

FILE COPY

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

IN THE MATTER OF THE
APPLICATION FOR:

(A) CONFIRMATION OF THE
TRUE-UP CALCULATION OF
THE ACTUAL WEIGHTED
AVERAGE TARIFF (AWAT) VIS-
À-VIS ERC-APPROVED
AVERAGE RATE
IMPLEMENTED FOR THE
LAPSED REGULATORY YEARS;
AND

(B) APPROVAL OF THE FINAL
REFUND SCHEME TO
ACCOUNT FOR THE LAPSED
REGULATORY YEARS,

WITH PRAYER FOR
PROVISIONAL AUTHORITY,

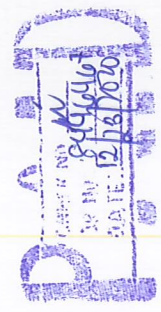
ERC CASE NO. 2020 - 043RC

MANILA ELECTRIC COMPANY
(MERALCO),
Applicant.
X-----X

APPLICATION

Applicant **Manila Electric Company (MERALCO)**, by counsel,
respectfully states:

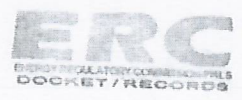
1. Applicant MERALCO is a private corporation duly
organized and existing under the laws of the Republic of the
Philippines, with principal office located at Lopez Building, Ortigas
Avenue, Pasig City. It may be served with notices and other processes
of this Honorable Commission through its undersigned counsel at the
address indicated herein.



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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, along with Cagayan Electric Power and Light Company (CEPALCO) and Dagupan Electric Corporation (DECORP) comprise the First Entrants "Group A" of Distribution Utilities ("DUs") that entered Performance Based Regulation ("PBR"). PBR is the rate-setting methodology adopted by the Honorable Commission to set the distribution wheeling rates of private DUs.

4. Pursuant to the Rules for Setting Distribution Wheeling Rates for Privately Owned Electricity Distribution Utilities Operating under Performance Based Regulation (First Entry Group: Third Regulatory Period) dated 1 December 2009 ("3RP RDWR"), the First Entry Group completed the Regulatory Reset Process for the Third Regulatory Period ("3RP") covering the period from 1 July 2011 to 30 June 2015. As such, in MERALCO's 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 3RP.

5. Under the 3RP RDWR, the "Regulatory Reset Process" is defined as "the actions prior to the start of any Regulatory Period, through which the price control arrangements are established that will apply to a Regulated Entity regarding the provision of Regulated Distribution Services in each Regulated Distribution System for the next Regulatory Period". As such, to commence the Regulatory Reset Process, the Honorable Commission must publish a Regulatory Reset Issues Paper within twenty-one (21) months prior to the end of the Regulatory Period.

6. On 14 October 2013, the Honorable Commission posted the "Issues Paper on the Implementation of Performance Based Regulation (PBR) for Privately-Owned Electricity Distribution Utilities under the Rules for Setting Distribution Wheeling Rates (RDWR)" for comments of all interested parties. This was the starting point so that the Fourth Regulatory Period ("4RP") for the First Entry Group could have commenced on 1 July 2015 and to have ended on 30 June 2019. However, the Issues Paper was not officially released within the timeframe prescribed under the 3RP RDWR.

7. Thus, as MERALCO would not have a rate to govern the 4RP, on 15 June 2015, MERALCO filed an application, docketed as

ERC Case No. 2015-112 RC, for the approval of: (a) an interim average rate; and (b) translation of the interim average rate into distribution rates for its various customer classes. In an Order dated 10 July 2015, the Honorable Commission provisionally approved an Interim Average Rate (IAR) of PhP1.3810/kWh and the translation into distribution rates. Since then, Applicant has been implementing the IAR up to this time.

8. At present, the reset for the 4RP for MERALCO and other private DUs under PBR has not commenced and is not expected to commence pending issuance by the Honorable Commission of the relevant rules after due notice and public consultation.

9. As stated above, the IAR was issued through provisional authority. Under Rule 14, Section 3 of the ERC Rules of Procedure, in the event that a provisional authority is issued, the main application should be resolved within twelve (12) months from the issuance of the provisional authority.

