

Schedule G1

Summary of Forecast Operating & Maintenance Expenditure (per regulatory year)

Opex Category and Sub-category	Nominal Php				
	2007	2008	2009	2010	2011
<b>Distribution : Operation</b>					
Supervision & Engineering	338,280,690	395,776,529	458,656,021	531,427,523	616,581,762
Load Dispatching	119,388,883	122,138,891	140,948,689	161,889,784	185,173,332
Substation	84,556,559	93,015,141	103,124,401	114,261,409	126,138,743
Overhead Line - demand	174,772,432	196,799,395	221,082,488	248,326,509	279,118,165
Overhead Line - customer	-	-	-	-	-
Streetlighting (non-roadway)	-	-	-	-	-
Streetlighting (roadway)	95,249,079	111,545,047	121,497,332	132,751,711	146,534,372
Metering	78,220,407	1,918,229,713	2,065,793,836	2,220,242,783	2,385,629,893
Consumer Installation Expenses	202,727,649	227,737,561	255,108,875	285,492,396	319,650,616
Rents	7,574,061	8,651,269	10,028,539	11,606,693	13,435,879
Information Technology	130,845,348	140,868,158	187,552,767	222,174,760	277,486,220
Miscellaneous Expenses	203,683,515	228,364,570	255,217,000	285,370,745	319,716,859
<b>Distribution : Maintenance</b>					
Supervision & Engineering	496,079,914	576,618,766	664,677,129	766,220,825	884,668,377
Structures	21,413,013	23,541,009	25,882,168	28,471,142	31,343,786
Substation	213,189,186	241,263,312	269,998,578	300,986,819	334,049,331
Overhead Line - demand	1,040,642,186	1,171,816,132	1,315,727,948	1,476,573,406	1,657,933,957
Overhead Line - customer	-	-	-	-	-
Streetlighting (non-roadway)	-	-	-	-	-
Streetlighting (roadway)	20,446,514	21,179,758	21,928,562	24,621,567	27,661,555
Line Transformers	70,704,446	79,867,319	89,945,424	101,229,843	113,972,076
Information Technology	52,621,348	68,783,210	83,129,512	99,709,913	115,249,829
Metering	407,439,825	459,640,530	517,072,931	581,138,283	653,402,993
Miscellaneous Plant	166,739,872	181,234,531	195,868,450	211,113,899	226,904,879
<b>Sub-total Distribution</b>	<b>3,924,574,926</b>	<b>6,267,070,842</b>	<b>7,003,240,653</b>	<b>7,803,610,009</b>	<b>8,714,652,626</b>
<b>Consumer Accounts</b>					
Supervision	318,585,654	355,003,339	393,919,935	437,821,893	488,302,218
Meter Reading	242,486,670	271,716,506	303,406,408	338,543,312	378,050,156
Information Technology	319,895,674	342,402,166	372,671,385	392,357,612	412,062,877
Customer Records & Collection Expenses	2,135,827,746	2,392,292,376	2,669,468,195	2,976,617,052	3,321,975,430
Uncollectible Accounts	495,475,815	586,219,710	710,171,880	873,875,985	1,052,257,803
Informational and Instructional Advertising	101,519,460	114,995,271	132,327,868	156,616,539	190,460,787
Miscellaneous	107,168,603	126,105,923	147,071,769	171,275,144	199,462,277
Consumer Prompt Payment Discount	-	-	-	-	-
<b>Sub-total Consumer Accounts</b>	<b>3,720,959,622</b>	<b>4,188,735,291</b>	<b>4,729,037,439</b>	<b>5,347,107,537</b>	<b>6,042,571,549</b>
<b>Administrative &amp; General</b>					
Administrative and General Salaries	633,303,435	746,267,982	873,680,415	1,021,603,176	1,194,925,682
Office Supplies & Expenses	79,766,203	86,353,712	92,973,668	99,892,837	107,293,552
Information Technology	314,234,430	357,068,492	404,685,923	454,112,768	499,501,062
Outside Services Employed	207,099,397	224,202,744	241,390,335	259,354,783	278,569,483
Property Insurance	111,119,936	120,802,719	130,538,960	141,031,823	152,606,474
Injuries & Damages	39,519,259	44,072,024	48,974,417	54,468,854	60,723,223
Employee Pension & Benefits	1,398,145,868	1,630,240,433	1,891,991,565	2,194,060,146	2,545,468,606
Rents	10,706,877	12,594,837	14,602,530	16,903,220	19,569,990
Maintenance of Office & General Plant	314,026,340	341,349,740	369,930,515	400,695,462	434,742,328
Officers Allowances and Benefits	5,575,195	6,480,221	6,830,189	7,187,558	7,565,016
Travel	61,390,842	66,460,817	71,555,765	76,880,999	82,576,846
Training	107,091,766	147,530,635	162,652,249	177,657,238	200,435,629
Bad Debts	-	-	-	-	-
Regulatory Liaison & Compliance	249,512,330	279,516,079	311,524,830	405,572,444	449,178,619
Foreign Exchange Losses or Gains	-	-	-	-	-
Others	214,578,709	232,299,736	250,108,051	268,721,278	288,629,908
<b>Sub-total Administrative &amp; General</b>	<b>3,746,070,587</b>	<b>4,295,240,171</b>	<b>4,871,439,413</b>	<b>5,578,142,585</b>	<b>6,321,786,419</b>
<b>WESM Compliance</b>					
Registration Fees	121,117	128,297	135,226	142,301	149,774
Metering Fees	8,574,085	9,082,365	9,572,864	10,073,735	10,602,761
Billing & Settlement Fees	149,798,207	217,230,496	238,524,662	261,897,451	287,653,413
Administration Fees	12,092,084	14,300,816	16,744,567	19,585,096	22,915,447
Cost for the PEM Board, Comtes & Work. Grp	531,216	562,707	593,096	624,128	656,904
Market Management Software & Upgrade	1,062,431	3,938,946	5,930,959	6,241,278	6,569,041
Provision of Security (Prudential Requirement)	1,170,553,273	1,684,847,532	1,827,916,583	2,003,526,815	2,196,915,594
Others	504,388,846	546,266,321	585,730,963	649,231,160	711,898,958
<b>Sub-total WESM Compliance</b>	<b>1,847,121,259</b>	<b>2,476,357,480</b>	<b>2,685,148,918</b>	<b>2,951,321,965</b>	<b>3,237,361,893</b>
<b>Total Operating &amp; Maintenance Expenditure</b>	<b>13,238,726,394</b>	<b>17,227,403,783</b>	<b>19,288,866,423</b>	<b>21,680,182,096</b>	<b>24,316,372,487</b>

