

NO.	TOPIC	Question	Comments
1	Kamagong substation site	What was the basis for the forecast cost of this site?	The forecast cost of this site is approximately ten times the average land value in the asset valuation report.
2	Amadeo substation –phase II.	Please provide an itemised breakdown of the estimated cost of this project.	Our estimate of the cost is Php 484 million, excluding land whereas Meralco's cost estimate is Php 911 million. We need to understand the reason for this difference.
3	Sta Rosa substation expansion	Please provide an itemised breakdown of the estimated cost of this project.	Our estimate of the cost is Php 150 million whereas Meralco's estimate is Php 202 million. We need to understand the reason for this difference.
4	Zapote-Legaspi-Kamagong 115 kV line. Balintawak-sta Mesa 115 kV ine. Kaybiga- Novaliches 115 kV line.	Please provide an itemised breakdown which shows how the indicative unit cost of Php 30.19 million per circuit km has been determined.	Meralco's unit cost for these 2X795 MCM conductor lines is about four times our estimate (which is based on average replacement costs for corresponding components taken from the asset valuation). We need to understand the reason for this difference.
5	FBGC substation	Please provide an itemised breakdown of the estimated cost of this substation.	Meralco's estimate of Php 415 million is low compared to our estimate of Php 738 million. We need to understand the reason for this difference, which we think could be due to differences in asset quantities (no of feeders).
6	Customer contributions	Please provide a summary of the historic customer capital contributions over the period 2003-2006 and a forecast of the customer contributions for 2007-2011 and advise whether the customer costs in the capex forecasts are net of customer capital contributions.	Meralco has a policy of requiring capital contributions for connections located more than 30 metres from an existing line. However Meralco's revenue application made no reference to capital contributions and provided no information on he amount or treatment of these revenues.
7	Treatment of VAT in procured equipment cost estimates for capex forecasts	Please advise whether, in estimating the costs of procured equipment for inclusion in the capex forecasts, VAT was excluded.	Now that Meralco's distribution business is registered for VAT, VAT paid on procured equipment is refundable. Hence capex forecast should now be exclusive of VAT. However the replacement costs used in the asset valuation explicitly <i>included</i> VAT. Our project cost estimates were based on the asset valuation unit replacement costs and (except where noted above) showed good agreement with Meralco's estimates. This indicates that the replacement costs used in the capex forecast includes the VAT paid on procured equipment.

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8	Customer metering costs	Please confirm that customer metering costs in the capex forecast incorporates the new costs of all meters.	The asset valuation report optimized out large quantities of customer meters, which indicates that Meralco has significant meter inventory that can be run down over the second regulatory period. Our analysis indicates that procurement of large quantities of new meters will generally not be required.
9	CBP - 1A substation	Please provide further justification of the need and timing for the additional transformer and associated network development proposed for 2011.	Our analysis, which assumes a 3% annual load growth, indicates that this transformer will only be 53.7% utilised at the end of the 10 year planning period in 2021. This indicates that it may be possible to defer the installation of this transformer and rely on 34.8 kV load transfers in the event of a contingency.
10	Asset renewal expenditure	Please provide an analysis showing the proportion of forecast asset replacement costs that are driven by age related asset failures compared to premature asset replacements driven by factors such as severe weather and overloads. Please also confirm how premature asset renewals are treated in the expenditure forecasts.	We are able to model the age related asset replacement requirements based on data provided in the asset valuation report but have no information on premature asset replacements.
11	WESM expenditures	Please review the assumption of 50% of electricity requirements being purchased through WESM and provide a new forecast of WESM costs based on any revised assumption.	Since the revenue application was prepared, we understand that Meralco has signed a new power purchase agreement with NPC. This will reduced the proportion of electricity requirements purchased through WESM. WESM costs will reduce as a result.
12	WESM IT costs	Please provide the assumptions and analysis underpinning the forecast of WESM IT opex costs.	Insufficient information has been provided to allow us to determine whether these costs are reasonable.
13	Pole and space rental	Please advise the reason for the forecast reduction in revenues from pole and space rentals in RY 2007 compared to actual revenues in 2005.	Actual revenue (nominal) from pole rental in CY 2005 was Php 388 million whereas forecast revenue for RY 2007 is Php 249 million, a reduction of 36%. Actual revenue (nominal) from space rental in CY 2005 was Php 45 million whereas forecast revenue for RY 2007 is Php 2 million, a reduction of 96%. No explanation has been provided for these large variances.