10. The IAR was also approved by the Honorable Commission based on a specific determination of the applicable rate after considering a certain set of facts presented by MERALCO. The IAR was adopted to address the apparent delay in the process. As a sort of a “rate freeze”, the IAR is supposed to protect consumers from volatile pricing of electricity during the transition, or the time when the regulator is modifying the appropriate PBR for its jurisdiction.¹ However, due to the considerable lapse of time, the IAR has already been relied on not only by MERALCO but also its customers during the regulatory lag covering the period starting from 1 July 2015 up to the present. Forward-looking decisions have been made by MERALCO as well as its customers based on the presumption that the IAR is a stable and reliable rate determined by the Honorable Commission.

11. Considering therefore: (a) the non-implementation of a reset for the 4RP; (b) the lapse of more than twelve (12) months from the issuance of the provisional authority for the IAR; and (c) that the IAR is meant to take the place of the actual rates only for the 4RP, such IAR should already be deemed final considering the lapse of the period intended to be the 4RP. This IAR should likewise apply as MERALCO’s final rates from July 2015 until such time that a new rate is determined by the Honorable Commission in accordance with the RDWR, after due notice and hearing.

¹ Pinjani, Amit and Trinidad, Ma. Cherrylin, *Literature Review: Regulatory Economics and Performance-Based Ratemaking*, London Economics, LLC, p. 82.

12. To fully resolve these issues, Applicant proposes to true-up its Actual Weighted Average Tariff (AWAT) as against its approved IAR for the period from July 2015 to November 2020 (the “Lapsed Period”). The difference between the AWAT and IAR will be the amount to be refunded to the customers.

13. It is submitted that the true-up of the AWAT as against the approved IAR is the most efficient way for the Honorable Commission to settle the unresolved issues which plagued and delayed the 4RP reset. This will allow the Honorable Commission to commence the next regulatory period prospectively, under a new set of RDWR to be determined after due notice and public consultation. This new set of rules can then be the basis for the determination of the relevant rates for the next regulatory period, thereby returning MERALCO to the regular PBR rate-setting methodology as envisioned by the Honorable Commission, considering that the RDWR cannot legally be applied retroactively to determine the rates of MERALCO for the Lapsed Period due to the continued delay in the reset process. The return of MERALCO to the reset process will allow electricity consumers to reap the benefits envisioned under the PBR.

14. The Honorable Commission is authorized to grant MERALCO’s instant application. Under Article 4.3.1.a. of the 3RP RDWR pertaining to the Over/Under Recovery Formula, the AWAT is calculated based on the actual revenues and actual kWh sales for the period. The actual revenues come from distribution, supply and metering charges of MERALCO. Added to this revenue will be the plowback of 50% of related business net income, in accordance with the mandate under Section 26 of the EPIRA, which shall be used to reduce the distribution wheeling charges.

15. MERALCO proposes to adopt the calculation in Article 6.2 of the 3RP RDWR, related to the Annual Verification and Adjustment of Distribution Tariffs, and the implementation of the K Factor. However, instead of annual rate setting, the process is proposed to apply to the Lapsed Period.

16. Shown in the table below are the details of the Distribution, Supply and Metering (DSM) revenues, Net Income from Related Business and Actual Energy Sales for the Lapsed Period from July 2015 to November 2020:

	DSM Revenues	Net Income from Related Business (RBR)	50% of RBR	DSM + 50% of RBR	Actual Energy Sales (kWh)
RY 2016	54,753,443,647	160,112,198	80,056,099	54,833,499,746	38,559,183,670
RY 2017	57,188,787,178	154,160,058	77,080,029	57,265,867,207	40,191,289,159
RY 2018	60,747,692,382	179,095,251	89,547,625	60,837,240,007	42,879,578,323
RY 2019	63,275,585,064	232,465,909	116,232,955	63,391,818,019	44,916,977,776
RY 2020	66,269,602,774	170,170,007	85,085,004	66,354,687,777	44,645,432,502
RY 2021 (July 2020-Nov 2020)	28,427,374,867	191,574,028	95,787,014	28,523,161,881	18,583,373,984
Lapsed Period (July 2015-Nov 2020)	330,662,485,911	1,087,577,451	543,788,725	331,206,274,637	229,775,835,413

17. The table below shows the computation of the AWAT for the Lapsed period of PhP1.4414/kWh. This was compared to the Applicant's last approved rate of PhP1.3810/kWh. MERALCO proposes to refund the difference between the AWAT and the IAR in the total amount of Thirteen Billion Eight Hundred Eighty-five Million Eight Hundred Forty-five Thousand and Nine Hundred Thirty-one Pesos (PhP13,885,845,931) over a twenty-four (24)-month period, or until fully refunded, as follows:

DSM Revenues + 50% of RBR	a	331,206,274,637
Actual Energy Sales	b	229,775,835,413
AWAT for the Lapsed Period (July 2015 - November 2020)	c = a/b	1.4414
Interim Average Rate (IAR)	d	1.3810
Difference in Rate (July 2015 - November 2020)	e = d - c	(0.0604)
Actual Sales of Lapsed Period (July 2015 - November 2020)	f	229,775,835,413
Difference in Amount (July 2015 - November 2020)	g = e * f	(13,885,845,931)
Forecast Sales* (for 24 months)	h	90,900,747,330
Average Refund Rate (for 24 months)	i = g/h	(0.1528)

* Based on latest MERALCO sales forecast

18. This average refund rate of PhP0.1528 per kWh is proposed to be allocated among MERALCO's customer classes as follows:

Customer Class	Refund Rate (PhP/kWh)
Residential & General Service A	0.2761
General Service B	0.1811
General Power	0.0789
GHMSCI	0.1165
Flat Streetlights	0.2870
Generator – Wheeling	0.0366
TOTAL	0.1528

The refund rate will be reflected as a separate line item in the bills of customers during the refund period.

19. The Honorable Commission has the authority to grant the AWAT and direct the issuance of a refund in favor of Applicant's customers. Under Section 4 of Rule 14 of the Honorable Commission's Rules of Practice and Procedure, the interim rate/relief granted by the Honorable Commission shall be subject to a refund:

"Section 4. Refund. - The interim relief granted by the Commission shall be subject to refund if the Commission finds after the hearing on the application or petition that the applicant or petitioner was not entitled thereto or to the full amount of any provisional rate adjustment allowed and to such other conditions that the Commission may impose."

20. Based on the foregoing, the directive to issue a refund makes the Honorable Commission's approval of the IAR a final determination of MERALCO's applicable rate for the Lapsed Period.

21. A regulator's ability to implement interim rates and impose a refund are remedies to cure the disruptions caused by a regulatory lag. At the end of a suspension period or lag, in the absence of a stipulated extension or waiver as to the interim rate imposed, **the utility's proposed rates may immediately become effective subject to conditions, such as a refund which is dependent upon the regulator's final determination.** Thus, following the refund of the difference between MERALCO's AWAT as against its IAR, this will serve as the final determination of the applicable rate that should have governed during the Lapsed Period.

Allegations in Support of the Prayer for Provisional Authority

22. Pending final approval of the instant application, the issuance of a provisional authority will allow MERALCO's customers to immediately enjoy the benefits of the refund sought to be implemented, providing welcome relief to consumers during this time.

23. In support of the foregoing allegations, MERALCO hereby submits the Judicial Affidavit of Mr. Roderick Dennison N. Nacu, Head of Tariff Management, attached hereto as Annex "B".

PRAYER

WHEREFORE, premises considered, **Manila Electric Company (MERALCO)** respectfully prays that, after due notice and hearing, a Decision be rendered:

- a. APPROVING MERALCO’s proposed mechanism to address the issue of the rates governing the Lapsed Period from July 2015 to November 2020 through the true-up mechanism between MERALCO’s AWAT and IAR;
- b. CONFIRMING MERALCO’s resulting calculation of the total amount to be refunded from its customers in the total amount of Thirteen Billion Eight Hundred Eighty-five Million Eight Hundred Forty-five Thousand and Nine Hundred Thirty-one Pesos (PhP13,885,845,931);
- c. APPROVING MERALCO’s proposed refund scheme and refund period, within twenty-four (24) months or until fully refunded, to its customers, as follows;

Customer Class	Refund Rate (PhP/kWh)
Residential & General Service A	0.2761
General Service B	0.1811
General Power	0.0789
GHMSCI	0.1165
Flat Streetlights	0.2870
Generator – Wheeling	0.0366
TOTAL	0.1528

- d. DECLARING all issues relating to MERALCO’s Lapsed Period (and until a new rate has been determined by the ERC for the next regulatory period), as resolved, closed and terminated with prejudice.

Pending the hearing on the merits of the case, a Provisional Authority be issued to immediately implement the refund to consumers.

MERALCO prays for such other relief just and equitable under the premises.

Pasig City, 18 December 2020.

