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) 2019, WITH PRAYER FOR PROVISIONAL AUTHORITY

ERC CASE NO. 2018-032 RC

MANILA ELECTRIC COMPANY (MERALCO),
Applicant.
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DOCKETED
Date: AUG 02 2018
By: M

NOTICE OF PUBLIC HEARING

TO ALL INTERESTED PARTIES:

Notice is hereby given that on 30 April 2018, the Manila Electric Company (MERALCO) filed an *Application* dated 19 April 2018, seeking for authority to implement the proposed capital expenditure program for Regulatory Year (RY) 2019, with a prayer for provisional authority.

MERALCO alleged the following in its *Application*:

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 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. MERALCO's 3RP ended on 30 June 2015.

4. Absent any regulatory reset, MERALCO is filing the instant application for the approval of its CAPEX project for RY 2019 covering the period 1 July 2018 to 30 June 2019, 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. MERALCO's RY 2019 CAPEX application is intended to ensure the reliable operation of its distribution network and continuous distribution service and connection to meet the growing and future needs of its more than six (6) million customers.

A. BACKGROUND OF MERALCO'S RY 2019 CAPEX PROGRAM

5. MERALCO's RY 2019 CAPEX Program is geared towards providing reliable service to its customers by creating 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 2019 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 serve MERALCO's current customers, while provisioning to meet future needs. MERALCO forecasts a 4.3% growth in peak demand and a 3.6% growth in MERALCO's customer base for RY 2019. This increase in peak demand and customer count 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.

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

Capital expenditures are required to maintain existing assets, improve network performance and enhance customer service performance in the current regulatory period.

c. Automation/Innovation/Technology

Automation/technology projects will allow MERALCO to enhance its distribution network, enabling it to respond more effectively and efficiently to line and network outages, which will reduce service interruptions of customers. Some of the CAPEX Projects also considered, and are intended to comply with the requirements of the Rules to Govern the Implementation of an Advanced Metering Infrastructure System by Distribution Utilities and ERC-Authorized Entities ("AMI Rules").

d. Compliance to statutory and regulatory requirements.

Included in its RY 2019 CAPEX program are projects that are proposed in order to comply with a number of regulatory requirements and government prescriptions, which includes: (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 metering requirements; and (c) Retail Competition and Open Access (RCOA) Rules.

e. 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 MERALCO's considerations and justifications in forecasting its RY2019 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 hereby proposes the following major projects for RY 2019:

PROJECT CODE	PROJECT NAME	TOTAL	ANNEX
MER-1	Development of Binangonan 115 kV-34.5 kV Substation	665,956,010	"B-1"
MER-2	Development of Commonwealth 115 kV-34.5 kV GIS Substation	605,540,969	"B-2"
MER-3	Development of FBGC-2 115 kV-34.5 kV GIS Substation	413,978,635	"B-3"

MER-4	Development of Lancaster 115 kV-34.5 kV Substation	387,532,856	"B-4"
MER-5	Development of MetPark 115 kV-34.5 kV GIS Substation	470,052,101	"B-5"
MER-6	Expansion of CIP II 115 kV-13.8 kV Substation	100,463,587	"B-6"
MER-7	Expansion of Filinvest 115 kV-34.5 kV GIS Substation (2nd Bank)	167,894,324	"B-7"
MER-8	Expansion of NAIA-3 115 kV-34.5kV GIS Substation (2nd Bank)	193,801,248	"B-8"
MER-9	Expansion of Sta. Rosa II 115 kV-34.5 kV Substation (3rd 83 MVA Bank)	131,508,338	"B-9"
MER-10	Expansion of Tagaytay West 115 kV-13.8 kV Substation (2nd Bank)	180,166,687	"B-10"
MER-11	Expansion of TMC II 115 kV-34.5kV Substation (2nd Bank)	254,000,926	"B-11"
MER-12	Uprating of Calumpit Banks 1 & 2 to 1-50 MVA	195,103,245	"B-12"
MER-13	Uprating of CND 69 kV-13.8 kV Substation to 50 MVA	182,897,793	"B-13"
MER-14	Conjunctive MERALCO Project to the Installation of Zapote (Las Piñas) 5th 300 MVA Power Transformer	63,928,540	"B-14"
MER-15	Construction of PAGCOR 1-CBP1A 115 kV Line	249,012,553	"B-15"
MER-16	Construction of San Mateo-Diliman-Marikina 115 kV Line	190,034,893	"B-16"
MER-17	Development of Alagao and Casalat 69kV Switching Stations	632,556,442	"B-17"
MER-18	Installation of Malolos 3rd 150 MVA Power Transformer	224,122,255	"B-18"
MER-19	Relocation of MERALCO's electrical facilities affected by the construction of the National Government's Public-Private Partnership (PPP) Projects	433,644,376	"B-19"
MER-20	Asset Performance Management (APM) System	153,422,930	"B-20"
MER-21	Expansion of the Advanced Metering Infrastructure	2,377,643,184	"B-21"
MER-22	Mobile Substation	150,000,000	"B-22"
MER-23	Enterprise Systems Management for Smart Grid Network	44,665,997	"B-23"
MER-24	Replacement of DCCI Core Switch at the Primary and Secondary Data Center	92,820,171	"B-24"
MER-25	Security Incident Event Management (SIEM)	63,908,947	"B-25"
MER-26	Replacement of Existing 40 Station Single-Phase Stationary Meter Test Bench at MERALCO's ERC-Accredited Meter Shop	37,157,633	"B-26"
MER-27	Retail Competition and Open Access (RCOA) Meter Conversion Program	78,835,122	"B-27"

