	141,600,000	"C-47"
RES - 19B	Transportation Equipment	283,730,000	"C-48"
RES - 20A	Tools, Shop and Garage Equipment	27,769,036	"C-49"
RES - 20B	Tools, Shop and Garage Equipment	101,071,534	"C-50"
RES - 21A	Laboratory Equipment	105,174,200	"C-51"
RES - 21B	Laboratory Equipment	107,043,500	"C-52"
RES - 22A.1	Information Systems Equipment (non-network)	251,045,705	"C-53"
RES - 22A.2	Information Systems Equipment (non-network)	120,200,000	"C-54"
RES - 22B	Information Systems Equipment (non-network)	113,598,683	"C-55"
RES - 22C	Information Systems Equipment (non-network)	7,820,411	"C-56"
RES - 23A	Communication Plant and Equipment	17,199,445	"C-57"
RES - 23B	Communication Plant and Equipment	70,832,470	"C-58"
RES - 23C	Communication Plant and Equipment	10,513,425	"C-59"
RES - 24A	Miscellaneous Equipment	71,467,886	"C-60"
RES - 24B	Miscellaneous Equipment	100,000	"C-61"
RES - 25C	Materials and Supplies (including spares)	18,173,606	"C-62"
RES - 26A	Overhead Conductors and Devices (Customer)	448,429,431	"C-63"
RES - 27A	Underground Conductors and Devices (Customer)	232,844,783	"C-64"
RES - 28A	Meters, Instruments & Metering Transformers (Consumer Consumption Metering)	869,552,061	"C-65"
RES - 28B	Meters, Instruments & Metering Transformers (Consumer Consumption Metering)	840,013,003	"C-66"
RES - 29A	Structures and Improvements (non-network)	118,745,680	"C-67"
RES - 29B	Structures and Improvements (non-network)	77,294,367	"C-68"
RES - 29C	Structures and Improvements (non-network)	104,291,000	"C-69"
RES - 30B	Office Furniture and Equipment	8,701,991	"C-70"
RES - 31A	Transportation Equipment	55,300,000	"C-71"
RES - 31B	Transportation Equipment	12,160,000	"C-72"
RES-32A	Laboratory Equipment	1,000,000	"C-73"

RES - 32B	Laboratory Equipment	4,476,166	"C-74"
RES - 33A	Information Systems Equipment	70,235,410	"C-75"
RES - 33B	Information Systems Equipment	43,737,214	"C-76"
RES - 34A	Communication Plant and Equipment	11,553,178	"C-77"
RES - 34B	Communication Plant and Equipment	5,392,411	"C-78"

Copies of the project justifications for the residual projects under MERALCO's RY2022 CAPEX program are attached herewith as Annexes "C and series" and made integral parts hereof.

8. Moreover, MERALCO shall refund to customers their payments for projects funded under the CIAC scheme. Pursuant to ERC Resolution No. 03, Series of 2012, which amends Sections 2.6 and 2.7 of the DSOAR, DUs are mandated to refund the CIAC payments of customers for the extension of lines and facilities upon its inclusion in the DU's RAB. The CIAC-funded projects are eligible for refund considering that the lines and facilities where the customers are connected are now distribution assets as said lines and facilities already serve more than one customer. The details regarding the CIAC-funded projects to be refunded are further explained in the document attached hereto as "Annex D" and made an integral part hereof.

9. In light of the resulting benefits of MERALCO's RY 2022 CAPEX Program to the overall service to the electricity consumers, MERALCO respectfully submits that the CAPEX to be put in service be considered in the calculation of MERALCO's next regulatory reset rates.

10. The filing of the instant Application is without prejudice to the subsequent filing by MERALCO for any unforecasted or emergency CAPEX as the need therefor arises.

C. URGENT NEED FOR ISSUANCE OF A PROVISIONAL AUTHORITY/ INTERIM RELIEF

11. Section 23 of the EPIRA provides that DUs have an obligation to provide services and connections to its customers consistent with the distribution code.[2] It is emphasized that non-approval of the CAPEX projects for RY 2022 will severely hamper MERALCO's operations and severely affect its ability to deliver electric service to its customers. It is imperative for MERALCO to implement its RY2022 CAPEX projects starting 1 July 2021 for the expansion and rehabilitation of its network facilities through acquisition of new assets in order to ensure continuous delivery of reliable service and comply with safety, performance and other statutory/regulatory requirements, while addressing the growing needs of its more than 7 million customers.

12. Thus, pending final approval, there is an urgent need for a provisional authority or interim relief to be issued in favor of

[2] Republic Act. No. 9136 (EPIRA), Section 23; EPIRA Implementing Rules and Regulations, Rule 7, Section 4.

MERALCO to allow it to immediately implement its proposed RY 2022 CAPEX program. In support of the prayer for the grant of a provisional authority/ interim relief, attached as Annex "E" is the Judicial Affidavit of Engr. Froilan J. Savet, Head of MERALCO's Network Planning and Design.

