

Republic of the Philippines
ENERGY REGULATORY COMMISSION
Pasig City

**IN THE MATTER OF THE
APPLICATION FOR
APPROVAL OF THE
ANNUAL REVENUE
REQUIREMENT AND
PERFORMANCE
INCENTIVE SCHEME FOR
THE FIFTH REGULATORY
PERIOD (REGULATORY
YEARS 2023-2026) IN
ACCORDANCE WITH THE
PROVISIONS OF THE
RULES FOR SETTING
DISTRIBUTION
WHEELING RATES
(RDWR)**

ERC CASE NO. 2022-015 RC

**MANILA ELECTRIC
COMPANY (MERALCO),**
Applicant.

Promulgated:
March 31, 2022

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NOTICE OF VIRTUAL HEARING

TO ALL INTERESTED PARTIES:

Notice is hereby given that on 16 March 2022, Manila Electric Company (MERALCO) filed an *Application* dated 10 March 2022, seeking the Commission's approval of its Annual Revenue Requirement (ARR) and Performance Incentive Scheme (PIS) for the Fifth Regulatory Period covering Regulatory Years (RYs) 2023 to 2026, in accordance with the provisions of the Rules for Setting Distribution Wheeling Rates (RDWR).

The pertinent allegations of the *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

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Avenue, Barangay Ugong, 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. Applicant 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.

I. BACKGROUND

3. Applicant entered Performance-Based Regulation (PBR) at the Second Regulatory Period (2RP) as part of the First Entry Group. Applicant's revenue application for the 2RP was filed before the Honorable Commission on 1 September 2006¹ and approved, with modification, in a Decision dated 30 August 2007, attaching thereto the Honorable Commission's Final Determination on the Price Control Arrangements for the 2RP.
4. Subsequently, Applicant filed its revenue application for the Third Regulatory Period (3RP) under PBR on 18 June 2010 under ERC Case No. 2010-069 RC. This was approved, with modification, in a Decision dated 6 June 2011, attaching thereto the Honorable Commission's Final Determination on the Price Control Arrangements for the 3RP.
5. Starting the 3RP and up to the date of this Application, Applicant has operated its electricity distribution network efficiently and in accordance with the Honorable Commission's rules and guidelines.

a. Capital Investment

During the 3RP, Applicant embarked on the Capital Expenditure (CAPEX) Program approved under the Final Determination. The approved CAPEX program and the emergency CAPEX projects, which Applicant was constrained to undertake, served to maintain the integrity and efficiency of Applicant's distribution system, while providing additional capacity to meet existing and future demand. After the 3RP, Applicant filed annual applications with the Honorable Commission for the approval of its CAPEX projects.

From 1 January 2016 until 30 January 2022, Applicant completed several major projects including: (a) the construction and development of sixteen (16) new substations with additional total capacity of 1,546 MVA; (b) expansion of thirty-two (32) existing substations with a total additional capacity of 2,944 MVA; (c) construction of 5-115 kV and 2-69

¹ Docketed as ERC Case No. 2006-045 RC.

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kV subtransmission lines; (d) replacement of nine (9) power transformers; (e) replacement of Call Center System (CTI, Voice Logger and Telephony Infrastructure); and (f) acquisition of several systems including the Enterprise Geographic Information System (GIS) – Phase 1.

b. Operating Performance

Applicant's operating and maintenance expenditure (OPEX) for the last five (5) years showed operational efficiencies and productivity improvements. This is shown by the following:

- i. Annual OPEX per customer or total costs associated with delivering electricity to the ultimate customers averaged PhP2,646 for the past 5 years, lower than the annual average OPEX per customer of PhP2,792 during the 3RP.
- ii. Total OPEX associated with each kWh of electricity distributed to ultimate customers during the past 5 years averaged PhPo.41 compared with PhPo.45 during the 3RP.
- iii. It should be noted that OPEX for RYs 2020 and 2021 were significantly affected by the COVID-19 pandemic. These include deferment of payments by the customers; disruptions in the supply chain as vendors/suppliers experienced equipment shortage, constrained movements, and limited staff; and incurrence of additional costs to cover the health and safety of MERALCO workforce. Nonetheless, as a result of the COVID-19 pandemic, MERALCO accelerated its technology solutions to address remote work arrangement, digital/contactless payments from customers and vendors, and virtual communications and engagement with the customers; and rolled out cybersecurity solutions to manage the increasing security risks and threats. These expenses were critical to the sustained reliable and safe operation of MERALCO's distribution network and delivery of services to the consumers despite the challenging circumstances.

c. Performance against Price-Linked Performance Indices

Despite the absence of regulatory framework after the 3RP, Applicant's Price-Linked Performance Indices relatively continued to improve over the years.

The total System Average Interruption Frequency Index (SAIFI) of 1.50 times in CY2020 showed a 31.19% improvement over the SAIFI of CY2016 (2.18 times). Planned

SAIDI, or the average duration of planned interruptions a customer experienced, improved from 54.68 minutes in CY2016 to 53.31 minutes in CY2020. CAIDI, or the average outage duration of interruptions customers experienced, however, increased by 5.05% with the improvement in T-SAIFI outpacing the improvement in T-SAIDI in CY2020.