MANILA ELECTRIC COMPANY

Applicant

Lopez Building, Ortigas Avenue,
Barangay Ugong, Pasig City

By:



FRANCIS DINO S. ANTONIO

Roll of Attorneys No. 48145

PTR No. 6569170; 1/25/20; Pasig City

IBP No. 102771; 1/10/20; RSM

MCLE Compliance No. VI-0003791; 3 November 2017

HAZEL ROSE B. SEE

Roll of Attorneys No. 48265

PTR No. 6569172; 1/25/20; Pasig City

IBP No. 06460(LIFETIME); 01/16/07; QC

MCLE Compliance No. VII-0001116; 17 October 2019

ADRIAN REX C. DIMALANTA

Roll of Attorneys No. 61149

PTR No. 6569174; 1/25/20; Pasig City

IBP No. 102774; 1/10/20; PPLM

MCLE Compliance No. VII-0001098; 17 October 2019

7th Floor, Lopez Building

Ortigas Avenue, Barangay Ugong, Pasig City

Tel no. 1622-2260; Fax No: 1622-3550

Email: regaffairs@meralco.com.ph

Republic of the Philippines)
Pasig City) S.S.

VERIFICATION and CERTIFICATION OF NON-FORUM SHOPPING

I, **JOSE RONALD V. VALLES**, of legal age, married, and with office address at Manila Electric Company (MERALCO), 12th Floor, Lopez Building, MERALCO Center, Ortigas Avenue, Barangay Ugong, Pasig City, hereby state under oath that:

1. I am the First Vice-President and Head of the Regulatory Management Office of Manila Electric Company, and is authorized to represent it in this Application as per the attached Secretary's Certificate (**Annex "A"**);
2. I have caused the preparation of the instant Application and read the contents thereof, and I attest that the allegations herein contained are true and correct based on my personal knowledge and on authentic records made available to me;
3. The Application is not filed to harass, cause unnecessary delay, or needlessly increase the cost of litigation;
4. The factual allegations therein have evidentiary support or, if specifically so identified, will likewise have evidentiary support after a reasonable opportunity for discovery;
5. I have not commenced any other action or proceeding involving the same issues in the Supreme Court, the Court of Appeals or any court, tribunal, or quasi-judicial agency and, to the best of my knowledge, no such other action or claim is pending therein; and
6. Should I hereinafter learn that the same or a similar action or claim has been filed or is pending in the Supreme Court, the Court of Appeals or any court, tribunal, or quasi-judicial agency, I shall report said fact within five (5) days from discovery thereof to this Honorable Commission.

IN WITNESS WHEREOF, I have hereunto affixed my signature this DEC 18 2020 day of December 2020 at Pasig City, Philippines.


JOSE RONALD V. VALLES
Affiant

SUBSCRIBED and SWORN to before me this DEC 18 2020 day of December 2020, at Pasig City, Philippines, affiant having exhibited to me his Social Security System ID bearing the number 33-10900088.

Doc. No. 466
Page No. 95
Book No. III
Series of 2020.


ATTY. JESSAN C. CORUNA II
NOTARY PUBLIC
Pasig, Luzon & San Juan
Issued on: February 11, 2019 at Pasig City
Appointment No. 105 (2019-2020)
JIL No. 63123; IBP No. 102776; 1-10-20; RSM Chapter
PIR No. 6569176; 1-25-20; Pasig City
7th Floor, Lopez Bldg., Ortigas Ave., Pasig City

REPUBLIC OF THE PHILIPPINES)
PASIG CITY) S.S.

SECRETARY'S CERTIFICATE

I, WILLIAM S. PAMINTUAN, a duly elected, qualified and incumbent Assistant Corporate Secretary of the Manila Electric Company (MERALCO), a corporation duly organized and existing under and by virtue of the laws of the Philippines, do hereby certify that:

At the organizational meeting of the Board of Directors of the Company duly convened and held on September 28, 2020, at which meeting a quorum was present, acted throughout and voted, the following resolution amending the resolution of the Board on June 24, 2019 on the same subject, was approved and that said amendatory resolution is in full force and effect on the date hereof:

“RESOLVED, that the Board of Directors of the Manila Electric Company (MERALCO) authorize, as it hereby authorizes, Messrs. MANUEL V. PANGILINAN, Chairman, RAY C. ESPINOSA, President and Chief Executive Officer, SIMEON KEN R. FERRER, Corporate Secretary, ROBERTO R. ALMAZORA, Senior Vice President, RONNIE L. APEROCHO, Senior Vice President & Head, Networks, WILLIAM S. PAMINTUAN, Senior Vice President, Assistant Corporate Secretary, Compliance Officer and Head, Legal and Corporate Governance, FERDINAND O. GELUZ, First Vice President and Chief Commercial Officer, EDGARDO V. CARASIG, First Vice President & Head, Human Resources & Corporate Services, MARIA LUISA V. ALVENDIA, First Vice President & Officer-In-Charge, Supply Chain Management, JOSE RONALD V. VALLES, First Vice President and Head, Regulatory Management Office , MARIA ZARAH R. VILLANUEVA-CASTRO, Vice President & Head, Corporate Legal Services, RAUL G. CORALDE, Assistant Vice President & Head, Litigation Services, MICHELLE O. DELOS SANTOS-BONA, Assistant Vice President & Head, Legal Operations Support, CRISTOPHER B. ARPON, Legal Counsel & Head, Litigation Team 1, CORNELIO MANUEL III C. DICCION, Manager & Head, Litigation Team 2, EUGENE JUDE DENIS GERARD E. ALABANZA, Senior Manager & Head, Tax & Labor Litigation, and any lawyer or employee of MERALCO that any of them may designate, name or appoint:

- (1) to represent the Company, in the institution, prosecution, and defense of any claim, complaint, action, proceeding, petition, application, protest, suit, or case, for or against the Company, before any court, prosecutor's office, regulatory, quasi-judicial, or administrative body, agency, or office of the national or any local government;
- (2) to sign, execute, and deliver in connection therewith the necessary or appropriate complaint, petition, application, position paper, memorandum, all types of pleadings and motions, verifications, affidavit-complaint, counter-affidavit, affidavit of merit, affidavit of desistance, affidavit of witness, and all other affidavits of whatever nature, certificate of non-forum shopping, powers of attorney, certifications, and all other instruments as may be necessary or proper;

- (3) to represent the Company or to designate, name, and appoint a representative or an attorney-in-fact in behalf of the company during the investigation, inquest, preliminary investigation, preliminary conference, pre-trial, mediation, conciliation, arbitration, trial, execution, and all other stages of or incidents related to the case, proceeding or action; to negotiate, enter into, and agree to an amicable settlement, compromise agreement, plea bargaining, admissions or stipulations of fact or documents, simplification of issues, limitation on the number of witnesses, alternative modes of dispute resolution, withdrawal, dismissal or waiver of claim or action; and to perform and execute any and all actions or deeds as may aid in the prompt disposition of such cases, proceedings, or actions filed in behalf of or against the Company;

“RESOLVED, FURTHER, that any previous resolution of the Board of Directors on the same subject matter that is inconsistent herewith shall be deemed terminated, superseded and revoked.”

Pursuant to the above resolutions, it is hereby certified that MERALCO is authorized to file the Application, entitled “IN THE MATTER OF THE APPLICATION FOR: (A) CONFIRMATION OF THE TRUE-UP CALCULATION OF THE ACTUAL WEIGHTED AVERAGE TARIFF (AWAT) VIS-À-VIS ERC-APPROVED AVERAGE RATE IMPLEMENTED FOR THE LAPSED REGULATORY YEARS; AND (B) APPROVAL OF THE FINAL REFUND SCHEME TO ACCOUNT FOR THE LAPSED REGULATORY YEARS, WITH PRAYER FOR PROVISIONAL AUTHORITY, Manila Electric Company (MERALCO), *Applicant*,” with the Energy Regulatory Commission (ERC), and that Jose Ronald V. Valles, First Vice President and Head of Regulatory Management Office, is an authorized representative and signatory of the Company with respect to the aforesaid Application.

WITNESS THE SIGNATURE of the undersigned as such officer of the Company and its corporate seal hereunto affixed on this 17th day of December 2020.


WILLIAM S. PAMINTUAN

Assistant Corporate Secretary

DEC 17 2020

SUBSCRIBED AND SWORN to before me this _____ day of December 2020, affiant exhibited to me his Taxpayer Identification Number (TIN) 146-473-562, issued by the Bureau of Internal Revenue (BIR) as his competent evidence of identity.

Doc. No. 462;
Page No. 94;
Book No. VI;
Series of 2020.