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**Schedule G2**

**Historical Operating & Maintenance Expenditure**

OPEX Category	Nominal Php				
	2002	2003	2004	2005	2006
Distribution Operation and Maintenance	3,453,265,986	3,194,831,563	3,119,856,267	3,038,064,857	3,542,783,743
Consumer Accounts	3,012,879,781	2,277,417,437	2,685,750,314	3,075,385,641	3,382,327,222
Administrative and General	3,601,033,705	4,864,870,419	4,015,678,333	4,091,774,348	3,353,368,177
WESM Compliance	-	-	-	-	831,607,124
<b>Total Operating &amp; Maintenance Expenditure</b>	<b>10,067,179,472</b>	<b>10,337,119,419</b>	<b>9,821,284,915</b>	<b>10,205,224,846</b>	<b>11,110,086,266</b>

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## JUSTIFICATION FOR OPERATING AND MAINTENANCE EXPENDITURE (OPEX)

### 1. Historical Expenditure

#### 1.1 Overview

Meralco is required to submit its historical operating and maintenance expenditures for the calendar years 2002 to 2006 broken down into the categories described in Clause 4.13.1 of the RDWR. Detailed explanations of these categories are included in Appendix C of the DWRG Position Paper.

Meralco's accounting system follows the Federal Energy Regulatory Commission's (FERC) System of Accounts which categorizes expenditures similar to that prescribed in the RDWR. However, there are differences in the definition and scoping in the RDWR sub-categories which makes it difficult for Meralco to re-align its historical data with the RDWR. This is compounded by the noted misaligned posting of actual expenses to the appropriate sub-categories of some organizations in the past. Meralco is therefore not able to provide historical data by sub-categories as available historical information are not comparable with the forecasts and will not provide a sound basis for evaluating the expenditure forecasts.

Efforts were exerted to re-align the projected expenditure for calendar year 2006 with the definitions of categories in the RDWR. Moving forward, Meralco plans to align its systems with the requirements of the RDWR.

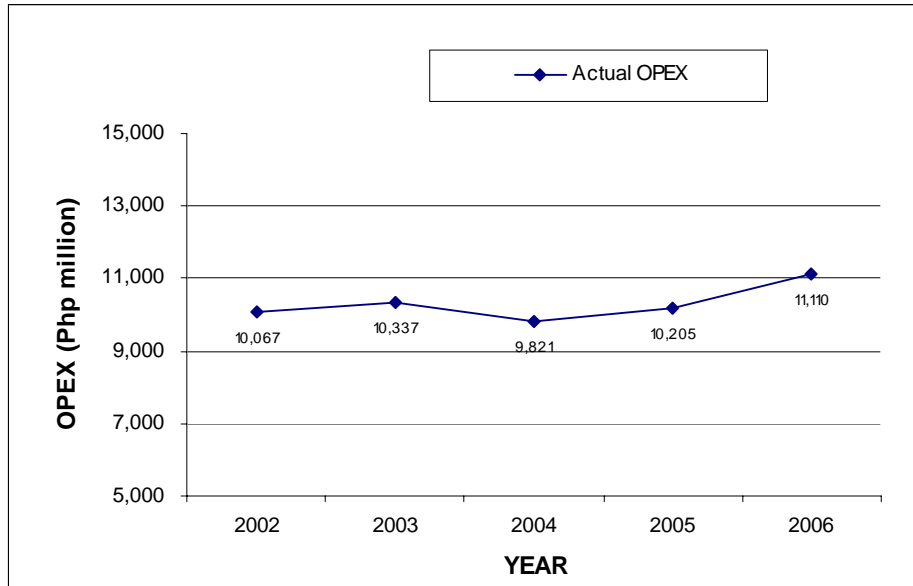
#### 1.2 Historical OPEX

Meralco's OPEX by major categories from 2002 to 2006 is as follows.

**Table 1.1: Historical OPEX (Nominal Php Mn)**

OPEX Category	2002	2003	2004	2005	2006
Distribution Operation and Maintenance	3,453	3,195	3,120	3,038	3,543
Consumer Accounts	3,013	2,277	2,686	3,075	3,382
Administrative and General	3,601	4,865	4,016	4,092	3,353
WESM Compliance	-	-	-	-	832
<b>Total Operating &amp; Maintenance Expenditure</b>	<b>10,067</b>	<b>10,337</b>	<b>9,821</b>	<b>10,205</b>	<b>11,110</b>

The figures above and the following chart depict an almost flat trend in the total OPEX, with even a slight decrease in 2004. There is also very minimal increase from the 2002 level to the current year. If not for the Php 832 million WESM Compliance costs, the projected 2006 OPEX will be at the same level as that of the previous year.