The power quality indicator measured through the Probability of Voltage Violation (pVv) index slightly deteriorated in CY2021, with 1 violation measured compared with zero or no measured violation in CY2016. By the end of CY2020, System Loss is at 6.08% which is an improvement of 0.27 percentage points from CY2016 System Loss of 6.35%.

In terms of service performance indicators, Time to Process Applications (TPA) and Time to Connect Premises (TCP) are consistently performing above expected target levels for CY2016 up to CY2020 based on the approved targets for the 3RP. The TCP improved by 31.71%, from 2.68 days (CY2016 performance) to 1.83 days (CY2020 performance). Similarly, TPA slightly increased by 9.6% from 3.54 days in CY2016 to 3.88 days in CY2020.

Call Center Performance (CCP) follows a similar trend, with Level A Rewards levels of performance from CY2016 up to CY2019, and only breached the Level A Reward threshold of 9.81 seconds in CY2020 because of the surge of incoming calls due to the impact of the COVID-19 pandemic.

d. GSL Scheme

The Guaranteed Service Level (GSL) scheme requires the Applicant to provide pay-outs to directly compensate a customer if certain service delivery performance standards are not met.

Applicant's over-all performance in the GSL indicators after the end of the 3RP was continuously monitored despite the absence of the GSL framework. Using the 3RP threshold as reference, GSL performance were maintained below the allotted violation limits. The marked reduction in GSL violations can be attributed to the improvement in the overall reliability performance of the electric distribution system, which has led to the decrease in the frequency and duration of interruptions. In addition, increased awareness of the Applicant's personnel on the GSL and its impact on customer service, as well as reduction of secondary distribution line outages due to pilferage, also contributed to the reduction of GSL violations. Supporting information systems were likewise developed to provide line organizations with regular reports on the GSL levels.

II. THE INSTANT APPLICATION – FIFTH REGULATORY PERIOD

6. Applicant will continue operating under PBR, entering the Fifth Regulatory Period (5RP) as part of the First Entry Group.² This 5RP will commence on 1 July 2022 and terminate on 30 June 2026.
7. The filing of this Application for the approval of the 5RP Annual Revenue Requirement (ARR) and Performance Incentive Scheme (PIS) is in accordance with the Honorable Commission's revised Rules for setting Distribution Wheeling Rates (RDWR) for Privately Owned Distribution Utilities entering Performance Based Regulation dated 2 December 2021.
8. Applicant has prepared its proposal in accordance with the conditions described in the afore-mentioned RDWR and in the implementing guidelines issued by the Honorable Commission in its Position Paper on the Regulatory Reset for the July 2022 to June 2026 Regulatory Period for Privately Owned Distribution Utilities subject to Performance Based Regulation, dated December 2021 (Position Paper). The application submitted to the Honorable Commission made use of the methodology described in the RDWR, the Position Paper and applied the financial spreadsheet model titled Price-Cap-MODEL-GroupA-5th_RP.xls (Price-Cap Model) that was provided to the Applicant by the Honorable Commission.
9. Applicant proposes that the ARR and PIS values to be approved form the basis of the X-factor, Po-factor and the Maximum Annual Prices (MAP) that will apply to Applicant and on which it will base its rate setting for the 5RP.

Annual Revenue Requirement (ARR)

10. The proposed ARR is based on the Building Block calculation³ described in the RDWR, with the exclusion of corporate income tax.
11. As prescribed under the revised RDWR,⁴ included in the proposed ARR are allowances for under- or over-recoveries carried over from the 3RP, allowances for regulatory interventions imposed by the Honorable Commission during the 3RP, where applicable, and provision for an efficiency carry-over calculated in accordance with pertinent rules and regulations.

² The entry group was originally described in Annex B of ERC Resolution No. 12-02 Series of 2004 entitled, "Adopting a Methodology for Setting Distribution Wheeling Rates", dated 10 December 2004, and later amended by the Honorable Commission to provide for four entry points.

³ Revised RDWR, Article 4.7.1.

⁴ Revised RDWR, Article 6.4.2.

12. The proposed ARR for each Regulatory Year based on the Building Block computation under the revised RDWR is set forth below:

Table 1. Annual Revenue Requirement as per Building Block approach⁵
Proposed Revenue Requirement per Regulatory Year (Nominal PhP)

Building Block	Proposed Revenue Requirement per Regulatory Year (PhP millions, Nominal)			
	2023	2024	2025	2026
Operating and maintenance expenditure	27,824.45	28,945.60	31,006.93	33,163.99
Taxes, levies & duties (other than corporate tax)	475.70	494.64	513.24	532.24
Regulatory depreciation	11,872.44	14,909.26	17,067.99	18,871.88
Return on capital	25,859.06	30,585.19	34,105.68	36,390.90
Revenue Requirement Subtotal	66,031.66	74,934.68	82,693.84	88,959.01
Allowance for under/over recovery	273.44	277.26	286.68	294.42
Allowance for regulatory intervention	-	-	-	-
Efficiency carry-over	1,874.62	3,156.96	1,490.47	176.86
TOTAL REVENUE REQUIREMENT	68,179.71	78,368.90	84,470.99	89,430.30

13. The ARR is based on a proposed rolled-forward value of the Applicant’s Regulatory Asset Base (RAB) as described below. The opening value of the RAB for the 5RP is based on the value of the RAB as of 31 December 2021, and rolled forward using the projected CAPEX additions, depreciation and disposals from 1 January 2022 to 30 June 2022. The Applicant notes that the 31 December 2021 value of the RAB used in this Application is an interim value only. This value will be updated based on the final Independent Expert’s Report, applying the Honorable Commission’s RAB Roll-Forward Handbook for Privately Owned Distribution Utilities, issued under ERC Resolution No. 11, Series of 2021.

