

REPUBLIC OF THE PHILIPPINES
ENERGY REGULATORY COMMISSION
PASIG CITY

IN THE MATTER OF THE APPLICATION FOR APPROVAL OF (1) THE ANNUAL REVENUE REQUIREMENT (ARR) AND PERFORMANCE INCENTIVE SCHEME FOR THE FIRST REGULATORY PERIOD (FROM JANUARY 1, 2027 TO DECEMBER 31, 2030); AND (2) THE MAXIMUM AVERAGE PRICE (MAP) FOR THE FIRST REGULATORY YEAR 2027 (RY 2027) AND TRANSLATION OF THE MAP FOR RY 2027 INTO A DISTRIBUTION RATE STRUCTURE FOR VARIOUS CUSTOMER CLASSES IN ACCORDANCE WITH THE PROVISIONS OF THE RATIONALIZED RULES FOR SETTING DISTRIBUTION WHEELING RATES (RRDWR) UNDER ERC RESOLUTION NO. 24, SERIES OF 2025

Text

ERC CASE NO. 2026-061 RC

MACTAN ELECTRIC COMPANY, INC. (MECO),
APPLICANT.

May 04, 2026

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APPLICATION

Applicant MACTAN ELECTRIC COMPANY, INC. (MECO), by counsel, respectfully states:

1. MECO is a private corporation organized under the laws of the Republic of the Philippines with principal office address at MECO Building, Sangi Road, Pajo, Lapu-Lapu City, Cebu. It may be served with notices and other processes through the undersigned counsel's address.
2. For this application, MECO is represented by its Senior Vice President and General Manager, Gilbert A. Pagobo and its Regulatory Compliance Officer and Chief Finance Officer, Mr. Julito O. Gultiano, Jr.

3. By virtue of Republic Act No. 10890¹, MECO has a legislative franchise to construct, install, establish, operate and maintain a distribution system for the conveyance of electric power to the end users in the City of Lapu-Lapu and Municipality of Cordova. MECO's certificate of public convenience² was issued on April 23, 2018 in ERC Case No. 2015-045MC.
4. On October 16, 2025, the Energy Regulatory Commission (ERC) approved Resolution No. 24, Series of 2025 or the "*Rationalized Rules for Setting Distribution Wheeling Rates for Privately Owned Electricity Distribution Utilities Operating Under Performance Based Regulation (RRDWR)*" under ERC Case No. 2025-011RM, setting out the new Entry Groups for PDUs and the First Regulatory Period for each Entry Group to restart the regulatory reset process. The RRDWR classified MECO under the Second Entry Group operating under the PBR with the First Regulatory Period (1RP) covering Regulatory Years (RYs) 2027 to 2030, or from January 1, 2027 to December 31, 2030.
5. Thus, this application for the approval of the Annual Revenue Requirement (ARR) and Performance Incentive Scheme (PIS) in accordance with the RRDWR, as well as applicable rules, regulations and implementing guidelines of the ERC. Pursuant to the RRDWR, applicant used the Price Cap Model in the determination of the X-factor, P₀-factor and the Maximum Annual Prices (MAP) that will apply to the applicant and on which it will base its rate setting for the First Regulatory Period including a proposed rate translation for each customer class.

I.
PROPOSED ANNUAL REVENUE REQUIREMENT (ARR)

6. The proposed ARR is based on the Building Block calculation described in the RRDWR, with the exclusion of corporate income tax.

Table 1. Annual Revenue Requirement as per Building Block approach

Building Block	Proposed revenue requirement per Regulatory Year (PhP)			
	RY 2027	RY 2028	RY 2029	RY 2030
Operating & maintenance expenditure	423,174,423	498,507,846	570,474,410	652,950,155
Taxes, levies & duties	24,993,655	26,364,939	27,840,546	29,466,557

¹ Pursuant to Republic Act No. 10890 dated July 17, 2016.

² Pursuant to the Decision dated April 23, 2018 in ERC Case No. 2016-045 MC.

(other than corporate tax)				
Regulatory depreciation	279,233,472	314,464,633	348,631,964	386,748,139
Return on capital	866,000,850	974,229,594	1,080,452,818	1,219,131,270
Subtotal	1,593,402,400	1,813,567,012	2,027,399,738	2,288,296,121
Allowance for Guaranteed Service Level (GSL)	7,967,012	9,067,835	10,136,999	11,441,481
Total	1,601,369,412	1,822,634,847	2,037,536,737	2,299,737,602

Note : All values are in nominal terms. The meaning and application of these parameters are as described in the RRDWR.