**Figure 1.1: Actual Operating & Maintenance Expenditure**

## 1.2 Expenditure Patterns

### 1.2.1 Artificially-Low Level of OPEX

Meralco's expenditures for the past four years are at artificially-low levels and this is attributed to some abnormal factors. Due to the Supreme Court decision in 2002 ordering a Php 0.167 per kwh refund by Meralco to its customers, and the subsequent implementation of Phases I to III of this refund as ordered by the Energy Regulatory Commission, Meralco deemed it prudent to manage its expenditures very carefully and judiciously during the past four years. Such prudent cash management was embodied in a Comprehensive Liability Management Plan (CLMP), whose objective was to ensure that Meralco continued to meet its major obligations even with the implementation of the customer refund. One of the major stages of this CLMP was the refinancing of Meralco's loans, in order to extend their payment schedules. However, in exchange for such extension of payment terms, Meralco's lenders required that Meralco continue to impose limits or caps on its expenditures.

Nonetheless, Meralco believes that such stringent caps or limits on expenditures cannot be maintained for a protracted period of time, as these will eventually impact on the level and quality of electric service rendered to its customers.

Having been under such unusual condition for the past four years, the actual expenditure patterns therefore, do not provide a fair reflection of what would have been considered reasonable expenditure under normal circumstances.

### 1.2.2 OPEX Grew Below Inflation and Driver Growth Rates

The historical OPEX information also indicates that increases in actual expenditure are lower than the inflation rate. Adjusting the historical data beginning 2002 to reflect the rate of inflation, would reveal a more realistic picture of what should have been the year to year movement in Meralco's OPEX in comparison with the actual expenditure. This is clearly illustrated in the following graph.

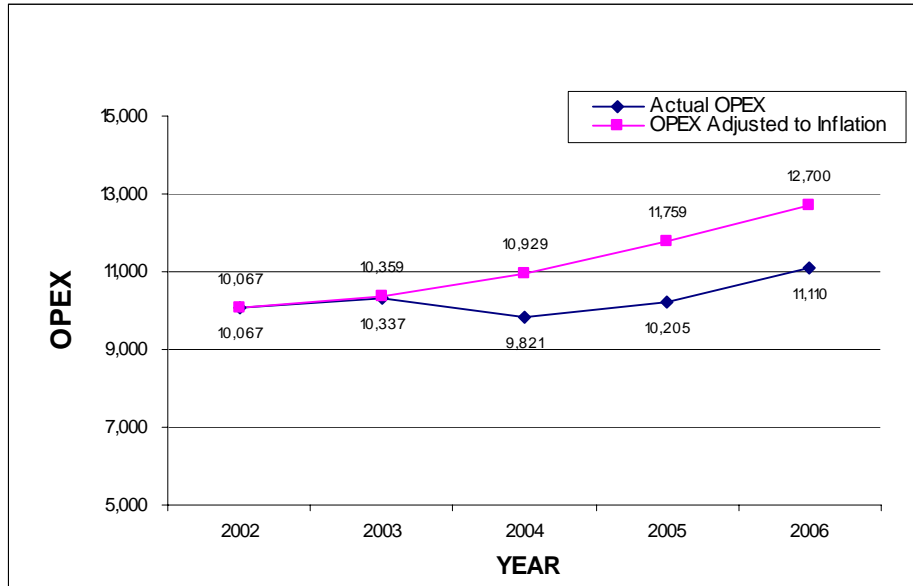


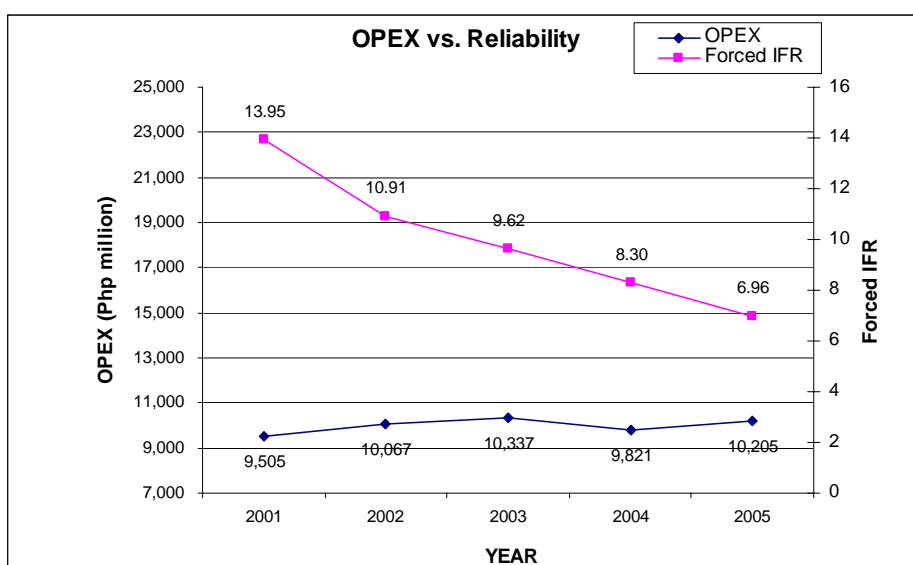
Figure 1.2: Actual OPEX and OPEX Adjusted to Inflation

The past 4-year average annual growth in actual OPEX is about 2.6%. However, segregating the WESM-related costs in 2006, the average growth will only become 0.6%, which is way below the growth rate of the historical drivers of OPEX. Peak MW demand increased by 2.9% while customer base grew by 3.0% annual average from 2002 to 2006. Adjusting the historical OPEX to reflect these growth drivers and the inflationary pressure would result to a much higher level than what it is today.

The low expenditures of the past are however, unsustainable. Opportunities for reductions and deferrals of expenditure have been exhausted and investments must increase for the long term good of the customers.

### 1.3 Effect on Performance

Despite exceedingly low expenditures in the past four years, Meralco has delivered excellent performance by consistently improving reliability performance and service levels. The chart below shows the apparent improvement in network reliability measured in terms of Forced Interruption Frequency Rate (IFR), a load-based reliability indicator.