Table 2. Summary of proposed Rolled-forward Regulatory Asset Base
Rolled-forward Regulatory Asset Base (Nominal PhP)

	RY2023	RY2024	RY2025	RY2026
Opening Value of RAB	172,690,198,224	211,244,970,789	243,981,205,209	264,002,772,821
Depreciation on RAB	11,872,444,906	14,909,255,693	17,067,992,035	18,871,880,857
Capital Expenditure	50,394,344,727	47,603,477,043	37,038,771,540	32,807,389,958
Change in assets used over regulatory lives	32,872,745	42,013,070	50,788,106	57,452,276
Closing Value of RAB	211,244,970,789	243,981,205,209	264,002,772,821	277,995,734,199
Average RAB for the Year	191,967,584,507	227,613,087,999	253,991,989,015	270,999,253,510

⁵ The meaning and application of these parameters are as described in the revised RDWR.

14.

Due to delays in project implementation during the Lapsed Period, several Major Capex Projects are tagged as “Carry-over”. Such are projects that are essential for the improvement of Applicant’s operations, but were pushed back due to difficulties such as the COVID-19 Pandemic. These projects are slated to be commissioned by RY 2023 and RY 2024, and will be part of the 5RP RAB computations.

Table 3. Summary of Proposed Lapsed Period Carry-Over Capital Expenditure

Lapsed Period Carry-Over Capital Expenditures per Regulatory Year		
	RY2023	RY2024
Nominal Value	12,358,419,638	3,552,715,525
Nominal Value with CWIP	12,606,163,076	3,632,987,437

15.

In calculating the afore-mentioned ARR for the 5RP, Applicant made use of the estimated Philippine Consumer Price Index, United States of America Consumer Price Index and Philippine Peso/United States dollar exchange rate figures as follows:

Table 4a. Forecast Change in the Consumer Price Index for the Philippines

	2021	2022	2023	2024	2025	2026
Calendar Year	128.8	133.6	138.1	142.7	146.6	151.1
Regulatory Year		130.8	135.5	140.0	144.3	148.5
Data source :	Actual CPI, all items, for all income households in the Philippines (2012=100) up to December 2021, Philippine Statistics Authority Calendar year forecasts of PH CPI are based on the inflation forecast of the Economist Intelligence Unit (EIU) as contained in its December 2021 Country Forecast Report. The regulatory year forecasts of PH CPI are based on the template worksheets provided to the Applicant by the Honorable Commission.					

Table 4b. Forecast Change in the Consumer Price Index for the United States of America

	2021	2022	2023	2024	2025	2026
Calendar Year	270.970	281.267	287.454	293.778	300.242	306.847
Regulatory Year		276.531	284.818	291.084	297.488	304.032
Data source :	Actual CPI, all items in U.S. city average, all urban consumers, not seasonally adjusted (1982-84=100) up to December 2021, United States Bureau of Labor Statistics Calendar year forecasts of U.S. CPI are based on the U.S. inflation forecast of the Economist Intelligence Unit as contained in its December 2021 Country Forecast Report. The regulatory year forecasts of U.S. CPI are based on the template worksheets provided to the Applicant by the Honorable Commission.					

Table 4c. Forecast PhP/US\$ Exchange Rate (average for the year)

Quarter ending	2021	2022	2023	2024	2025	2026
Calendar Year	49.25	52.23	52.78	53.30	52.92	51.80
Regulatory Year		51.36	52.51	53.04	53.11	52.36
Data source :	Actual period average of PHP:USD exchange rate up to December 2021, Bangko Sentral ng Pilipinas Calendar year forecasts of PHP:USD exchange rate are based on period average PHP:USD exchange rate forecast of the Economist Intelligence Unit (EIU) as contained in its December 2021 Country Forecast Report. The regulatory year forecasts of PHP:USD exchange rate are based on the template worksheets provided to the Applicant by the Honorable Commission.					

- a.

For purposes of the initial and subsequent annual price resets during the 5RP as required under the revised RDWR, Applicant will update the afore-mentioned

Consumer Price Indices and foreign exchange rates using actual values.

- 16. The afore-mentioned ARR is partly based on a proposed Weighted Average Cost of Capital of 13.2%. Applicant’s calculations considered the recommendations of NERA Economic Consulting, Inc., a recognized and reputable global economic consulting firm which conducted a study on the matter.
- 17. In accordance with the revised RDWR, a proposal has been made to include assets used beyond their standard lives in the RAB at a value equivalent to five (5%) percent of their optimized replacement cost.