ATTY. CONRADO B. JERSON
Notary Public
President of the Bar, Philippine and Cav. Bar
Appointment No. 111249 (2020) January 14, 2016
At Pasig City until December 31, 2020
Roll No. 119291 (EF No. 102739 1/9/2020) RSM Chapter:
PTR No. 6569113 1/25/2020 Pasig City
P.C.L.C. No. VII-001089 10/17/2019
C. Flores, Lopez Bldg., Ortigas Avenue, Pasig City

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

IN THE MATTER OF THE APPLICATION
FOR:

(A) CONFIRMATION OF THE TRUE-UP
CALCULATION OF THE ACTUAL
WEIGHTED AVERAGE TARIFF (AWAT)
VIS-À-VIS ERC-APPROVED AVERAGE
RATE IMPLEMENTED FOR THE LAPSED
REGULATORY YEARS; AND

(B) APPROVAL OF THE FINAL REFUND
SCHEME TO ACCOUNT FOR THE
LAPSED REGULATORY YEARS,

WITH PRAYER FOR PROVISIONAL
AUTHORITY,

ERC CASE NO. 2020- ____ RC

MANILA ELECTRIC COMPANY
(MERALCO),

Applicant.

x-----x

JUDICIAL AFFIDAVIT OF RODERICK DENNISON N. NACU

The following examination of witness Mr. Roderick Dennison N. Nacu, of legal age, with office address at 12th Floor, Lopez Building, MERALCO Compound, Ortigas Avenue, Pasig City, who is an employee of the Manila Electric Company (“MERALCO”) as the Senior Assistant Vice President and Head of the Tariff Management Office, was conducted by Atty. Ma. Elisha S. Eloriaga, counsel for MERALCO, at the 7th Floor, Lopez Building, Ortigas Avenue, Pasig City, this 18th day of December 2020 at 8:30am.

The testimony of Mr. Roderick Dennison N. Nacu is being offered to prove the following:

1. He is employed with MERALCO as the Senior Assistant Vice President and Head of the Tariff Management Office;

2. MERALCO's calculation of its proposed true-up of its Actual Weighted Average Tariff (AWAT) as against its approved Interim Average Rate (IAR) for the period from July 2015 to November 2020 (the "Lapsed Period");

3. MERALCO's calculation of the rate of refund and the proposed refund period; and

4. All other matters pertinent to this Application.

I, Roderick Dennison N. Nacu, Filipino, of legal age, married, with office address at the 12th Floor, Lopez Bldg., Manila Electric Company, Ortigas Center, Pasig City, Philippines, after being sworn to in accordance with law, fully conscious that I am answering the questions under oath and with knowledge that I may face criminal liability for false testimony and perjury, hereby depose and state: THAT –

Question1: Please state your educational attainment and/or professional qualifications.

Answer1: I graduated from the University of the Philippines Diliman in 1993 with a BS Mechanical Engineering degree. I also completed my Masters degree in Business Administration at UP Diliman in 2005.

Q2: Where are you presently employed?

A2: I am presently employed at MERALCO as the Senior Assistant Vice President and Head of the Tariff Management Office. I have been employed by MERALCO since 1994.

Q3: What are your principal duties and responsibilities as the Senior Assistant Vice President and Head of the Tariff Management Office, of MERALCO?

A3: As the Senior Assistant Vice President and Head of the Tariff Management Office, some of my major duties and responsibilities include, among other things:

- a) Study and analysis of the Rules for Setting Distribution Wheeling Rates;
- b) Coordination of MERALCO's implementation of the Performance Based Regulation (PBR); and
- c) Preparation, supervision and review of the calculation of MERALCO's proposed rates for each regulatory year.

Q4: Are you familiar with the instant Application filed by MERALCO? If so, why?

A4: Yes, I am familiar with the said Application because I supervised and participated in the preparation of the same as well as the Annexes in support thereto.

Q5: What is the extent of your participation in the preparation of said Application?

A5: I was directly involved in the calculation of MERALCO's proposed true-up of its AWAT as against its approved IAR for the period from July 2015 to November 2020 (the "Lapsed Period").

Q6: Why is MERALCO filing the Application?

A6: MERALCO, along with Cagayan Electric Power and Light Company (CEPALCO) and Dagupan Electric Corporation (DECORP) comprise the First Entrants "Group A" of distribution utilities that entered Performance Based Regulation ("PBR"). The Fourth Regulatory Period ("4RP") for the First Entry Group commenced on 1 July 2015 and ended on 30 June 2019. However, MERALCO was not able to commence its Regulatory Reset Process for the 4RP. In the meantime, the Fifth Regulatory Period ("5RP") commenced on 1 July 2019.