**Figure 1.3: OPEX and Forced IFR**

Although the effect of CAPEX investments on reliability was not indicated, the chart clearly shows that substantial efficiency improvements have been achieved in the past despite abnormally-low levels of OPEX. This demanding environment and our strategic responses have established Meralco as a highly efficient business. However, such performance is no longer sustainable on such low allowances. Every conceivable strategy of reducing or deferring expenditures had been exhausted and the new regulatory environment offers significant new challenges. Reasonable OPEX levels must therefore be allowed to best serve the long-term interests of our customers.

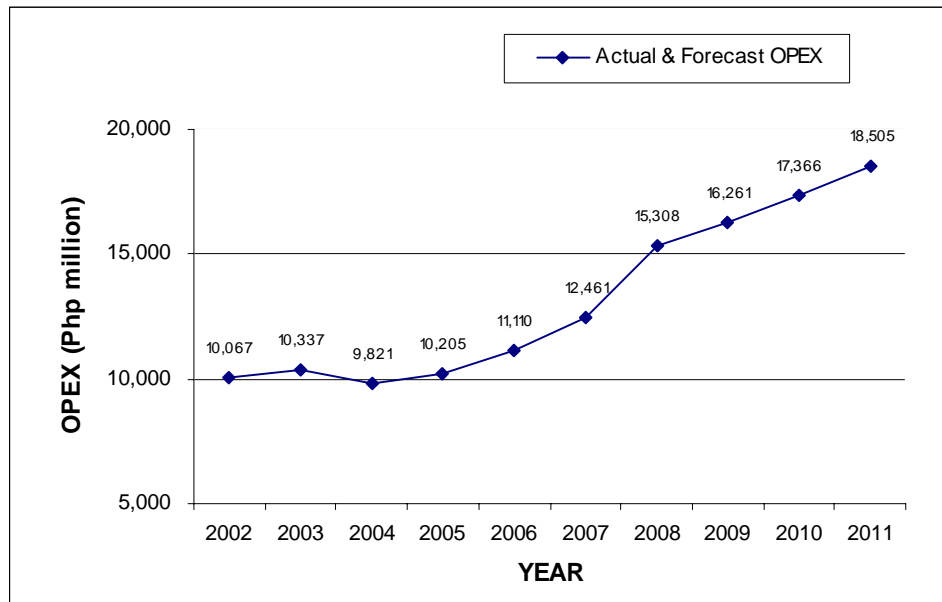
## 2. Expenditure Forecast

### 2.1 Overview

Meralco plans to invest Php 79,901 M (real) in operating and maintenance expenditures over the second regulatory period. This expenditure is required to maintain the safety, efficiency and reliability of the distribution network, to allow us to deliver services to our customers, and to support our business operations and employees.

The majority of these expenditures will be incurred directly in the operation and maintenance of the distribution network and in rendering customer services. However, a significant component, about 26% of the total OPEX, will also be invested in complying with various regulatory requirements, undertaking our new roles under the WESM rules, the DSOAR, the Magna Carta, among others, and also, in maintaining our support functions.

The projection of this expenditure is illustrated in the following chart.



**Figure 2.1: Historical and Forecast OPEX (Real)**

## 2.2 Forecast Methodology

Considering the inconsistencies in the historical data, Meralco decided to use the projected expenditure for the 2006 calendar year as the base case for the forecast. Applying the bottom-up approach, each Budget Responsibility Unit (BRU), the smallest organization in Meralco accountable for resources used in the operations, prepared their OPEX budget for 2006 which were consolidated at the corporate level. Then, each BRU's costs were classified into the appropriate OPEX categories based on the DWRG definitions. For those BRUs falling into two or more categories, their costs were disaggregated into those categories by allocation based on the amount of time devoted to each category.

The OPEX forecast was developed by escalating the base year by the driver growth factor for each category and then adding the additional expenditures necessary in order for Meralco to maintain reliable, safe and efficient distribution service for the second regulatory period.

## 2.3 Key Drivers of OPEX

As discussed in the overview, operating and maintenance expenditures are forecast to increase over the second regulatory period. The key drivers of this increased expenditure are summarized below.

### a) Size of the Asset Base

The primary driver that defines OPEX requirements is the size of the asset base that needs to be operated and maintained. Meralco's asset base valued at Php 97 Billion as of June 30, 2006 will grow at a rate of about 5% annually for the next five years.

**b) Customer Connections**

The increase in number of customer connections will have a direct impact on the expenditure requirements to connect and render services to these new customers. A modest growth of 2.12% in Meralco's customer base is forecasted over the second regulatory period.

**c) Regulatory Changes**

The introduction of the Performance-Based Regulation and other regulatory changes has required Meralco to undertake a range of responsibilities additional to existing functions.

**d) Performance Targets**

With a Performance Incentive Scheme (PIS) in place during the second regulatory period, increased expenditures are required to meet the performance and service level targets.

**e) Safety and Other Areas of Concern**

There are a number of other areas such as customer satisfaction, public safety, and environment management among others, which Meralco believes should require expenditures during the coming regulatory period.

**2.4 OPEX Forecast**

Meralco's forecast for the current year and the second regulatory period is shown in the following table.

**Table 2.1: OPEX Forecast (Real Php Mn)**

OPEX Category	2006	2007	2008	2009	2010	2011
Distribution Operation and Maintenance	3,543	3,694	5,569	5,904	6,252	6,633
Consumer Accounts	3,382	3,502	3,722	3,987	4,284	4,599
Administrative and General	3,353	3,526	3,817	4,107	4,466	4,809
WESM Compliance	832	1,739	2,200	2,264	2,364	2,464
<b>Total Operating &amp; Maintenance Expenditure</b>	<b>11,110</b>	<b>12,461</b>	<b>15,308</b>	<b>16,261</b>	<b>17,366</b>	<b>18,505</b>

The following table shows the year-to-year increases by major category.