Capital Expenditure

- 18. The proposed Capital Expenditure included in the afore-mentioned calculation of the rolled-forward RAB is as follows:

Table 5. Summary of Proposed 5RP Capital Expenditure

	Capital Expenditures per Regulatory Year (5RP)			
	(PhP)			
	Ry2023	Ry2024	Ry2025	Ry2026
Nominal Values	37,533,728,331	43,495,962,814	36,373,833,274	32,248,981,088
Nominal Values, including CWIP factor	38,237,239,806	44,377,877,352	37,051,638,283	32,820,603,595

- 19. The proposed CAPEX projects, following the latest RDWR Position Paper and planning criteria in the ERC’s Investor-Owned Distribution Utility Planning Manual, are necessary to augment the capacity of the network to meet demand growth or new customer requirements; to replace and refurbish aging, and obsolete assets; to relocate assets needed for the implementation of government infrastructure and third-party initiated projects; to purchase and construct non-network assets required for the normal efficient operation of the electric distribution system; to deploy automation and technology projects as well as innovative solutions for various electrification projects; and to comply with regulatory requirements as embodied in the EPIRA, the Philippine Distribution Code, the Philippine Electrical Code, applicable international standards, and other relevant rules and regulations with emphasis on maintaining the integrity, reliability and efficiency of the electric system, and for the continuous improvement in service quality and performance measurement for the benefit of the consumers.
- 20. For the 5RP, MERALCO is likewise proposing the implementation of its Advanced Metering Infrastructure (AMI) Program for more than two (2) million customers aligned with the objective of deploying a reliable, efficient, and intelligent distribution grid.

Operating & Maintenance Expenditure

21. The proposed Operating & Maintenance Expenditures included in the afore-mentioned calculation of the ARR is provided as follows:

Table 6. Summary of Proposed 5RP Operating & Maintenance Expenditure

	Operating & Maintenance Expenditures per Regulatory Year (5RP)			
	(PhP)			
	RY2023	RY2024	RY2025	RY2026
Nominal Value	27,824,450,084	28,945,600,321	31,006,925,317	33,163,987,107

22. The proposed Operating and Maintenance expenditures (OPEX) are necessary to: (i) maintain the safety, efficiency and reliability of the distribution network; (ii) support the growing asset base; (iii) allow Applicant to deliver services to its customers and support its business operations including the use of automation and digital technologies; (iv) meet the requirements of Government programs and regulations imposed on the Applicant, and (v) meet the performance targets under the Performance Incentive Scheme. The proposed OPEX will support strong growth prospects for the economy with sustained moderate growth in kWh sales throughout the 5RP. Moreover, additional OPEX is needed, not only to meet service performance levels, but also to ensure that Applicant’s reliability standards are kept at par with other power distribution utilities serving other countries in the Asian region which are the Philippines’ competitors for direct foreign investment. Applicant has to meet customers’ increasingly more stringent requirements, particularly those customers whose output are the main drivers of our economic growth and source of export income.

Taxes other than Corporate Income Tax

23. The proposed expenditure on Taxes, Levies & Duties (other than corporate income tax) included in the afore-mentioned calculation of the ARR is provided as follows:

Table 7. Summary of proposed 5RP Taxes, Levies & Duties (other than Corporate Income Tax) Expenditure

	Other Taxes per Regulatory Year (5RP)			
	(PhP)			
	RY2023	RY2024	RY2025	RY2026
Nominal Value	475,701,961	494,637,056	513,238,886	532,244,663

- a. As provided under ERC Resolution No. 2, Series of 2021, the real property taxes for the 5RP are no longer included in the forecast and are recovered in accordance with said resolution.
- b. The above-mentioned proposed taxes, levies & duties (other than corporate income taxes) expenditures

show an increase from current levels due to new and additional impositions initiated by various local government units within Applicant's franchise area such as for changes in the schedule of fees and other permits. The forecasts likewise considered the imposition by Local Government Units of regulatory fees on Applicant's poles.

Regulatory Depreciation

24. The proposed Regulatory Depreciation, which includes an allowance for assets intended to be disposed of during the 5RP, after allowing for any potential income from the sales of such disposed assets, is as shown below. The values below include depreciation both on the assets which make up Applicant's RAB at the start of the 5RP and those that Applicant proposes to be acquired during the 5RP. Additionally, depreciation is calculated on a straight-line basis, based on the standard asset lives as approved by the Honorable Commission, where these are available.

Table 8. Summary of proposed Depreciation (per Regulatory Year)

	RY2023	RY2024	RY2025	RY2026
Opening asset base	9,302,798,472	9,302,798,472	8,938,682,990	8,582,000,199
Interim assets before regulatory period	815,265,859	815,265,859	815,265,859	815,265,859
Assets acquired during regulatory period	1,631,107,781	4,633,642,350	7,123,587,786	9,259,168,762
Subtotal	11,749,172,112	14,751,706,681	16,877,536,635	18,656,434,820
plus Disposals	246,545,589	315,098,024	380,910,799	430,892,073
minus Income from Disposals	(123,272,795)	(157,549,012)	(190,455,399)	(215,446,037)
TOTAL	11,872,444,906	14,909,255,693	17,067,992,035	18,871,880,857

25. Sales of energy, including those to Applicant, are forecasted as follows:

Table 9. Summary of forecast energy consumption (per Regulatory Year)

	RY 2022	RY 2023	RY 2024	RY 2025	RY 2026
Energy consumption (MWh)	46,433,106	48,489,140	49,944,877	51,636,283	53,526,770

26. The estimates of the afore-mentioned energy sales are based on the following forecast of co-incident annual peak demand on the whole distribution network:

Table 10. Summary of forecast peak demand (per Regulatory Year)