Copies of the detailed project justifications of the major projects under MERALCO's RY2019 CAPEX program are attached herewith as **Annexes "B and Series"** and made integral parts hereof.

7. On the other hand, MERALCO's residual projects, broken down by asset categories, are as follows:

PROJECT CODE	ASSET CATEGORY	TOTAL	ANNEX
RES - 1B	Structures and Improvements (Distribution Purposes)	78,523,034	"C-1"
RES - 1C.1	Structures and Improvements (Distribution Purposes)	15,528,682	"C-2"
RES - 1C.2	Structures and Improvements (Distribution Purposes)	10,800,000	"C-3"
RES - 2B	Power transformers	74,208,211	"C-4"
RES - 3A.1	Switchgear	57,164,297	"C-5"
RES - 3A.2	Switchgear	5,580,405	"C-6"
RES - 3B	Switchgear	177,714,483	"C-7"
RES - 3C	Switchgear	39,000,000	"C-8"
RES - 4A.1	Protective equipment	17,544,899	"C-9"
RES - 4A.2	Protective equipment	9,698,414	"C-10"
RES - 4B	Protective equipment	103,255,129	"C-11"
RES - 5B	Metering & control equipment	72,253,156	"C-12"
RES - 6A	Communications equipment	83,608,181	"C-13"

RES - 6B	Communications equipment	60,600,000	"C-14"
RES - 7A.1	Other station equipment	28,783,472	"C-15"
RES - 7A.2	Other station equipment	23,925,706	"C-16"
RES - 7B	Other station equipment	11,095,060	"C-17"
RES - 8A.1	Poles, Towers and Fixtures - Distribution	202,114,289	"C-18"
RES - 8A.2	Poles, Towers and Fixtures - Distribution	1,095,546,833	"C-19"
RES - 8B	Poles, Towers and Fixtures - Distribution	849,837,270	"C-20"
RES - 9A.1	Overhead Conductors and Devices - Distribution	160,292,774	"C-21"
RES - 9A.2	Overhead Conductors and Devices - Distribution	350,886,886	"C-22"
RES - 9B	Overhead Conductors and Devices - Distribution	1,311,864,196	"C-23"
RES - 10B	Underground Conduits - Distribution	47,506,168	"C-24"
RES - 11A.1	Underground Conductors and Devices - Distribution	23,393,275	"C-25"
RES - 11A.2	Underground Conductors and Devices - Distribution	357,036,915	"C-26"
RES - 11B	Underground Conductors and Devices - Distribution	32,666,964	"C-27"
RES - 12A.1	Distribution Transformers	107,796,426	"C-28"
RES - 12A.2	Distribution Transformers	1,784,679,567	"C-29"
RES - 12B	Distribution Transformers	257,674,842	"C-30"
RES - 13B	Power Conditioning Equipment	202,707,928	"C-31"
RES - 14A	Meters, Metering Instruments & Metering Transformers - Distribution	40,304,583	"C-32"
RES - 14B	Meters, Metering Instruments & Metering Transformers - Distribution	11,374,931	"C-33"
RES - 14C	Meters, Metering Instruments & Metering Transformers - Distribution	41,816,005	"C-34"
RES - 15A.1	Information technology equipment (distribution)	7,380,945	"C-35"
RES - 15A.2	Information technology equipment (distribution)	50,006,515	"C-36"
RES - 15A.3	Information technology equipment (distribution)	58,348,500	"C-37"
RES - 15B.1	Information technology equipment (distribution)	167,659,470	"C-38"
RES - 16A	Street Lights and Signal Systems	56,059,800	"C-39"
RES - 16B	Street Lights and Signal Systems	132,396,639	"C-40"
RES - 17A	Structures and Improvements (non-network)	130,786,000	"C-41"
RES - 17B	Structures and Improvements (non-network)	168,936,000	"C-42"
RES - 17C	Structures and Improvements (non-network)	39,100,000	"C-43"
RES - 18A	Office Furniture and Equipment	3,819,101	"C-44"
RES - 18B	Office Furniture and Equipment	16,212,898	"C-45"
RES - 19B	Transportation Equipment	313,070,000	"C-46"
RES - 19C	Transportation Equipment	3,200,000	"C-47"
RES - 20A	Tools, Shop and Garage Equipment	9,736,572	"C-48"
RES - 20B	Tools, Shop and Garage Equipment	82,374,467	"C-49"
RES - 21A	Laboratory Equipment	121,383,000	"C-50"
RES - 21B	Laboratory Equipment	53,593,200	"C-51"
RES - 22A	Information Systems Equipment (non-network)	254,961,236	"C-52"
RES - 22B	Information Systems Equipment (non-network)	267,026,140	"C-53"
RES - 22C	Information Systems Equipment (non-network)	3,976,718	"C-54"
RES - 23A	Communication Plant and Equipment	15,695,853	"C-55"
RES - 23C	Communication Plant and Equipment	4,000,000	"C-56"
RES - 24A.1	Miscellaneous Equipment	122,842,099	"C-57"
RES - 24A.2	Miscellaneous Equipment	1,450,000	"C-58"
RES - 24B.1	Miscellaneous Equipment	3,500,000	"C-59"
RES - 24B.2	Miscellaneous Equipment	654,481	"C-60"
RES - 25C	Materials and Supplies	16,457,415	"C-61"
RES - 26A	Overhead Conductors and Devices (Customer)	521,092,603	"C-62"
RES - 27A	Underground Conductors and Devices (Customer)	149,365,340	"C-63"
RES - 28B	Information Systems Equipment (non-network)	3,998,700	"C-64"
RES - 28C	Information Systems Equipment (non-network)	441,858	"C-65"
RES - 29A	Meters, Instruments & Metering Transformers (Consumer Consumption Metering)	885,077,613	"C-66"