**Table 2.2: Annual Growth in OPEX Forecast (Real)**

OPEX Category	2007	2008	2009	2010	2011	Average Growth p.a.
Distribution Operation and Maintenance	4.3%	50.8%	6.0%	5.9%	6.1%	14.6%
Consumer Accounts	3.5%	6.3%	7.1%	7.4%	7.4%	6.3%
Administrative and General	5.1%	8.2%	7.6%	8.8%	7.7%	7.5%
WESM Compliance	109.1%	26.6%	2.9%	4.4%	4.2%	29.4%
<b>Total Operating &amp; Maintenance Expenditure</b>	<b>12.2%</b>	<b>22.8%</b>	<b>6.2%</b>	<b>6.8%</b>	<b>6.6%</b>	<b>10.9%</b>

Distribution O&M category increased substantially beginning 2008 primarily because of additional expenditures in compliance to new regulatory requirements. Significant among these is the cost of meter accuracy tests which shall be conducted on all customer meters once every two years, in compliance with the Magna Carta and the DSOAR.

WESM compliance costs, another regulatory requirement also grew considerably in 2007 and 2008 largely due to the provision of security and working capital for power purchases, which started only in the second half of 2006.

Increases in Consumer Accounts and Administrative and General categories, on the other hand, are quite modest. It is worth mentioning that the Admin & General category provides support to all major categories and therefore should not be viewed separately in equal terms as that of the other categories. Moreover, the Admin & General category includes other allocable costs such as pension, training costs and other support services that were not allocated in compliance with the definitions of the categories. Had these been allocated to the various operating activities, the Admin & General costs will become much lower than its current level.

Applying the forecast CPI, the forecast real expenditures were converted to nominal expenditures which are shown in the following table.

**Table 2.3: OPEX Forecast (Nominal Php Mn)**

OPEX Category	2006	2007	2008	2009	2010	2011
Distribution Operation and Maintenance	3,543	3,925	6,267	7,003	7,804	8,715
Consumer Accounts	3,382	3,721	4,189	4,729	5,347	6,043
Administrative and General	3,353	3,746	4,295	4,871	5,578	6,322
WESM Compliance	832	1,847	2,476	2,685	2,951	3,237
<b>Total Operating &amp; Maintenance Expenditure</b>	<b>11,110</b>	<b>13,239</b>	<b>17,227</b>	<b>19,289</b>	<b>21,680</b>	<b>24,316</b>

## 2.5 Base and Additional Expenditures

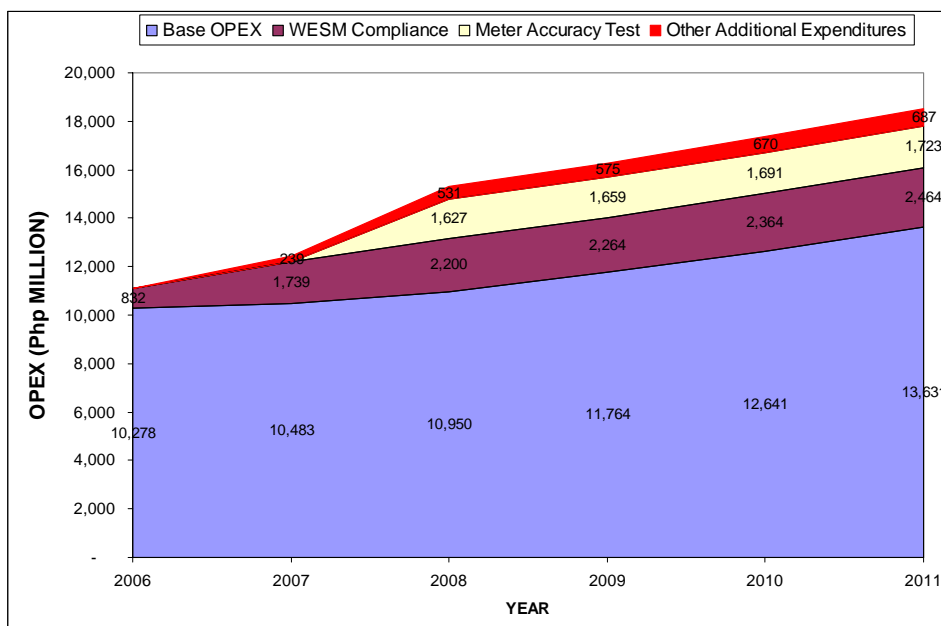
As discussed in the methodology, the forecast was developed by escalating the base year by the driver growth factors to arrive at the base expenditure. To the base are then added the additional expenditures necessary to maintain reliable, safe and efficient distribution service.

The increases determined in escalating the base OPEX were driven by the growth of the asset base and the customer connections. On the other hand, the additional expenditures are associated with a number of new regulatory requirements or impositions, external influences and a range of other initiatives.

These are shown in the following table and graph.

**Table 2.4: OPEX Forecast (Real Php Mn)**

Cost Category	2006	2007	2008	2009	2010	2011	TOTAL
<b>Base OPEX</b>	10,278	10,483	10,950	11,764	12,641	13,631	59,468
<b>Additional Costs:</b>							
<b>Meter Accuracy Test</b>			1,627	1,659	1,691	1,723	6,700
<b>WESM Compliance</b>	832	1,739	2,200	2,264	2,364	2,464	11,031
<b>Other Additional Expenditures</b>		239	531	575	670	687	2,702
<b>Total Operating &amp; Maintenance Expenditure</b>	11,110	12,461	15,308	16,261	17,366	18,505	79,901



**Figure 2.2: Forecast OPEX – Base and Additional Expenditures (Real)**

The additional expenditures are essential for Meralco to perform new functions brought about by regulatory changes, foremost of which is the PBR-RDWR, the Magna Carta, DSOAR, Business Separation Guidelines and other guidelines and rules that the ERC will implement in the immediate future. In addition to the associated fees, the new responsibilities that these changes imposed on Meralco necessitates substantial labor man-hours, additional systems to support the business process changes and training to prepare and better equip the employees to face the new challenges.