7. The ARR is based on a proposed rolled-forward value of the applicant's Regulatory Asset Base (RAB) as described below. The opening value of the RAB for 2025 is based on the value of the RAB as of December 31, 2025, in accordance with the method described in the RRDWR.

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

ITEM	PhP for Regulatory Year			
	2027	2028	2029	2030
Opening value of RAB	5,464,753,883	6,302,065,707	6,933,116,250	7,743,411,919
Add: Capital Expenditure	1,115,768,489	944,230,046	1,157,610,851	1,458,243,569
Less: Regulatory Depreciation on asset base at start of 1RP	(279,233,472)	(314,464,633)	(348,631,964)	(386,748,139)
Change in assets used over regulatory lives	776,807	1,285,130	1,316,782	1,066,074
Closing value of RAB	6,302,065,707	6,933,116,250	7,743,411,919	8,815,973,423
AVERAGE VALUE OF RAB	5,883,409,796	6,617,590,980	7,338,264,086	8,279,692,672

Note : All values are in nominal terms

8. In calculating the ARR for the 1RP, the applicant made use of the estimated Philippine Consumer Price Index (CPI)³. The figures provided for calendar years and converted to regulatory years:

³ Applicant mostly relied on Philippine CPI since most, if not all, purchases are transacted in Philippine Peso. Thus, the US CPI and the PHP/USD exchange bear no significant impact.

Table 3. Forecast Change in the Consumer Price Index for the Philippines

	2025	2026	2027	2028	2029	2030
Calendar Year	1.7%	3.3%	3.2%	3.2%	3.2%	3.2%
Regulatory Year		3.5%	3.1%	3.2%	3.2%	3.2%
Data source :	IMF World Economic Outlook (January 2026)					

9. For purposes of the initial and subsequent annual price resets during 1RP as required in terms of the RRDWR, the applicant will update the Consumer Price Indices (CPI) with actual values in accordance with the RRDWR and will use such updated values for the price resets.
10. The ARR is partly based on a proposed Weighted Average Cost of Capital (WACC) of 14.6% per annum. This calculation is based on the recommendations of NERA Economic Consulting, Inc. which is also the same as the other private distribution utilities.
11. In accordance with the RRDWR, allowance has been made to include assets used beyond their standard lives in the RAB, at a value equal to 5% of their optimized cost.

Capital Expenditure

12. The proposed Capital Expenditure (CAPEX) included in the calculation of the Rolled-forward Regulatory Asset Base is as follows:

Table 4. Proposed Capital Expenditure (per regulatory year)

ITEM	PhP for Regulatory Year			
	2027	2028	2029	2030
Capital Expenditure	1,115,768,489	944,230,046	1,157,610,851	1,458,243,569

13. The proposed Capital Expenditure is increased from current levels for the following reasons: (1) growing energy demand and number of customers; (2) more proactive support for strategic infrastructure and tourism development; (3) enhancement of system reliability and contingency preparedness; (4) replacement and modernization of aging assets; (5) technology integration and service quality improvements. The detailed project description and justification are included in the supporting documents.

Operating and Maintenance Expenditure

14. The proposed Operating & Maintenance Expenditure (OPEX) included in the ARR calculation is shown below:

Table 5. Proposed Operating & Maintenance Expenditure (per regulatory year)

	Proposed Operating & Maintenance Expenditure per Regulatory Year (PhP)			
	RY 2027	RY 2028	RY 2029	RY 2030
Operating and maintenance expenditure	423,174,423	498,507,846	570,474,410	652,950,155

15. The proposed OPEX are higher than current levels primarily due to the increased resources required to operate and maintain the expanding regulatory asset base, the growing number of customers, rising material, manpower, and labor costs, increasing cost of outside services as well as regulatory compliance costs and inflationary pressures.

Taxes other than Corporate Income Tax

16. The proposed expenditure on Taxes, Levies & Duties (other than corporate income tax) included in the ARR calculation is shown below:

Table 6. Summary of proposed Taxes, Levies & Duties (other than corporate income tax) expenditure (per Regulatory Year)

	Nominal PhP			
	2027	2028	2029	2030
Levies	194,520	225,881	261,488	301,985
Other taxes	24,799,135	26,139,058	27,579,058	29,164,572
TOTAL	24,993,655	26,364,939	27,840,546	29,466,557

17. The proposed taxes, levies and duties (other than corporate income taxes) expenditure increased from current levels mainly due to the payment and provision of business taxes for the company's operation as the electric service provider, provision of CAPEX permit fees of implemented CAPEX during the lapsed period, and recovery of paid real property taxes prior to the implementation of the auto-recovery mechanism in 2021.