	RY 2022	RY 2023	RY 2024	RY 2025	RY 2026
Demand (MW)	8,311	8,570	8,839	9,204	9,558

27. The estimated price-path for the 5RP, determined using the proposed ARR and an assumed 0.0310 X-factor and 0.0225 Po-factor, is provided below:

Table 11. Assumed Annual Maximum Average Prices for the Fifth Regulatory Period

	RY 2023	RY 2024	RY 2025	RY 2026
Maximum Annual Price (PhP/kWh)	1.5663	1.5702	1.5695	1.5664

28. The Honorable Commission will determine the actual X factor and Po-factor after its consideration of this Application and the actual price-path after incorporating such amendments to these proposals as the Honorable Commission deems necessary. Moreover, the Honorable Commission may amend one or more of the parameters on which the calculations of the proposed ARR are based. The actual approved price path is therefore likely to differ from that estimated above.
29. Since the Maximum Average Prices (MAP) calculated under PBR are not comparable with unbundled rates, Applicant, for illustrative purposes, has prepared a comparison of its current rates for providing distribution wheeling services with those that would result from the implementation of the aforementioned estimated MAPs, which is presented below:

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Table 12. Comparison of estimated rates with current rates
 (illustrative only)

Customer Class	MAP	Current	Illustrative Rates			
		Rates	2023	2024	2025	2026
		1.3810	1.5663	1.5702	1.5695	1.5664
Residential & General Service A (RGSA)						
	Distribution (Php/kWh)					
	Up to 200 kWh	1.0012	1.1355	1.1384	1.1379	1.1356
	201-300 kWh	1.3183	1.4952	1.4989	1.4982	1.4953
	301-400 kWh	1.6175	1.8345	1.8391	1.8383	1.8347
	401& Over	2.1387	2.4257	2.4317	2.4306	2.4258
	Supply (PhP/kWh)	0.5085	0.5767	0.5782	0.5779	0.5768
	Supply (PhP/Customer/Month)	16.73	18.97	19.02	19.01	18.98
	Metering (PhP/kWh)	0.3377	0.3830	0.3840	0.3838	0.3830
	Metering (PhP/Customer/Month)	5.00	5.67	5.69	5.68	5.67
General Service B (GSB)						
	Distribution (Php/kWh)	0.1368	0.1552	0.1555	0.1555	0.1552
	Distribution Demand Charge (PhP/kW)	237.15	268.97	269.64	269.52	268.99
	Supply (PhP/Customer/Month)	371.48	421.32	422.37	422.19	421.35
	Metering (PhP/Customer/Month)	362.34	410.96	411.98	411.80	410.98
General Power Medium Secondary (GP Med-Sec)						
	Distribution (Php/kWh)	0.1368	0.1552	0.1555	0.1555	0.1552
	Distribution Demand Charge (PhP/kW)	237.15	268.97	269.64	269.52	268.99
	Supply (PhP/Customer/Month)	845.17	958.57	960.96	960.53	958.63
	Metering (PhP/Customer/Month)	849.44	963.42	965.82	965.38	963.48
General Power Large Secondary (GP Lrg-Sec)						
	Distribution (Php/kWh)	0.1368	0.1552	0.1555	0.1555	0.1552
	Distribution Demand Charge (PhP/kW)	237.15	268.97	269.64	269.52	268.99
	Supply (PhP/Customer/Month)	3,505.46	3,975.82	3,985.72	3,983.94	3,976.07
	Metering (PhP/Customer/Month)	3,525.12	3,998.11	4,008.07	4,006.28	3,998.37
General Power Very Large Secondary (GP Very Lrg-Sec)						
	Distribution (Php/kWh)	0.1368	0.1552	0.1555	0.1555	0.1552
	Distribution Demand Charge (PhP/kW)	237.15	268.97	269.64	269.52	268.99
	Supply (PhP/Customer/Month)	12,726.30	14,433.89	14,469.83	14,463.38	14,434.81
	Metering (PhP/Customer/Month)	12,075.11	13,695.33	13,729.43	13,723.31	13,696.20