Significant expenditures are likewise needed to ensure that the performance targets under the PIS will be met. Meralco will continue to intensify its efforts to reduce system losses, undertake maintenance activities to eliminate backlogs due to budget caps of previous years and develop an Asset Management System to better manage its network assets. Customer service processes will be further enhanced and informational campaigns will be stepped-up to improve customer service performance as well as customer satisfaction. A number of other initiatives will be taken to improve the network and customer service levels.

Lastly, Meralco needs additional expenditures to fulfill its commitments to the community it serves by undertaking activities that will generate further awareness on public safety and continuing its environmental management efforts such as tree plantation and reforestation, water recycling and conservation, clean air drive and systematic tree trimming.

As shown in the table below, the year to year increases in base expenditure are quite modest. The additional costs were just recently introduced, which explains the significant initial increases.

**Table 2.5: Annual Growth in OPEX Forecast (Real)**

Cost Category	2007	2008	2009	2010	2011	Average Growth p.a.
<b>Base OPEX</b>	2.0%	4.5%	7.4%	7.5%	7.8%	5.8%
<b>Additional Costs:</b>						
<b>Meter Accuracy Test</b>			2.0%	1.9%	1.9%	1.9%
<b>WESM Compliance</b>	109.1%	26.6%	2.9%	4.4%	4.2%	29.4%
<b>Other Additional Expenditures</b>		121.6%	8.3%	16.5%	2.6%	29.8%
<b>Total Operating &amp; Maintenance Expenditures</b>	12.2%	22.8%	6.2%	6.8%	6.6%	10.9%

The costs to comply with various regulatory requirements and other additional expenditures comprise about 26% of the total OPEX. Isolating its effect from the base OPEX showed a more realistic picture of the year-to-year movements. From a high of 10.9% average annual increase, the average growth went down by almost half to 5.8%, which is consistent with the growth of the drivers and is fairly reflective of the reasonable growth in Meralco’s OPEX forecast.

## 2.6 Comparison of Historical and Forecast OPEX

The following graph shows the trend of the actual and forecast expenditures from 2002 to 2011 vis-à-vis the actual OPEX indexed to the base year using CPI. The graph indicates a substantial increase from the indexed historical to the forecast values. The 5-year indexed historical amounted to Php 58,918 million while the 5-year forecast totaled Php 79,901 million or an increase of almost 36% on real terms.

Segregating the WESM and other additional costs, the base OPEX amounted to only Php 59,468 million or a very minimal increase of only 0.9% for the 5-year period.

This merely indicates that the forecast levels are reasonable and efficient. Moreover, this strongly supports the statement on previous discussions that the historical expenditures are artificially-low.

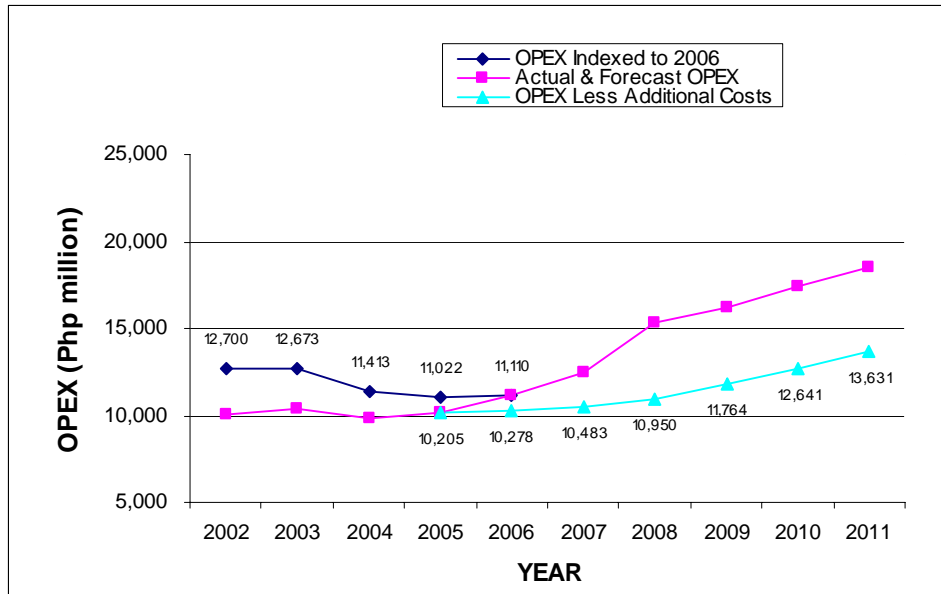


Figure 2.3: Comparison of Actual and Forecast OPEX (5-Year Total - Real)

## 2.5 Efficiency Indicators

A key requirement under the RDWR is to demonstrate improvements in operating efficiencies and productivity over the second regulatory period. The impact of the forecast on the operational efficiency and productivity is discussed in the following sections.

### 2.5.1 Operational Efficiency

There are several indicators which can be used to demonstrate the operational efficiency of the OPEX forecast. These include among others, the OPEX per Asset Base, OPEX per customer and OPEX per kW Demand.

These indicators are plotted in the following graphs. For each of these measures, a falling trend represents increasing efficiency.