Depreciation

18. The proposed depreciation included in the ARR calculation, including an allowance for assets intended to be disposed of, during the 1RP after allowing for any potential income from the sales of such disposed assets, is shown below. These values include depreciation on the applicant’s RAB as at the start of the 1RP, as well as depreciation on those assets proposed to be acquired during the same period.

Table 7. Summary of proposed Depreciation (per Regulatory Year)

	Proposed Depreciation per Regulatory Year (PhP)			
	RY 2027	RY 2028	RY 2029	RY 2030
Regulatory depreciation	278,214,697	313,020,265	347,657,574	385,780,433
Disposal	1,195,295	1,444,368	1,244,510	1,287,346
Income from Disposal	(176,520)	-	(270,120)	(319,640)
Total	279,233,472	314,464,633	348,631,964	386,748,139

19. The depreciation is calculated on a straight-line basis, based on the standard asset lives approved by the Commission where these are available.

Energy Consumption

20. Sales of energy, including sales to applicant, are forecasted as follows:

Table 8. Summary of forecast energy consumption (per Regulatory Year)

	2027	2028	2029	2030
Energy consumption (MWh)	972,033,066	1,022,334,021	1,071,030,595	1,118,232,488

21. The estimates of the energy sales are based on the following forecast co-incident, annual, sustained peak demand on the whole distribution network:

Table 9. Summary of forecast peak demand (per Regulatory Year)

	2027	2028	2029	2030
Demand (MW)	171.01	192.86	217.01	243.46

II.
PROPOSED MAXIMUM AVERAGE PRICES (MAP)

22. The estimated price-path for the 1RP determined using the proposed ARR and an assumed zero X-factor and P₀-factor is shown below:

Table 10. Assumed Maximum Annual Prices for the First Regulatory Period

	2027 Regulatory year	2028 Regulatory year	2029 Regulatory year	2030 Regulatory year
Maximum Annual Price (PhP/kWh)	1.4104	1.6798	2.0008	2.3831

23. The applicant recognizes that the Commission will determine the actual X-factor and P₀-factor after its consideration of this application and the actual price-path after incorporating such amendments to these proposals as the Commission deems necessary.

24. Since the MAP calculated under PBR are not directly comparable with unbundled rates, for illustrative purposes, the applicant has prepared a comparison of its current rates for providing distribution wheeling services with those that would result from the implementation of the estimated MAP. This is presented below:

Table 11. Comparison of estimated rates with current rates (illustrative only)

		Current	2027	2028	2029	2030
MAP	PhP/kWh	1.1851	1.4104	1.6798	2.0008	2.3831

III.
PROPOSED PERFORMANCE INCENTIVE SCHEME (PIS)

25. The applicant adopted a **Price-Linked Performance Incentive Scheme** as required in terms of the RRDWR. According to this Performance Incentive Scheme (PIS), the applicant will be rewarded if the service performance levels of its electricity distribution business exceed the target levels proposed below, and will be penalized if the service performance level of its electricity distribution business falls below the proposed targets. The proposed Price-linked Performance Incentive Scheme is based on the

performance measures and performance targets demonstrated below. Stepped performance target levels are proposed, which will influence the size of the reward or penalty.

Table 12. Summary of proposed Price-linked Performance Incentive Scheme

PERFORMANCE INCENTIVE SCHEME

Performance index	Units	Weighting	Target bands				
			A	B	C	D	E
System average interruption frequency index(SAIFI)	Number	20.00%	10.1598	13.9579	17.756	21.5541	25.3522
Customer average interruption duration index (CAIDI)	Minutes	20.00%	63.5357	82.0582	100.5808	119.1034	137.626
Planned system average interruption duration index(planned SAIDI)	Minutes	15.00%	627.925	894.7335	1161.5419	1428.3504	1695.1588
Probability of voltage levels falling within prescribed limits	%	10.00%	0.68%	2.38%	4.08%	5.79%	7.49%
System losses (Feeder Distribution)	%	5.00%	3.50%	4.75%	5.50%		
Average time to process applications for Regulated Distribution Services	Days	15.00%	1.00	1.50	2.00	2.50	3.00
Average time to connect premises to the Regulated Distribution System	Days	15.00%	2.00	3.00	4.00	5.00	6.00
		100.00%					