It is well to note that on 15 June 2015, MERALCO filed an application, docketed as ERC Case No. 2015-112 RC, for the approval of: (1) an interim average rate; and (2) translation of the interim average rate into distribution rates for its various customer classes. In an Order dated 10 July 2015, the Honorable Commission provisionally approved an Interim Average Rate (IAR) of PhP1.3810/kWh and the translation into distribution rates. MERALCO is currently implementing the Interim Average Rate until now.

Q7: In the calculation of MERALCO's true-up of its Actual Weighted Average Tariff (AWAT) as against its approved IAR for the Lapsed Period, what guideline/s did you adhere to or use as basis, if any?

A7: MERALCO adopted the calculation in Article 6.2, related to the Annual Verification and Adjustment of Distribution Tariffs, of the Rules for Distribution Wheeling Rates (RDWR) for Group A dated December 1, 2009, and the implementation of the K-factor. But instead of annual rate setting, the process is proposed to apply to the Lapsed Period

Q8: How will the true-up process be implemented?

A8: The AWAT is compared with the Applicant's last approved rate (IAR) of P1.3810/kWh. Shown in the table below are the details of the Distribution, Supply and Metering (DSM) revenues, Net Income from Related Business and Actual Energy Sales for the Lapsed Period from July 2015 to November 2020.

	DSM Revenues	Net Income from Related Business (RBR)	50% of RBR	DSM + 50% of RBR	Actual Energy Sales (kWh)
RY 2016	54,753,443,647	160,112,198	80,056,099	54,833,499,746	38,559,183,670
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Lapsed Period (July 2015-Nov 2020)	330,662,485,911	1,087,577,451	543,788,725	331,206,274,637	229,775,835,413

The table below shows the computation of the AWAT for the Lapsed period of PhP1.4414/kWh. This was compared to the Applicant’s last approved rate of PhP1.3810/kWh. The difference in amount of actual revenues and the revenues using the IAR is derived in the following table. The Average Refund Rate is also derived using the latest MERALCO forecast of sales for the 24 months refund period.

DSM Revenues + 50% of RBR	a	331,206,274,637
Actual Energy Sales	b	229,775,835,413
AWAT for the Lapsed Period (July 2015 - November 2020)	c = a/b	1.4414
Interim Average Rate (IAR)	d	1.3810
Difference in Rate (July 2015 - November 2020)	e = d - c	(0.0604)
Actual Sales of Lapsed Period (July 2015 - November 2020)	f	229,775,835,413
Difference in Amount (July 2015 - November 2020)	g = e * f	(13,885,845,931)
Forecast Sales (for 24 months)	h	90,900,747,330
Average Refund Rate (for 24 months)	i = g/h	(0.1528)

* Based on latest MERALCO sales forecast

MERALCO proposes to refund the difference between the AWAT and the IAR in the total amount of Thirteen Billion Eight Hundred Eighty-five Million Eight Hundred Forty-five Thousand and Nine Hundred Thirty-one Pesos (PhP13,885,845,931) in the next twenty-four (24) months at an average of (PhP0.1528/kWh).

Moreover, this average refund rate of (PhP0.1528) per kWh is proposed to be allocated among MERALCO’s customer classes. The allocation is based on historical CY2019 share to total DSM revenues from each customer class. The Forecast Sales was also allocated using historical CY2019 share to total energy sales. The Table below shows the derived rate per kWh refund of each customer class (Column E).

	Share to CY2019 DSM revenues (A)	Refund Amount Allocation (B)	Share to CY2019 kWh Sales (C)	Forecast Sales Allocation (D)	Refund Rate (E = B / D)
Residential & GSA	62.8%	8,717,267,166	34.7%	31,576,341,945	0.2761
General Service B	5.7%	791,107,194	4.8%	4,368,400,288	0.1811
General Power	30.3%	4,213,576,951	58.8%	53,424,728,558	0.0789
GHMSCI	0.4%	58,052,015	0.5%	498,098,985	0.1165
Streetlights	0.6%	77,956,004	0.3%	271,661,290	0.2870
Generator Wheeling	0.2%	27,886,600	0.8%	761,516,265	0.0366

TOTAL	100.0%	13,885,845,931	100.0%	90,900,747,330	0.1528
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The Refund Rate will be reflected as a separate line item in the bills of customers during the refund period.