General Power Medium 13.8 kV & Below (GP-Medium)					
Distribution (Php/kWh)	0.0513	0.0582	0.0583	0.0583	0.0582
Distribution Demand Charge (PhP/kW)	182.66	207.17	207.68	207.59	207.18
Supply (PhP/Customer/Month)	845.17	958.57	960.96	960.53	958.63
Metering (PhP/Customer/Month)	849.44	963.42	965.82	965.38	963.48
General Power Large 13.8 kV & Below (GP Large)					
Distribution (Php/kWh)	0.0513	0.0582	0.0583	0.0583	0.0582
Distribution Demand Charge (PhP/kW)	182.66	207.17	207.68	207.59	207.18
Supply (PhP/Customer/Month)	3,505.46	3,975.82	3,985.72	3,983.94	3,976.07
Metering (PhP/Customer/Month)	3,525.12	3,998.11	4,008.07	4,006.28	3,998.37
General Power Very Large/Extra Large 13.8 kV & Below (GP-VL/XL)					
Distribution (Php/kWh)	0.0513	0.0582	0.0583	0.0583	0.0582
Distribution Demand Charge (PhP/kW)	182.66	207.17	207.68	207.59	207.18
Supply (PhP/Customer/Month)	12,726.30	14,433.89	14,469.83	14,463.38	14,434.81
Metering (PhP/Customer/Month)	12,075.11	13,695.33	13,729.43	13,723.31	13,696.20
General Power Medium 34.5 kV & Below (GP-Medium)					
Distribution (Php/kWh)	0.0513	0.0582	0.0583	0.0583	0.0582
Distribution Demand Charge (PhP/kW)	182.66	207.17	207.68	207.59	207.18
Supply (PhP/Customer/Month)	845.17	958.57	960.96	960.53	958.63
Metering (PhP/Customer/Month)	849.44	963.42	965.82	965.38	963.48
General Power Large 34.5 kV & Below (GP Large)					
Distribution (Php/kWh)	0.0513	0.0582	0.0583	0.0583	0.0582
Distribution Demand Charge (PhP/kW)	182.66	207.17	207.68	207.59	207.18
Supply (PhP/Customer/Month)	3,505.46	3,975.82	3,985.72	3,983.94	3,976.07
Metering (PhP/Customer/Month)	3,525.12	3,998.11	4,008.07	4,006.28	3,998.37
General Power Very Large/Extra Large 34.5 kV & Below (GP-VL/XL)					
Distribution (Php/kWh)	0.0513	0.0582	0.0583	0.0583	0.0582
Distribution Demand Charge (PhP/kW)	182.66	207.17	207.68	207.59	207.18
Supply (PhP/Customer/Month)	12,726.30	14,433.89	14,469.83	14,463.38	14,434.81
Metering (PhP/Customer/Month)	12,075.11	13,695.33	13,729.43	13,723.31	13,696.20

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General Power Large					
115 & 69 kV (GP Large)					
Distribution (Php/kWh)	0.0513	0.0582	0.0583	0.0583	0.0582
Distribution Demand Charge (Php/kW)	143.32	162.55	162.96	162.88	162.56
Supply (Php/Customer/Month)	3,505.46	3,975.82	3,985.72	3,983.94	3,976.07
Metering (Php/Customer/Month)	3,525.12	3,998.11	4,008.07	4,006.28	3,998.37
General Power Very Large/Extra Large 115 & 69 kV (GP-VL/XL)					
Distribution (Php/kWh)	0.0513	0.0582	0.0583	0.0583	0.0582
Distribution Demand Charge (Php/kW)	143.32	162.55	162.96	162.88	162.56
Supply (Php/Customer/Month)	12,726.30	14,433.89	14,469.83	14,463.38	14,434.81
Metering (Php/Customer/Month)	12,075.11	13,695.33	13,729.43	13,723.31	13,696.20
Government Hospitals, Metered Streetlights & Charitable Institutions					
Distribution (Php/kWh)	0.8667	0.9830	0.9854	0.9850	0.9831
Supply (Php/Customer/Month)	278.59	315.97	316.76	316.62	315.99
Metering (Php/Customer/Month)	278.46	315.82	316.61	316.47	315.84
Flat Streetlights					
Distribution (Php/lamp)					
125 W Mercury, 70 W HPS or their Equivalent	84.34	95.66	95.89	95.85	95.66
250 W Mercury, 150 W HPS or their Equivalent	134.55	152.60	152.98	152.92	152.61
400 W Mercury, 250 W HPS or their Equivalent	224.92	255.10	255.73	255.62	255.12
400 W HPS or their Equivalent	349.43	396.32	397.30	397.13	396.34
Supply (Php/lamp)					
125 W Mercury, 70 W HPS or their Equivalent	27.28	30.94	31.02	31.00	30.94
250 W Mercury, 150 W HPS or their Equivalent	43.52	49.36	49.48	49.46	49.36
400 W Mercury,	72.74	82.50	82.71	82.67	82.51

250 W HPS or their Equivalent 400 W HPS or their Equivalent	113.01	128.17	128.49	128.44	128.18
Average PhP/kWh Distribution Wheeling Rate	1.3810	1.5663	1.5702	1.5695	1.5664

Performance Incentive Scheme

30. The revised RDWR prescribes the determination of a Price-Linked Performance Incentive Scheme. According to this Performance Incentive Scheme, Applicant will be rewarded if the service performance levels of its electricity distribution business exceed the target levels as proposed and will be penalized if such service performance levels fall below the proposed targets. The proposed Price-Linked Performance Incentive Scheme is based on the performance measures and performance targets shown below. Stepped performance target levels are proposed, which will influence the size of the reward or penalty.