26. In addition, the applicant proposes to adopt a **Guaranteed Service Level (GSL)** prescribed by the RRDWR where customers will be directly compensated, in the form of reductions in their monthly electricity bills, if service performance falls below certain minimum thresholds. The thresholds and the penalties that will apply are as demonstrated below:

Table 13. Summary of proposed Guaranteed Service Level Incentive Scheme

	Performance Measure	Threshold	Penalty Level
GSL1	Customer experienced a total duration of sustained service interruptions in a Regulatory Year that exceeds the threshold	35 Hours	238.05
GSL2	Customer experienced a total number of sustained service interruptions in a Regulatory Year that exceeds the threshold	20 Interruptions	238.05
GSL3	Customer connection not provided on the day agreed with the customer (for Mainland)	3 days	238.05
GSL4	Customer connection not provided on the day agreed with the customer (for Olanggo)		238.05

27. Moreover, the applicant will be entitled to an additional revenue amount equal to 0.5% of its ARR (excluding any provision for under/over-recovery, or regulatory intervention, or efficiency carry-over from the Previous Regulatory Period), which is intended to be applied to the Guaranteed Service Level Scheme and can be used to

either provide for penalties under the scheme, or for network or operational improvements to avoid such penalties.

**IV.
PROPOSED DISTRIBUTION RATE STRUCTURE AND
TRANSLATION OF MAP FOR RY 2027**

28. The **MAP₂₀₂₇** of **PhP1.4104/kWh** is then broken down into the unbundled components of Distribution Charge, Supply Charge and Metering Charge, with the following resulting figures:

Table 14. MECO’s proposed distribution, supply, and metering rates per customer class

		Current	2027
MAP	PhP/kWh	1.1851	1.4104

Schedule 4: 230V-connected Customer - Residential				
Distribution	Demand	PhP/kW	-	-
	Energy	PhP/kWh	0.8293	1.3462
Supply	Customer	PhP/month	-	-
	Demand	PhP/kW	-	-
	Energy	PhP/kWh	0.2742	0.0791
Metering	Customer	PhP/month	5.0000	13.0000
	Energy	PhP/kWh	0.3042	0.2574

Schedule 3: 230V-connected Customer - Non-Residential				
Distribution	Demand	PhP/kW	-	-
	Energy	PhP/kWh	0.8288	1.8591
Supply	Customer	PhP/month	201.4800	51.4419
	Demand	PhP/kW	-	-
	Energy	PhP/kWh	-	-
Metering	Customer	PhP/month	51.5800	69.6923
	Energy	PhP/kWh	-	-

Schedule 2: 13.8kV-connected Customer with demand of less than 1MW				
Distribution	Demand	PhP/kW	174.9500	358.3166
	Energy	PhP/kWh	0.2659	0.3000
Supply	Customer	PhP/month	-	-
	Demand	PhP/kW	138.2900	28.1302
	Energy	PhP/kWh	-	-
Metering	Customer	PhP/month	237.3800	956.1287
	Energy	PhP/kWh	-	-

Schedule 1: 13.8kV-connected Customer with demand of 1MW or more				
Distribution	Demand	PhP/kW	151.9100	354.8987
	Energy	PhP/kWh	0.2503	0.3000
Supply	Customer	PhP/month	-	-
	Demand	PhP/kW	124.1300	29.0317
	Energy	PhP/kWh	-	-
Metering	Customer	PhP/month	3,013.2700	1,043.9827
	Energy	PhP/kWh	-	-

Schedule 5: 69kV-connected Customers				
Distribution	Demand	PhP/kW	-	32.5922
	Energy	PhP/kWh	-	0.1000
Supply	Customer	PhP/month	-	-
	Demand	PhP/kW	-	-
	Energy	PhP/kWh	-	0.0791
Metering	Customer	PhP/month	-	-
	Energy	PhP/kWh	-	0.0001

