

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



**IN THE MATTER OF THE APPLICATION FOR APPROVAL OF CAPITAL PROJECTS FOR THE YEARS 2011 TO 2015 AND AUTHORITY TO SECURE LOAN FROM NATIONAL ELECTRIFICATION ADMINISTRATION (NEA) IN ACCORDANCE WITH THE PROVISIONS OF R.A. NO. 9136 AND THE RULES FOR THE APPROVAL OF REGULATED ENTITIES' CAPITAL EXPENDITURE PROJECTS, WITH PRAYER FOR THE ISSUANCE OF PROVISIONAL AUTHORITY,**

**ERC CASE NO. 2011-169 RC**

**SIARGAO ELECTRIC COOPERATIVE, INC. (SIARELCO), Applicant.**

X ----- X

**DOCKETS**  
Date: NOV 07 2017  
Res: \_\_\_\_\_

**DECISION**

Before the Commission for resolution is the *Application* filed on 09 December 2011 by Siargao Electric Cooperative, Inc. (SIARELCO) for the approval of its capital projects for the years 2011 to 2015 and authority to secure loan from National Electrification Administration (NEA), with prayer for the issuance of provisional authority.

SIARELCO alleged the following in its *Application*:

1. That applicant is an electric cooperative duly organized and existing under and by virtue of the laws of the Philippines, with the principal office at Catabaan, Dapa, Surigao del Norte, where it may be served with summons and other legal processes, represented in this instance by its General Manager, SERGIO C.

DAGOOC, of legal age, Filipino, married and with office address also at SIARELCO main office;

2. That herein applicant is the exclusive franchise holder issued by the National Electrification Commission (NEC) to operate an electric light and power services in the islands of Siargao and Bucas Grande, Province of Surigao del Norte;
3. That applicant hereby submits its proposed capital projects for the years 2011-2015, in accordance with the specific provisions of Republic Act No. 9136 and the implementing guidelines adopted by the Energy Regulatory Commission (ERC) under Resolution No. 26, Series of 2009, more specifically the Amended Rules for the Approval of Regulated Entities' Capital Expenditure Projects (CAPEX);
4. That the applicant in support of this application for the approval of the capital projects has attached the following required documents contained in the said guidelines:
  - a. Historical and Forecast Planning Data;
  - b. Technical and Engineering Analysis
  - c. Project Financial and Economic Cost Analysis;
  - d. Project Costs and Estimates;
  - e. Description of the Project; Justification and Impact Study on the System; and Options/Alternatives considered in lieu of the proposed project;
  - f. Single Line Diagram of the System;
  - g. Board Resolution Approving the Proposed Projects; and
  - h. Sworn Statement

SIARELCO is reserving its right to submit other documents, either in the course of the hearing or as may be required by this Honorable Commission;

5. That the summary of the proposed capital projects (in pesos) are presented below:

<u>No.</u>	<u>Name of Project</u>	<u>Cost</u>
1.	Procurement of Automatic Recloser	P 890,000.00
2.	Replacement of Inefficient Transformer	8,013,644.00
3.	Replacement of Inaccurate/Dilapidated kWh Meters	6,396,000.00
4.	Replacement of Rotten Poles	2,045,222.00
5.	Logistics	<u>2,165,000.00</u>
	<b>Total</b>	<b>P 19,509,866.00</b> =====