RES - 29B	Meters, Instruments & Metering Transformers (Consumer Consumption Metering)	591,408,018	"C-67"
RES - 30A	Structures and Improvements (non-network)	4,650,000	"C-68"
RES - 30B	Structures and Improvements (non-network)	8,150,000	"C-69"
RES - 30C	Structures and Improvements (non-network)	19,670,995	"C-70"
RES - 31A	Office Furniture and Equipment	353,805	"C-71"
RES - 31B	Office Furniture and Equipment	1,933,111	"C-72"
RES - 32B	Transportation Equipment	12,625,000	"C-73"
RES - 33A	Laboratory Equipment	6,200,618	"C-74"
RES - 33B.1	Laboratory Equipment	31,352,050	"C-75"
RES - 33B.2	Laboratory Equipment	3,230,200	"C-76"
RES - 34A	Information Systems Equipment	67,290,151	"C-77"
RES - 34B	Information Systems Equipment	67,768,934	"C-78"
RES - 34C	Information Systems Equipment	4,484,042	"C-79"
RES - 35A	Communication Plant and Equipment	12,178,000	"C-80"
RES - 35B	Communication Plant and Equipment	4,000,000	"C-81"
RES - 36A	Miscellaneous Equipment	1,164,598	"C-82"
RES - 36B.1	Miscellaneous Equipment	800,000	"C-83"
RES - 36B.2	Miscellaneous Equipment	29,020,309	"C-84"

Copies of the project justifications of the residual projects under MERALCO's RY2019 CAPEX program are attached herewith as **Annexes "C and Series"** and made integral parts hereof.

8. In light of the resulting benefits of MERALCO's RY 2019 CAPEX Program in the overall service to the electricity consumers, MERALCO respectfully submits that the building block components, particularly the return of capital and return on capital associated therewith, from the time the CAPEX is put in service and considered used and useful, should be considered as a deferred amount to be included in the calculation of MERALCO's next reset rates.

9. 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

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. [1] It is emphasized that non-approval of the CAPEX projects for RY 2019 will severely hamper its operations and severely affect its ability to deliver electric service to its customers. It is imperative for MERALCO to undertake in a timely manner, 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,

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

while addressing the growing needs of its more than six (6) million customers.

11. Thus, pending final approval, there is an urgent need for a provisional authority for MERALCO to immediately implement its proposed RY 2019 CAPEX program. In support of the prayer for the grant of a provisional authority, attached as **Annex "D"** is the Judicial Affidavit of Engr. Froilan J. Savet, Head of MERALCO's Network Planning and Project Management Office.

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) 2019 be **APPROVED** and that the building block components associated with the CAPEX Program from the time the CAPEX is put in service and considered used and useful be considered as a deferred amount to be included in the calculation of MERALCO's next reset rates.

Pending hearing, it is likewise prayed that a provisional authority be immediately issued authorizing Applicant MERALCO to implement its RY 2019 CAPEX Program.

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

The Commission has set the *Application* for determination of compliance with the jurisdictional requirements, expository presentation, Pre-trial Conference, and evidentiary hearing on **25 September 2018 at nine o'clock in the morning (9:00 AM), at the ERC Hearing Room, 15th Floor, Pacific Center Building, San Miguel Avenue, Pasig City.**

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 ERC 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 ERC 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 its 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.

Pasig City, 19 July 2018.

FOR AND BY AUTHORITY
OF THE COMMISSION:

AGNES VST DEVANADERA
Chairperson & CEO

ERC
Office of the Chairperson
AVSTD-2018-8-510-0019

LS: JTB/ARG/CLS/ APV