29. Applicant submits the following documents in support of this application -

Table 15. Supporting Information attached

Schedule	Information provided
A	Regulatory Asset Base
B	Financial indices forecast for First Regulatory Period
C	Forecast capital expenditure for the First Regulatory Period
D	Forecast disposals during the First Regulatory Period
E	Forecast depreciation during the First Regulatory Period
F	Forecast assets used beyond standard lives
G	Forecast operating & maintenance expenditure
H	Forecast energy consumption and demand
I	Regulatory WACC for the First Regulatory Period
J	Working Capital
K	Performance incentive scheme details
L	Additional information for price-cap model
M	Detailed calculations for First Regulatory Period
N	Calculation of demonstrative unbundled rates
O	Overview of performance of the network and the utility during the Previous Regulatory Period (to date)
P	Rate Schedules per Customer Class

30. In view of the foregoing, applicant respectfully moves for approval of this application to: (1) allow applicant to fulfill its obligations under PBR; (2) ensure continued and reliable and efficient operations and service to the public; and (3) to avoid irreparable losses which will ultimately result in the deterioration of its services to the damage and prejudice of its customers.

RELIEF

WHEREFORE, MECO prays that the application be approved and that a final authority be issued authorizing applicant to adopt its proposed:

- (1) Annual Revenue Requirements (ARR);
- (2) Performance Incentive Scheme (PIS);
- (3) Maximum Average Prices (MAP) for the First Regulatory Period (1RP); and
- (4) Translation of MAP₂₀₂₇ into distribution rates for its various customer class.

MECO also prays for other equitable relief.

Lapu-lapu City for Pasig City, April 23, 2026.



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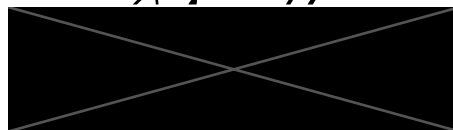
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MCLE Compliance No. VIII-0026569; 14 April 2028

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REPUBLIC OF THE PHILIPPINES)
LAPU-LAPU CITY) S.S.

**VERIFICATION AND
CERTIFICATION OF NON-FORUM SHOPPING**

I, **GILBERT A. PAGOBO**, Filipino, of legal age, with office address at MECO Building, Sangi Road, Lapu-Lapu City, hereby state under oath that:

1. I am the authorized representative of MACTAN ELECTRIC COMPANY, INC. (MECO), the in the application, entitled, *"In the Matter of the Application for Approval of (1) the Annual Revenue Requirement (ARR) and Performance Incentive Scheme for the First Regulatory Period (from January 1, 2027 to December 31, 2030); and (2) the Maximum Average Price (MAP) for the First Regulatory Year 2027 (RY 2027) and Translation of the MAP For RY 2027 into a Distribution Rate Structure for Various Customer Classes in accordance with the provisions of the Rationalized Rules For Setting Distribution Wheeling Rates (RRDWR) under ERC Resolution No. 24, Series Of 2025, Mactan Electric Company, Inc. (MECO), Applicant."* I attest that I have the requisite authority to file the said application.
2. I caused the preparation of the said application and further attest that I have read and understood its contents and that the allegations contained therein are true and correct based on my personal knowledge and on authentic records.
3. The application is filed as part of MECO's PBR compliance and is not filed to harass, cause unnecessary delay, or needlessly increase the cost of litigation.
4. The factual allegations therein have evidentiary support or will likewise have evidentiary support after a reasonable opportunity for discovery.
5. I affirm the truthfulness of the statements contained in the Supplemental Application and its supporting documents.
6. I have not commenced any other action or filed any claim involving the same facts in any court, tribunal, or quasi-judicial agency, and to the best of my knowledge, no such other action or claim is pending. If I should hereafter learn that the same or similar action or claim has been filed or is pending, I shall report such fact within five (5) days from knowledge thereof to the Energy Regulatory Commission.

IN WITNESS WHEREOF, I affix my signature this April 23, 2026, in Lapu-Lapu City, before a Notary Public, avowing to the whole truth of the contents of this document, under the penalty of law.


GILBERT A. PAGOBO
Affiant

SUBSCRIBED AND SWORN TO BEFORE ME, a Notary Public for and in the City of Lapu-lapu, this April 23, 2026, by the affiant, who presented to me his Philippine National ID No. 2061 3697-3910-5937 bearing his name and photograph, as competent evidence of his identity.

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JANICE P. MONTEROLA
Notary Public for Lapu-lapu City
Notarial Commission No. 780-L
Valid until December 31, 2028
114 Osmeña Sr. St., Gun-ob, Lapu-lapu City
Roll of Attorneys No. 58922 | 04.15.11
IBP Lifetime Member No. 812565
PTR No. 1454987 A | 01.07.2028