6. That these capital projects are necessary for the operation and maintenance of the distribution system of SIARELCO in order to extend dependable and quality electric service to consumers;
7. That these capital projects are in compliance with the Philippine Grid Code, Philippine Distribution Code, and specific provisions of Republic Act No. 9136, and the implementing guidelines on capital projects;
8. That these capital projects are consistent with the Distribution Development Plan of SIARELCO submitted to the Department of Energy;
9. That these capital projects will be financed from members' contribution for capital expenditures (now Reinvestment Funds for Sustainable Capital Expenditures [RFSC]) and loan from the National Electrification Administration (NEA);
10. That herein applicant applies for an authority to secure loan from the NEA to finance partly these capital projects;
11. That herein applicant most respectfully request for immediate relief and/or approval of this application in order to avoid irreparable losses which will ultimately result in the deterioration of its services, to the damage, and prejudice of the public, in general, and its members/consumers, in particular;
12. That in compliance with the pre-filing requirements, SIARELCO is submitting the following:
  - a. Certification from the Sangguniang Bayan of Dapa, Surigao del Norte, that a copy of the application, with all its annexes and accompanying documents, attesting to the fact that applicant has furnished the said legislative body of the aforesaid application;
  - b. Certification from the Sangguniang Panlalawigan of Surigao del Norte that it likewise has furnished the said pertinent documents; and
  - c. Affidavit of Publication and Newspaper issue containing the published Application in its entirety in a newspaper of general circulation Province of Surigao del Norte; and
13. That the approval of these Capital Expenditure Projects are necessary to maintain efficient, reliable, and safety delivery of power to SIARELCO's existing and future consumers, and will redound to the benefits of the consuming public.

**PRAYER**

**WHEREFORE**, premises considered, applicant Siargao Electric Cooperative, Inc. (SIARELCO) respectfully prays of this Honorable Commission that pending hearing, the herein submitted capital projects be provisionally approved *ex-parte*, that the applicant be authorized to adopt and implement the same effective

upon such approval, and that the applicant be authorized to secure loan from the National Electrification Administration (NEA).

And after due notice and hearing and consideration, this application be approved permanently.

Other relief/s, just or equitable under the premises, are likewise prayed for.

Having found the said *Application* sufficient in form and substance, with the required fees having been paid, the Commission issued an *Order* and a *Notice of Public Hearing*, both dated 06 February 2012, setting the case for initial hearing on 28 February 2012.

On 21 February 2012, SIARELCO filed a *Motion to Reset* praying that the hearing be reset due to its failure to cause the publication of the *Notice of Public Hearing* in a newspaper of general circulation.

On 21 May 2012, the Commission issued another *Order* and *Notice Public Hearing* setting the case anew for initial hearing on 14 June 2012.

During the hearing on 14 June 2012, only Applicant SIARELCO appeared. No intervenor or oppositor manifested its intent to participate in the proceedings as such.

In the said hearing, SIARELCO also submitted its *Pre-Hearing Brief* dated 09 June 2012. Likewise, the Commission looked into the documents presented by Applicant to prove its compliance with the publication and posting requirements provided in the *Order* dated 21 May 2012. The Commission verified SIARELCO's compliance with the jurisdictional requirements, all of which were marked as Exhibits "A" to "H-7", inclusive. Thus, the Commission acquired jurisdiction over the instant case.

On 03 July 2012, SIARELCO filed its *Formal Offer of Evidence*.

In an *Order* dated 01 June 2015, SIARELCO was directed to submit an update of its CAPEX Application, using the Commission's template, to expedite the conduct of the evaluation of the instant case.

The Commission issued an *Order* dated 07 February 2017 admitting the exhibits contained in Applicant's *Formal Offer of Evidence*, and submitting the instant case for resolution.

### **ISSUE**

The issue for the Commission's resolution is whether the capital projects proposed by Applicant SIARELCO should be approved.

### **THE COMMISSION'S RULING**

The Commission, on 28 February 2017, resolved to approve with modification the Capital Projects subject of the instant case. However, due to supervening events<sup>1</sup>, the Decision could no longer be promulgated without undergoing reconfirmation by the Commission *En Banc*. Thus, the Commission resolved to reconfirm the same on 13 September 2017.

### **DISCUSSION**

#### **I. PERFORMANCE ASSESSMENT**

The Commission assessed SIARELCO's distribution network performance in order to determine the needs of the electric cooperative vis-à-vis the proposed projects. In assessing SIARELCO's performance, the Commission took into consideration all compliance requirements and performance standards set forth in applicable codes and standards, to wit:

##### ***a. Safety***

SIARELCO manifested that several of its network assets are already deteriorated, which is hazardous and threat to public safety. Thus, the same must be replaced.