PRAYER

WHEREFORE, it is most respectfully prayed to this Honorable Commission that the instant application for Authority to implement MERALCO's proposed Capital Expenditure (CAPEX) Program for Regulatory Year (RY) 2022 be APPROVED and that CAPEX to be put in service be considered in the calculation of MERALCO's next regulatory reset rates.

Pending hearing, it is likewise prayed that a provisional authority or interim relief be immediately issued authorizing Applicant MERALCO to implement its RY 2022 CAPEX Program.

Applicant MERALCO prays for such other relief as are deemed just and equitable under the premises.

On 10 August 2021, the Commission issued an *Order* and *Notice of Virtual Hearing,* both dated 02 August 2021, setting the instant *Application* for the determination of compliance with jurisdictional requirements and expository presentation on 15 September 2021; and Pre-trial Conference and presentation of evidence on 22 September 2021.

On 12 August 2021, MERALCO filed its *Motion for the Issuance of a New Initial Order and Notice of Virtual Hearing* dated 11 August 2021 (Motion), wherein it alleged that due to quarantine restrictions being imposed by the government because of Corona Virus Disease 2019 (COVID-19), MERALCO would need more time to comply with the Commission's jurisdictional requirements. In view thereof, MERALCO prayed that the Commission issue a new *Order* and *Notice of Virtual Hearing,* resetting the hearings for the instant *Application* on 20 October 2021 and 27 October 2021.

Finding MERALCO's *Motion* in order, the Commission granted the same. In view thereof, the hearings set on 15 September 2021 and 22 September 2021 pursuant to the *Order* dated 02 August 2021 are cancelled.

ACCORDINGLY, the Commission sets anew the hearings for the instant *Application* for determination of compliance with the jurisdictional requirements, expository presentation, Pre-trial Conference, and presentation of evidence on the following dates and

online platform for the conduct thereof, pursuant to Resolution No. 09, Series of 2020[3] dated 24 September 2020 and Resolution No. 01, Series of 2021, dated 17 December 2020 (ERC Revised Rules of Practice and Procedure)[4]:

Date	Platform	Activity
20 October 2021 (Wednesday) at nine o'clock in the morning (9:00 AM)	**Microsoft Teams**	Determination of compliance with the jurisdictional requirements and expository presentation
27 October 2021 (Wednesday) at nine o'clock in the morning (9:00 AM)	**Microsoft Teams**	Pre-trial Conference and presentation of evidence

Any interested stakeholder may submit its comments and/or clarifications at least one (1) calendar day prior to the scheduled initial virtual hearing, via electronic mail (e-mail) at docket@erc.ph, copy furnish the Legal Service through legal@erc.ph. The Commission shall give priority to the stakeholders who have duly submitted their respective comments and/or clarifications, to discuss the same and propound questions during the course of the expository presentation.

Moreover, any persons who have an interest in the subject matter of the instant case may become a party by filing with the Commission via e-mail at docket@erc.ph, copy furnish the Legal Service through legal@erc.ph, a verified Petition to Intervene at least five (5) calendar days prior to the date of the initial virtual hearing and subject to the requirements under Rule 9 of the ERC Revised Rules of Practice and Procedure, indicating therein the docket number and title of the case and stating the following:

1) The petitioner's name, mailing address, and e-mail 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.

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[3] A Resolution Adopting the Guidelines Governing Electronic Applications, Filings and Virtual Hearings Before the Energy Regulatory Commission.

[4] A Resolution Adopting the Revised Rules of Practice and Procedure of the Energy Regulatory Commission.

Likewise, all other persons who may want their views known to the Commission with respect to the subject matter of the case may file through e-mail at docket@erc.ph, copy furnish the Legal Service through legal@erc.ph, their Opposition or Comment thereon at least five (5) calendar days prior to the initial virtual hearing and subject to the requirements under Rule 9 of the ERC Revised 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, mailing address, and e-mail address of such person;

2) A concise statement of the Opposition or Comment; and

3) The grounds relied upon.

Any of the persons mentioned in the preceding paragraphs may access the copy of the *Application* on the Commission's official website at www.erc.gov.ph.

Finally, all interested persons may be allowed to join the scheduled initial virtual hearings by providing the Commission, thru legal.virtualhearings@erc.ph, with their respective e-mail addresses and indicating therein the case number of the instant *Application*. The Commission will send the access link/s to the aforementioned hearing platform within five (5) working days prior to the scheduled hearings.

WITNESS, the Honorable Commissioners **ALEXIS M. LUMBATAN, CATHERINE P. MACEDA, FLORESINDA G. BALDO-DIGAL** and **MARKO ROMEO L. FUENTES,** Energy Regulatory Commission, this 18th day of August 2021 in Pasig City.

AGNES VST DEVANADERA
Chairperson and CEO

LS: VMA/ LSP

ERC
Office of the Chairperson
AVSTD-2021-08-510-0040