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14	Related business activities	<p>For each of the 13 individual related business activities listed in clause 4.3.4 please advise:</p> <ul style="list-style-type: none"> • whether or not Meralco engages in this activity; • Meralco's best estimate of the actual cost of undertaking this activity in CY 2006; • Meralco's policy for recovering the cost of this activity (whether the cost is recovered through the regulated distribution wheeling rate or directly from customers); • the amount of income (if any) recovered outside of the distribution wheeling rates from undertaking this activity. 	<p>Meralco's revenue application was silent on both the costs and revenues from these activities, although information has subsequently been provided on pole space and fibre optic rentals and bad debt recovery.</p> <p>While some of these activities may be discretionary others, such as service connection and reconnection, cannot be avoided. The Commission requires information on the actual costs incurred in providing these potentially chargeable services, even if current policy is not to charge customers directly.</p>
15	Corporate wellness and fitness centres	<p>Please provide total actual and forecast operational costs for operating the corporate wellness centre and the corporate fitness centre. Please also provide:</p> <ul style="list-style-type: none"> • details of income received from the use of these activities by non-Meralco employees; and • an analysis showing how actual and forecast total operational costs are allocated between (i) use by Meralco employees engaged in regulated distribution business activities; (ii) use by Meralco employees engaged in other activities and (iii) use by other persons. 	<p>We understand that the corporate fitness centre is open to the public. If expenditure on these two facilities is to be allowed, then we need to be sure that total operational costs are properly allocated so that only that proportion of cost related to the use of these facilities by employees engaged in regulated distribution business activities is included in the forecast.</p> <p>Note: In responding to this question separate data should be provided for the wellness centre and for the fitness centre.</p>
16	Athletic expenses	<p>Please provide details of the purpose of athletic expenses, the reasons the justification for their inclusion in the regulated opex forecasts and the methodology used to determine the forecast expenditure.</p>	<p>Athletic expenses are a component of the "administration and general – other" line item.</p>
17	Stores	<p>Could Meralco provide a spreadsheet showing:</p> <ul style="list-style-type: none"> • Actual and forecast total costs of operating the stores system including all operating and overhead costs that are capitalised; • The line items to which capitalised stores costs in the capex forecast have been allocated.. 	<p>On the information provided to date we are unable to exclude the possibility that stores costs have been over-recovered in the forecast revenue requirement. We note that procured equipment cost estimates include a 3% stores component and also the line item "Allocated overheads capitalized" includes a stores expense overhead.</p>

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18	Energy consumption 2006	<p>The full-year energy consumption figures for 2006 should now be available.</p> <ul style="list-style-type: none"> • How do these compare with the forecasts submitted by Meralco in their August 31 application? • Is it necessary to substantially recast the forecast based on actual figures? 	<p>After a consumption slump in 2005, Meralco predicted a substantial recovery in 2006, particularly for residential and industrial customers. There were however some doubts about whether this would in fact eventuate.</p>
19	Energy consumption 2008	<p>Energy consumption is forecast to slump again in 2008. Our understanding is that Meralco expects this to occur as a result of anticipated price increased in the first regulatory year. Please confirm. Are there other reasons for the expected slump?</p>	-
20	Forecast consumer numbers	<p>During 2005, Meralco indicated a very substantial decrease in the number of industrial consumers (13.6%).</p> <ul style="list-style-type: none"> • What was the reason for this decline? • The number was forecast to recover in 2006. Did this eventuate? <p>Similarly, commercial consumers declined by 8.5% in 2005 and was forecast to recover by 17% in 2006</p> <ul style="list-style-type: none"> • What was the reason for this decline? • Did the predicted recovery in 2006 eventuate? • Are the changes from the predictions sufficient to warrant a substantial recasting of the consumption and demand forecasts? 	-
21	Demand forecast 2006	<p>Please confirm:</p> <ul style="list-style-type: none"> • The actual 2006 peak • Meralco's revised forecast figures if the May peak was in fact the annual peak. 	<p>Meralco noted in their August 31 application that the May 2006 peak was 143 MW below forecast. If this was assumed to be the annual peak (as per historical patterns), the forecasts would need to be recast.</p>