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<sup>1</sup> The Chairman was suspended as per Decision of the Office of the President (OP-DC Case No. 17-D-094) dated 02 August 2017.

**b. Capacity**

Year	Cagdianao Substation @ pf 1.0	
	Rating	Max. Rating
	5 MVA	5 MVA
	Demand (MVA)	% Loading
2015	3.940	78.8
2016	4.320	86.4
2017	4.550	91
2018	4.785	95.7
2019	5.020	100.4
2020	5.250	105
2021	5.485	109.7
2022	5.720	114.4
2023	5.950	119
2024	6.625	132.5

The Cagdianao Substation is experiencing capacity problem. As such, an augmentation project is necessary to address the capacity problem. Accordingly, SIARELCO included an augmentation project in the instant application.

**c. Power Quality**

Line Section	Voltage Profile									
	Voltage Level (p.u.) (0.9 – 1.1)									
	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Dapa - Burgos (Normal Operation of DT's at Tap 3)	0.8795	0.8736	0.8678	0.8619	0.8562	0.8503	0.8448	0.8392	0.7737	0.7623
Dapa - Burgos (Optimized Operation of DT's at Tap 5)	0.9235	0.9173	0.9112	0.905	0.899	0.8928	0.887	0.8812	0.8124	0.8004

As shown in the table above, the actual and the forecasted power quality assessments of SIARELCO are compliant with the standard measurement of the Philippine Distribution Code (PDC), only if SIARELCO is optimizing the operation of the distribution transformer (*DT's at tap 5*).

The PDC provides that the voltage levels at the customer's connection point must be within  $\pm 10\%$  of the nominal voltage level of 230 volts.

***d. System Loss***

The system loss cap for electric cooperatives (ECs) is set at thirteen percent (13%).

Year	% System Loss ( $\leq 13\%$ )	Remarks
2011	8.98%	passed
2012	6.05%	passed
2013	7.88 %	passed
2014	8.32 %	passed
2015	8.21%	passed

Based on SIARELCO's submitted Annual Report summarized in the table above, SIARELCO is within the system loss cap.

***e. Reliability***

Under the Electric Cooperatives' Distribution Utility Planning Manual (ECDUPM), the reliability performance of the cooperative is being measured through different indices namely, the System Average Interruption Frequency Index (SAIFI), and the System Average Interruption Duration Index (SAIDI). These indices are required as reliability indicators, of which its value shall not exceed the interim criteria for SAIFI at 20 customer-interruptions per customer-year and for SAIDI at 45 hours per customer-year.

The table below shows that SIARELCO is within the criteria set for SAIFI and SAIDI.

2015 Reliability Indices	
SAIFI	9.99 ( $\leq 20$ )
SAIDI	14.29 ( $\leq 45$ )

**II. PROJECT OVERVIEW**

The proposed projects of SIARELCO are all capital projects. Under Resolution No. 26, Series of 2009 of the Commission, capital projects are defined as those projects that are needed to serve forecasted future loads and to maintain good electric service to existing and future customers satisfying the utility’s technical criteria for capacity, reliability, quality and safety.

In the formulation of its capital expenditure projects, SIARELCO considered several alternatives to address the technical deficiencies of its distribution system in order to provide a technically feasible and economically viable project for the benefit of its member-consumers. Consequently, SIARELCO identified and proposed the following capital expenditure projects that are intended to address the said technical deficiencies and are essential to provide continuous supply, efficient, reliable and best possible quality of service to its member-consumers, to wit:

<b>No</b>	<b>Proposed Project</b>	<b>Rationale</b>	<b>Project Type</b>	<b>Project Cost (PhP)</b>
<b>1</b>	Procurement of Automatic Recloser	To provide a safe and reliable distribution system	Reliability	890,000.00
<b>2</b>	Replacement of Inefficient Transformer	To ensure the safety and good power quality of the distribution network.	Safety	8,013,644.00
<b>3</b>	Replacement/ Upgrading of KWH Meters	To provide an accurate measurement of consumed energy of each member-consumer.	System Loss	6,396,000.00
<b>4</b>	Replacement of Rotten Poles	To provide a safe and reliable distribution system.	Safety	2,045,222.00
<b>5</b>	Logistics	To provide lineman’s safety, mobility, and improved performance.		2,165,000.00
<b>Grand Total (PhP)</b>				<b>19,509,886.00</b>