Q10: Are there any documents to support the calculated amount and/or which serve as basis of the computation?

A10: Yes. Below are list of the annexes attached to this Judicial Affidavit representing the basis of MERALCO’s computation:

Document	Annex
Actual Distribution, Supply and Metering Revenues and Energy Sales	“A” of this Judicial Affidavit
Income from Related Business	“B” of this Judicial Affidavit

Q11: Will the refund be limited to captive customers only?

A11: The refund shall be made to both captive and contestable customers.

Q12: In the Application, MERALCO prayed for the Honorable Commission to issue a Provisional Authority. Would you know the reason for such prayer?

A12: Yes, it is urgent that a provisional authority be immediately issued in to provide both captive and contestable customers the refund due to them. Moreover, the refund, if granted, will be an additional relief to customers considering the on-going pandemic.

Q13: Can you tell us why you are executing this Judicial Affidavit?

A13: I am executing this Judicial Affidavit to attest to the truthfulness and veracity of the foregoing statements and in support of MERALCO’s Application.

IN WITNESS WHEREOF, I have hereunto affixed my signature this 18th day of December 2020 at Pasig City, Philippines.



RODERICK DENNISON N. NACU
Affiant

SUBSCRIBED AND SWORN to before me this DEC 18 2020 day of December 2020 by _____ exhibiting his J.L ID with No. 1-95-177513

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Page No. 94;
Book No. II;
Series of 2020.



ATTY. RAGAN S. CORONADO
NOTARY PUBLIC
Pasig, Patents, & San Juan
Issued on February 11, 2019 at Pasig City
Appointment No. 105 (2019-2020)
Roll No. 63123; IDP No. 102776; 1-10-20; RSM Chapter PTR No. 6569176; 1-24-20; Pasig City
7th Floor, Lopez Bldg., Ortigas Ave., Pasig City

Republic of the Philippines)
City of Pasig)) S.S.

ATTESTATION

I, **MA. ELISHA S. ELORIAGA**, of legal age, Filipino, with business address 7th floor, Lopez Building Meralco Center, Ortigas Avenue, Pasig City after being duly sworn depose and say:

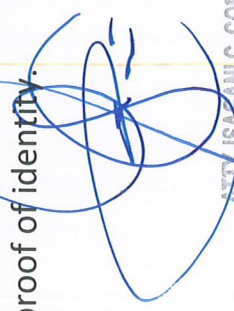
1. I conducted the direct examination of Roderick Dennison N. Nacu, the witness to testify on matters in support of the Application entitled IN THE MATTER OF THE APPLICATION FOR: (A) CONFIRMATION OF THE TRUE-UP CALCULATION OF THE ACTUAL WEIGHTED AVERAGE TARIFF (AWAT) VIS-À-VIS ERC-APPROVED AVERAGE RATE IMPLEMENTED FOR THE LAPSED REGULATORY YEARS; AND (B) APPROVAL OF THE FINAL REFUND SCHEME TO ACCOUNT FOR THE LAPSED REGULATORY YEARS, WITH PRAYER FOR PROVISIONAL AUTHORITY at the afore-mentioned business address;
2. I have faithfully recorded the questions asked and the corresponding answers that were given by the witness; and
3. Neither I nor any other person then present or assisting her coached the witness regarding her answers.

IN WITNESS WHEREOF, I have hereunto set my hand this __ day of DEC 18 2020 at Pasig City.


MA. ELISHA S. ELORIAGA
Affiant

Doc. No. 665
Page No. 94;
Book No. III;
Series of 2020.

DEC 18 2020
SUBSCRIBED AND SWORN to before me this __th day of December 2020 by **ATTY. MA. ELISHA S. ELORIAGA** who exhibited her Passport ID with Passport No. P7167173A as her competent proof of identity.


ATTY. ISAGANI C. CORUÑA II
NOTARY PUBLIC
Pasig, Pateros, & San Juan
Issued on February 11, 2019 at Pasig City
Appointment No. 105 (2019-2020)
Roll No. 63123; IDP No. 102776; 1-10-20; RSM Chapter
PTR No. 6569176; 1-25-20; Pasig City
7th Floor, Lopez Bldg., Ortigas Ave., Pasig City