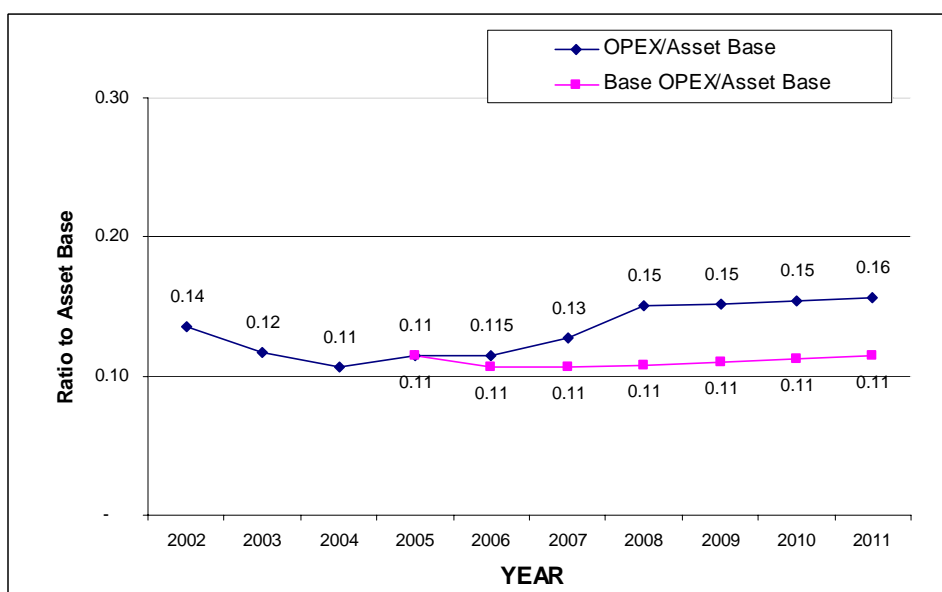


Figure 2.4: OPEX per Asset Base (Real)

OPEX as a percentage of the Asset Base declined for the past several years largely because of low expenditure levels. Considering only the base OPEX, the trend remained flat over the second regulatory period which indicates that the expenditure forecast is consistent with the growth of the asset base

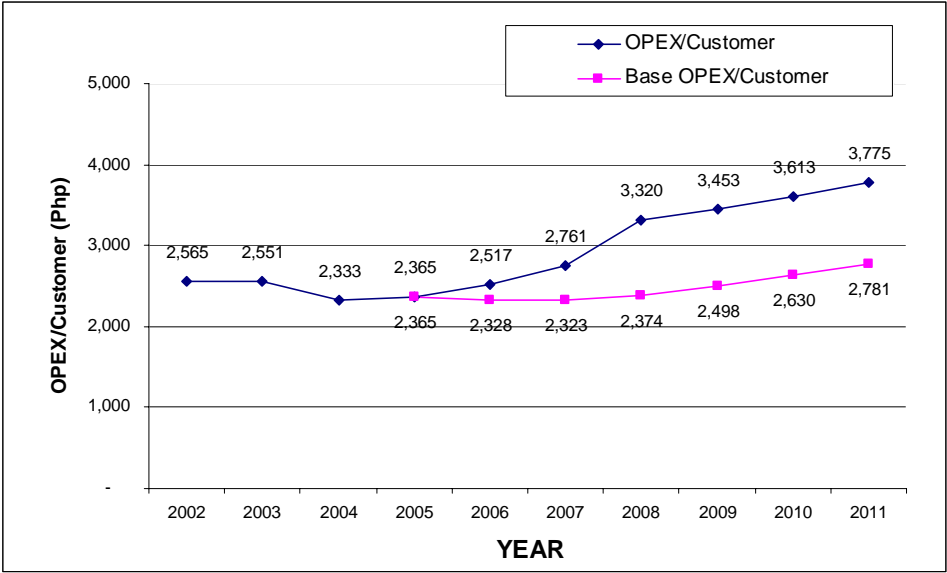


Figure 2.5: OPEX per Customer (Real)

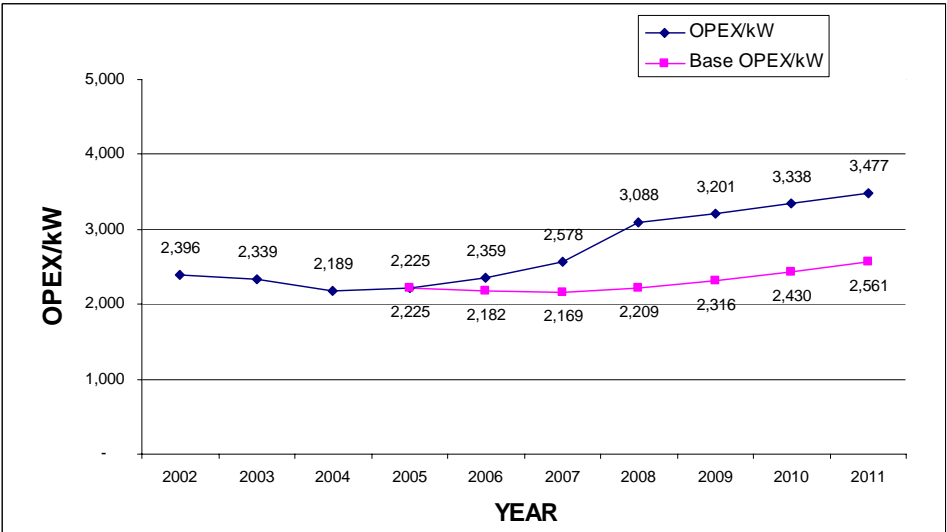


Figure 2.6: OPEX per kW Demand (Real)

In terms of OPEX per customer and kW demand, the graphs show a decline in the trend up to 2007 but increased very slightly over the second regulatory period, with the additional expenditures excluded. This suggests that the expenditures are growing at a slightly higher rate as that of the operational parameters to which they are being compared. This can be explained by the fact that the primary driver for the increases is the size of the asset base whose growth rate is higher than that of the customer base and the demand.

## 2.5.2 Labor Productivity

Improvements in labor productivity can be demonstrated by several indicators such as customer per employee, MW Demand per employee and energy sales per employee.

These indicators are plotted in the following graphs. For each of these indicators, a rising trend represents increasing productivity.