**III. EVALUATION OF THE PROJECT**

As provided in the ECDUPM, the power system model or electric circuits used to assess a distribution system’s performance should be modified to reflect the proposed projects or solutions. Likewise, the conduct of appropriate technical analysis is necessary in order to predict the performance of the distribution system.



SIARELCO provided several alternative projects for each quantified problems and ranked the technically feasible projects in terms of technical effectiveness. Projects that were considered technically feasible were subjected to economic evaluation, wherein, the project that presented the least cost or manifests economic viability was selected by the cooperative.

Upon evaluation of the five (5) proposed capital projects of SIARELCO, the Commission decided to approve four (4) projects, and disapprove one (1) project.

The proposed project for the procurement of Automatic Recloser is disapproved for failure of SIARELCO to include technical and economic justifications in its *Application* to support the necessity of acquiring such project. However, SIARELCO may include the same in its next application and provide additional justification therefor.

The following table shows the summarized assessment of the proposed projects, to wit:

No	Proposed Project	Project Cost (PhP)		Assessment	Remarks
		Proposed Cost	Commission's Approved Cost		
1	Procurement of Automatic Recloser	890,000.00	-	Disapprove without prejudice to re-filing	Submitted justification and data are insufficient
2	Replacement of Inefficient Transformer	8,013,644.00	6,950,810.00	Approved	Submitted justification and data are sufficient
3	Replacement/Upgrading of KWH Meters	6,396,000.00	6,396,000.00	Approved	Submitted justification and data are sufficient
4	Replacement of Rotten Poles	2,045,222.00	736,591.00	Approved	Submitted justification and data are sufficient
5	Logistics	2,165,000.00	1,932,838.75	Approved	Submitted justification and data are sufficient
<b>Grand Total (PhP)</b>		<b>19,509,886.00</b>	<b>16,016,239.75</b>		

SIARELCO prayed for a total amount of **PhP19,509,886.00**, for the implementation of the proposed capital projects. However, the Commission only approves the total amount of **PhP16,016,239.75** for its capital projects.

The cost assessment was based primarily in reference with the latest NEA Price Index.

#### **IV. AUTHORITY TO SECURE LOAN FROM NATIONAL ELECTRIFICATION ADMINISTRATION (NEA)**

SIARELCO intends to avail loans from NEA to partly finance its proposed capital projects, and seeks authority from the Commission to secure such loan.

Below is the simulation as to the indicative impact of the projects to Applicant's Reinvestment Fund for Sustainable Capital Expenditures (RFSC) if SIARELCO will not avail of any loan:

<b>Particulars</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>5-Year Impact</b>
<b>RFSC Balance (beginning of year)</b>	<b>1,201,467.17</b>	<b>2,882,163.88</b>	<b>(577,514.09)</b>	<b>(1,802,963.89)</b>	<b>(1,200,721.97)</b>	<b>1,201,467.17</b>
<b>CASH INFLOWS</b>						
Actual Collection RFSC	6,827,516.54	7,546,768.34	8,326,455.75	8,953,896.78	13,296,541.50	44,951,178.91
Available cash for disbursement	8,028,983.71	4,664,604.46	7,748,941.66	7,150,932.89	12,095,819.53	46,152,646.08
<b>CASH OUTFLOWS</b>						
CAPEX Project	10,829,923.17	2,501,084.42	2,501,084.42	184,147.75	-	16,016,239.75
Amortization payments old loan		2,722,276.00	7,032,063.00	8,166,126.00	8,523,643.00	26,444,108.00
ERC permit fee	81,224.42	18,758.13	18,758.13	1,381.11	-	120,121.80
<b>Total Cash Outflows</b>	<b>10,911,147.59</b>	<b>5,242,118.55</b>	<b>9,551,905.55</b>	<b>8,351,654.86</b>	<b>8,523,643.00</b>	<b>42,580,469.55</b>
<b>EXCESS/ (SHORTFALL) PhP</b>	<b>(2,882,163.88)</b>	<b>(577,514.09)</b>	<b>(1,802,963.89)</b>	<b>(1,200,721.97)</b>	<b>3,572,176.53</b>	<b>3,572,176.53</b>