Table 13. Summary of proposed Price-linked Performance Incentive Scheme

Performance index	Units	Weight	Reward		Target	Penalty	
			Level A	Level B	Level C	Level D	Level E
System average interruption frequency index (SAIFI)	Number	0.20	SAIFI is less than or equal to 1.13	SAIFI is less than or equal to 1.43 but greater than 1.13	SAIFI is greater than 1.43 but less than or equal to 2.03	SAIFI is greater than 2.03 but less than or equal to 2.33	SAIFI is greater than 2.33
System Average Interruption Duration Index (SAIDI)	Minutes	0.20	SAIDI is less than or equal to 131.02	SAIDI is less than or equal to 157.04 but greater than 131.02	SAIDI is greater than 157.04 but less than or equal to 209.06	SAIDI is greater than 209.06 but less than or equal to 235.07	SAIDI is greater than 235.07
Momentary Average Interruption Frequency Index (MAIFI)	Number	0.10	MAIFI is less than or equal to 6.77	MAIFI is less than or equal to 7.59 but greater than 6.77	MAIFI is greater than 7.59 but less than or equal to 9.21	MAIFI is greater than 9.21 but less than or equal to 10.03	MAIFI is greater than 10.03
System losses	%	0.20	SL is less than or equal to 6.27%	SL is less than or equal to 6.50% but greater than 6.27%	Not Applicable	Not Applicable	Not Applicable
Time to Process Applications (TPA)	Days	0.10	TPA is less than or equal to 3.40 days	TPA is less than or equal to 3.63 days but greater than 3.40 days	TPA is greater than 3.63 days but less than or equal to 4.10 days	TPA is greater than 4.10 days but less than or equal to 4.33 days	TPA is greater than 4.33 days
Time to Connect Premises (TCP)	Days	0.10	TCP is less than or equal to 1.65 days	TCP is less than or equal to 1.82 days but greater than 1.65 days	TCP is greater than 1.82 days but less than or equal to 2.16 days	TCP is greater than 2.16 days but less than or equal to 2.33 days	TCP is greater than 2.33 days
Call Center Performance (CCP)	% of calls answered within 20 seconds	0.10	CCP is greater than or equal to 91.15%	CCP is greater than or equal to 85.58% but less than 91.15%	CCP is greater than or equal to 74.42% but less than 85.58%	CCP is greater than or equal to 68.85% but less than 74.42%	CCP is less than 68.85%

31. Under the revised RDWR, Applicant is likewise required to propose a Guaranteed Service Level Performance Incentive Scheme. This Guaranteed Service Level Scheme will directly compensate customers, in the form of reductions in their monthly electricity bills, if service performance falls below certain minimum thresholds. The thresholds and the penalties that will apply are as shown below:

Table 14. Summary of proposed Guaranteed Service Level Incentive Scheme

Performance Measure	Threshold	Payout level (PhP)
GSL 1: Customer experiencing a cumulative duration of sustained interruptions in a Regulatory Year that exceeds the threshold	15 hours	Php 1,266.51
GSL 2: Customer experiencing a total number of sustained interruptions in a Regulatory Year that exceeds the threshold	12 times	Php 1,266.51
GSL 3: Restoration of supply to a customer after a fault on the secondary distribution network taking longer than the threshold time	12 hours	Php 1,266.51
GSL 4: Customer connection not provided on the day agreed with the customer	2 days minimum, 5 days maximum	Payout per day – Php 906.17 Minimum Payout – Php 1,812.34 Maximum Payout – Php 4,530.85

- a. In accordance with the revised RDWR, Applicant is entitled to an amount equal to 0.5% of its ARR (excluding any provision for under-/over-recovery, regulatory intervention, or efficiency carry-over from the 3RP), which is intended to be applied to the Guaranteed Service Level Scheme and can be used to either provide for penalties under the scheme, or for network or operational improvements to avoid such penalties.
32. In support of this Application for the approval of its ARR and Performance Incentive Scheme, Applicant has attached the following required documents/schedules as described in the revised RDWR and the Position Paper:

(This space is intentionally left blank.)

Table 15. Supporting Information Attached

Schedule	Information provided
A	Regulatory Asset Base
A1	Explanation on Independent Expert's Report
A2	Assets forecast to be acquired during the period between the initial Roll Forward RAB valuation date and the start of the Fifth Regulatory Period.
A2.1	- Schedule of assets to be acquired
A2.2	- Justification for assets to be acquired
A3	Forecast asset disposal during the period between the initial Roll Forward RAB valuation date and the start of the Fifth Regulatory Period. - Schedule of assets to be disposed of - Value of the assets to be disposed of - Forecast income from the sale of disposed assets
A4	Roll Forward depreciation schedules for the RAB for the period between the initial valuation date and the start of the Fifth Regulatory Period, for
A4.1	- Assets included in the Original RAB
A4.2	- Assets acquired in the lead-up to the Fifth Regulatory Period
A5	Historical cost depreciation schedules for the RAB for the period between the initial Roll Forward RAB valuation date and the start of the Fifth Regulatory Period, for - Assets included in the Original RAB - Assets acquired in the lead-up to the Fifth Regulatory Period (including those to be completed from January 2022 to June 2022)
A6	Application of the construction work in progress (CWIP) factor to the RAB as at the start of the Fifth Regulatory Period.
A7	Summary of the estimated roll forward depreciated replacement cost and the depreciated historical cost of the full RAB as at the start of the Fifth Regulatory Period (the opening value of the rolled-forward RAB).
B	Financial indices forecast for the Fifth Regulatory Period