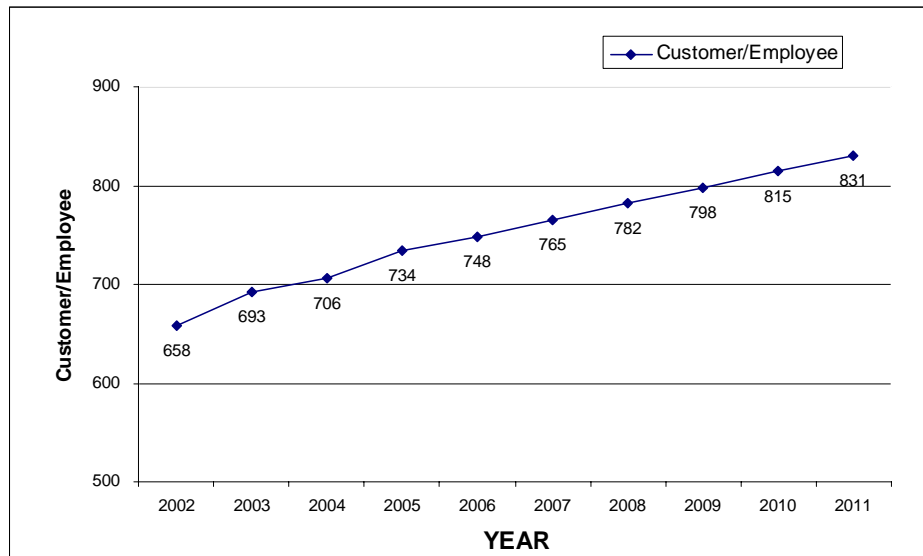


Figure 2.7: Customer per Employee

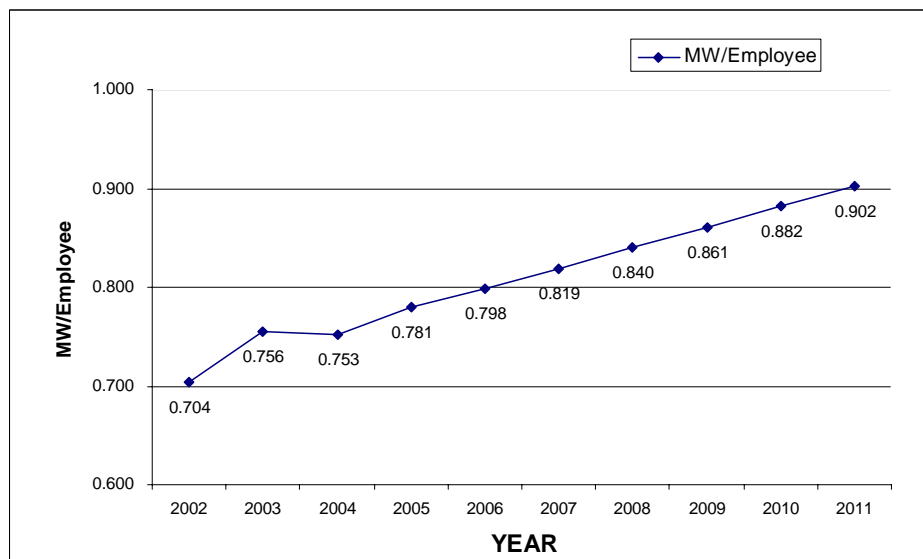
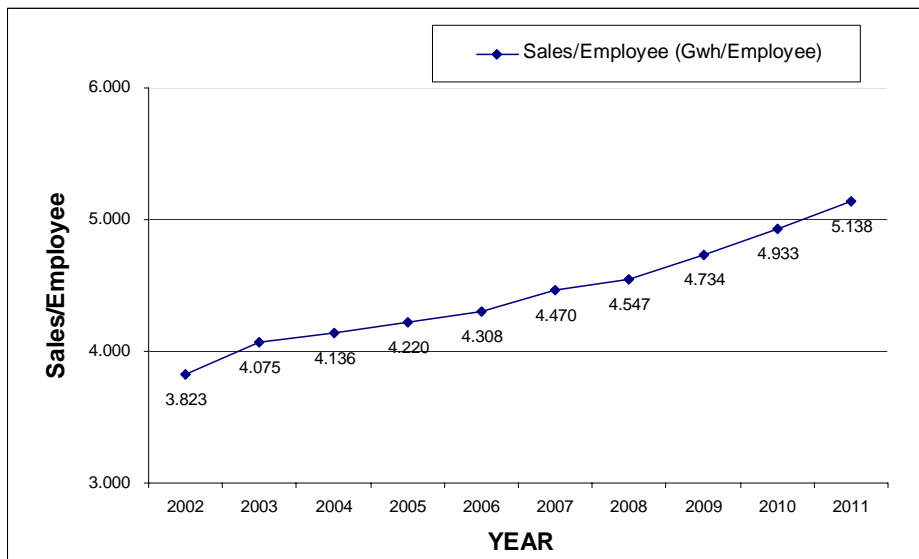


Figure 2.8: MW Demand per Employee



**Figure 2.7: Energy Sales per Employee**

In all of the graphs above, sustained improvements in labor productivity was clearly demonstrated. This can be largely attributed to the strategy of maintaining the current level of manpower complement over the regulatory period made possible through the development of a competent workforce, performance-based HR strategies and programs, the optimized use of technology and continuous improvements in our work processes.

### 3. Conclusion

Meralco's operating and maintenance expenditure forecasts are essentially-needed to ensure the efficient operation of the distribution system and to sufficiently support the forecast growth in assets and customer connections. The modest forecasts are likewise vital in sustaining Meralco's excellent network and service performances which were consistently improved despite lower than reasonable expenditures in the past.

Although the total forecast may seem substantial because of the additional expenditures, these are nonetheless reasonable costs to comply with the regulatory requirements.

Lastly, Meralco believes that the operating and maintenance expenditure forecasts are reasonably efficient as demonstrated by improvements in operating efficiencies and productivity in the second regulatory period.

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