The simulation above shows that the revenues derived from SIARELCO's existing RFSC rate is not sufficient to finance the entire capital expense. Thus, securing the loan from NEA is essentially required to finance the proposed projects.

**V. PERMIT FEE**

Section 40 of Commonwealth Act No. 146 allows the Commission to require payment of permit fees, to wit:

“The Commission is authorized and ordered to charge and collect from any public service or applicant, as the case may be, the following fees as reimbursement of its expenses in the authorization, supervision and/or regulation of the public services:

xxx

g) For each permit authorizing the increase of equipment, the installation of new units or authorizing the increase of capacity, or the extension of means or general extensions in the services, xxx for each one hundred pesos or fraction of the additional capital necessary to carry out the permit”

Thus, SIARELCO is required to pay the Commission a permit fee in the amount of One Hundred Twenty Thousand One Hundred Twenty One and 80/100 Pesos (PhP120,121.80) based on the Commission’s existing schedule of Fees and Charges for the authorization and approval of its capital expenditure projects. The total amount is based on 75 centavos for every PhP100.00 of the approved project cost, computed as follows:

$$\frac{\text{PhP}16,016,239.75}{100} \times 0.75 = \text{PhP}120,121.80$$

**WHEREFORE**, the foregoing premises considered, the following proposed capital projects of Siargao Electric Cooperative, Inc. (SIARELCO) in the amount of **Sixteen Million Sixteen Thousand Two Hundred Thirty Nine and 75/100 Pesos (PhP16,016,239.75)** is hereby **APPROVED**:

	<b>Proposed Project</b>	<b>Recommended Cost (PhP)</b>
2	Replacement of Inefficient Transformer	6,950,810.00
3	Replacement/Upgrading of kWh Meters	6,396,000.00
4	Replacement of Rotten Poles	736,591.00
5	Logistics	1,932,838.75
	<b>Total (PhP)</b>	<b>16,016,239.75</b>

Likewise, SIARELCO's authority to secure loan is **APPROVED**.

The procurement of Automatic Recloser is hereby **DISAPPROVED**, without prejudice to refileing or inclusion of the same in its succeeding CAPEX applications.

Accordingly, SIARELCO is hereby **DIRECTED** to pay in full the permit fee in the amount of **One Hundred Twenty Thousand One Hundred Twenty One and 80/100 Pesos (PhP120,121.80)**.

SIARELCO is likewise **DIRECTED** to conduct competitive bidding for the purchase of major materials in the implementation of the approved capital expenditure projects.

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Relative thereto, SIARELCO is **DIRECTED** to submit the results of the competitive bidding, which shall include the proposals and purchase orders, the as-built drawings and bill of materials, and the actual cost incurred in the implementation of the planned capital expenditure projects not later than the 30th of January of the succeeding year.

**SO ORDERED.**

Pasig City, 13 September 2017.

**JOSE VICENTE B. SALAZAR\***  
*Chairman and CEO*



**ALFREDO J. NON**  
*Commissioner*



**GLORIA VICTORIA C. YAP-TARUC**  
*Commissioner*




**JOSEFINA PATRICIA A. MAGPALE-ASIRIT**  
*Commissioner*



**GERONIMO D. STA. ANA**  
*Commissioner*

  
LS: JHH/LSB/APV

  
ROS: MIM/LLGJR/FED

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\* The Chairman was suspended as per Decision of the Office of the President (OP-DC Case No. 17-D-094) dated 02 August 2017.

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**DECISION/13 September 2017**  
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