B1	Philippine quarterly CPI
B2	United States quarterly CPI
B3	PhP/US\$ quarterly exchange rate
B4	364-day Treasury Bills
C	Forecast capital expenditure for the Fifth Regulatory Period
C1	Summary of capital expenditure forecasts for each year of the Fifth Regulatory Period
C1.1	- Real values, divided in PhP and US\$ components
C1.2	- Total real values, in PhP
C1.3	- Total nominal values, in PhP
C1.4	- Total nominal values with CWIP, PhP
C1.5	- Justification for capital expenditure (Annex A for major and Annex B for residual projects)
C2	Summary of capital expenditure projects filed from RY2016 to RY2022 to be commissioned within the 5RP (capex carry-over)
C2.1	- Real values, divided in PhP and US\$ components
C2.2	- Total real values, in PhP
C2.3	- Total nominal values, in PhP
C2.4	- Total nominal values with CWIP, in PhP
C2.5	- Justification for CAPEX carry-over
C3	Broken down historical capital expenditure
D	Forecast disposals during the Fifth Regulatory Period
D1	Value of assets to be disposed of (based on roll forward register)
D2	Forecast income from the sale of disposed assets
E	Forecast depreciation during the Fifth Regulatory Period
E1	Depreciation of the opening asset base
E2	Depreciation of the assets forecast to be acquired during the Fifth Regulatory Period
F	Forecast assets used beyond standard lives
	Forecast addition to assets used beyond standard lives
	Forecast removal from assets used beyond standard lives
G	Forecast operating & maintenance expenditure
G1	Summary of forecast operating & maintenance expenditure
G1.1	

G1.2 G1.2.1 G1.3 G1.4	<ul style="list-style-type: none"> - Annual expenditure, divided in real PhP and US\$ components - Annual expenditure, in real PhP - Annual expenditure, in real 2019 PhP - Annual expenditure, in nominal PhP - Justification for operating & maintenance expenditure forecasts
G2	Historical operating & maintenance expenditure
G3	
G3.1 G3.2 G3.3 G3.4	Summary of expenditure on taxes (other than corporate income tax), duties and levies <ul style="list-style-type: none"> - Annual expenditure, in real PhP - Annual expenditure, in nominal PhP - Justification for expenditure - Historical taxes, levies & duties
H	Forecast energy consumption and demand
H1	Forecast energy consumption figures (kWh)
H1.1	<ul style="list-style-type: none"> - Breakdown of consumption figures into customer classes - Supporting evidence
H1.2	
H2	Forecast energy demand figures (MW)
H3	Forecast number of customers, per customer class
I	Carry-overs from the Third Regulatory Period
I1	Under- or over recovery of revenue to which the regulated entity was entitled in terms of the RDWR, but was unable to recover or return during the Third Regulatory Period
I2	Regulatory interventions applied by the Commission in its Final Determination on the price-control arrangements that would apply to the electricity distribution wheeling rates for the regulated entity during the Fifth Regulatory Period.
I3	Efficiency carry-over as described in Article IX of the RDWR
J	Proposed Regulatory WACC for the Fifth Regulatory Period
K	Proposed Working Capital
L	Proposed Construction Work in Progress (CWIP) Factor
M	Performance incentive scheme details
M1	Price-linked incentive scheme, including supporting information & calculations
M1.1 M1.2	<ul style="list-style-type: none"> - Details of scheme proposed - Proposed target levels

M1.3	- Actual performance levels against the proposed indices for the five years prior to this Application
M2	Guaranteed service level scheme, including supporting information & calculations
M2.1	- Details of scheme proposed
M2.2	- Proposed target levels
M2.3	- Actual performance levels against the proposed indices for the five years prior to this Application
M2.4	- Proposed payout levels
N	Additional information for price-cap model
N1	Contact details for input sheets
O	Detailed calculations for Fifth Regulatory Period
O-1	<ul style="list-style-type: none">- Rolled Forward RAB for the Fifth Regulatory Period- Annual Revenue Requirement (completed Price Cap Model)- Corporate income tax forecasts- Forecast price-caps for the opening and subsequent years of the Fifth Regulatory Period
P	Calculation of demonstrative rates
Q	Overview of performance of the network and the utility during the past five (5) years and Proposals for the Fifth Regulatory Period

33. Applicant also hereby submits an overview of its actual performance during the past five (5) years and its proposal for the 5RP.
34. Considering the foregoing, Applicant most respectfully prays for the approval of this Application to allow it to fulfill its obligations under PBR and to ensure its continued reliable and efficient operations and provision of its services to the public, in general, and its customers, in particular.

PRAYER

WHEREFORE, premises considered, Applicant MANILA ELECTRIC COMPANY most respectfully prays, after due notice and hearing, that the instant Application be approved authorizing Applicant to adopt the proposed Annual Revenue Requirement and Performance Incentive Scheme for the Fifth Regulatory Period.

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

The Commission has set 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 2020⁶ dated 24 September 2020 and Resolution No. 01, Series of 2021 dated 17 December 2020 (ERC Revised Rules of Practice and Procedure):⁷

Date	Platform	Activity
26 April 2022 (Tuesday) at nine o'clock in the morning (9:00 A.M.)	Microsoft Teams	Determination of compliance with the jurisdictional requirements and expository presentation
28 April 2022 (Thursday) at nine o'clock in the morning (9:00 A.M.)	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

⁶ A Resolution Adopting the Guidelines Governing Electronic Applications, Filings and Virtual Hearings Before the Energy Regulatory Commission.

⁷ A Resolution Adopting the Revised Rules of Practice and Procedure of the Energy Regulatory Commission.

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- 3) A statement of the relief desired.

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:

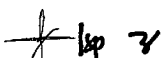
- 1) The name, mailing address, and e-mail address of such person;
- 2) A concise statement of the Opposition or Comment; and
- 3) The grounds relied upon.

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 24th day of March 2022 in Pasig City.


AGNES VST DEVANADERA
Chairperson and CEO


LS: MVM/LSP/MCCG

