

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



**IN THE MATTER OF THE
APPLICATION FOR
APPROVAL OF CAPITAL
EXPENDITURE PROGRAM
FOR THE YEARS 2012 TO 2015,
AND FOR AUTHORITY TO
SECURE LOAN FROM THE
NATIONAL ELECTRIFICATION
ADMINISTRATION (NEA),
WITH PRAYER FOR
PROVISIONAL AUTHORITY,**

ERC CASE NO. 2011-174 RC

**QUEZON II ELECTRIC
COOPERATIVE, INC.
(QUEZELCO II),
Applicant.**

D O C K E T E D
Date: APR 05 2018
By: [Signature]

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ORDER

Before this Commission for resolution is the *Motion for Partial Reconsideration* dated 8 June 2015 (Motion) filed by Applicant Quezon II Electric Cooperative, Inc. (QUEZELCO II) on even date.

FACTS

On 23 March 2015, the Commission issued a Decision in the instant case, the dispositive portion of which reads:

WHEREFORE, the foregoing premises considered, the application filed by the Quezon II Electric Cooperative, Inc. (QUEZELCO II) for approval of its capital expenditure program for the years 2012 to 2015 and for authority to secure loan from the National Electrification Administration (NEA), with prayer for provisional authority, is hereby APPROVED with modification.

Accordingly, the following are the confirmed, approved and deferred capital expenditure projects:

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A. CONFIRMED PROJECTS:

PARTICULARS	CONFIRMED COST (PhP)
Construction of a 69 kV Tapping Line	0.00
Acquisition and Installation of a 5 MVA Substation in Real, Quezon	20,844,800.00
Installation of 13.2 kV Load Switching Devices	1,470,000.00 ³
Upgrading of Overloaded Distribution Transformers (DTs)	9,202,540.00
Replacement of Depreciated Kilowatt-hour (kWh) Meters	2,579,304.00
Acquisition of Service Vehicles and Equipment	2,570,772.00
Acquisition of Test Instruments	1,536,352.00
Acquisition of a 1,000 square meter (1000 sq. m.) lot for a substation in Real, Quezon	1,000,000.00
Procurement of a 25 kVA Generation Set	379,500.00
Total Project Costs (Inclusive of Donation in the amount of PhP1,470,000.00)	PhP39,583,268.00

B. APPROVED PROJECTS

PARTICULARS	DEFERRED COST (PhP)
Meter Clustering of Nine (9) Barangays	-
Improvement of Main Office Building	-
Acquisition of Parcels of Land and Construction of Buildings as Collection Offices	-
Full Computerization and Automation of Accounting Services, Financial Services, Technical Services, Institutional Services and Warehousing	-
Acquisition of Meter Reading and Billing Devices	-
Grand Total (PhP)	-

C. DEFERRED PROJECTS

PARTICULARS	APPROVED COST (PhP)
Rerouting of Line in Gumian and Dinahican	6,768,565.00
Rehabilitation and Reconductoring of Line in Comon to Ingas	2,702,135.00
Installation of Three (3) Phase Automatic Circuit Reclosers	1,804,096.00
Procurement of Additional Primary Line	7,880,132.00
Procurement of Additional DTs	7,569,175.00
Procurement of Additional Secondary Lines	12,067,628.00
Procurement of Additional Service Drop	3,017,126.00
Procurement of Additional kWh Meters	6,099,887.00
Total Project Costs (PhP)	47,908,744.00

Relative thereto, QUEZELCO II is hereby directed to remit to the Commission, within fifteen (15) days from receipt hereof, a total permit fee in the amount of **Six Hundred Forty-Five Thousand One Hundred Sixty-Five Pesos (PhP645,165.00)**, computed as follows:

$$\frac{\text{PhP}86,022.00}{\text{PhP}100} \times \text{PhP}.075 = \text{PhP}645,165.00$$

Further, QUEZELCO II is hereby directed to: 1) submit a progress report with an indication of any variance in the implementation of the project and time schedule; 2) conduct a competitive bidding for the purchase of major materials in the implementation of the proposed project; and 3) exert best effort in negotiating/refinancing its loan for a reasonable term and lower interest rate.

SO ORDERED.

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On 22 May 2015, QUEZELCO II received a copy of the Decision. Applicant has a period of fifteen (15) days or until 06 June 2015 within which to file its Motion for Reconsideration (Motion). However, the same falls on a Saturday. Accordingly, QUEZELCO II timely filed its Motion by filing the same on the next working day which is 08 June 2015.

In its Motion, QUEZELCO II raised the following allegations, among others:

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6. QUEZELCO II respectfully presents the following arguments in support of its motion, to wit:

I. IMPROVEMENT OF MAIN OFFICE BUILDING

7. In the above-quoted decision, the Honorable Commission deferred the implementation of the above-mentioned project on the ground that QUEZELCO II failed to provide documents to justify the need for the improvement of its main office. Likewise, QUEZELCO II failed to itemize the breakdown of the cost component of the project;

8. QUEZELCO II apologizes for the insufficient supporting documents, but respectfully manifests that its main office building is in actual need of immediate repair/rehabilitation/improvement for the reason that the safety and convenience of its employees as well as consumers are seriously at stake;

9. The main office building has stood the test of time the past nineteen (19) years, but ordinary wear and tear as well as natural elements had caused dilapidation of the structure, thereby incurring structural damages which prejudice its integrity. Pictures of the damaged portions were attached to the MR. (attached to this memo as Annexes "A" to "A-11").

10. Accordingly, in order to assure the safety and convenience of QUEZELCO II's employees and consumers, as well as to improve the efficiency of its services, the immediate implementation of the proposed project is necessary and urgent.

11. [To] justify the project and prove its readiness to implement the same, QUEZELCO II submitted itemized project descriptions and itemized breakdown of cost component, attached hereto and made an integral parts hereof as Annexes "B" and "C" to "C-2", respectively.

12. Considering the foregoing, QUEZELCO II respectfully moves for reconsideration of the Honorable Commission's decision with respect to the deferment of the implementation of the Improvement of the main Office Building/ Headquarters (HQ) and prays that the proposed project with corresponding estimated cost amounting to PhP12,340,00.00 be approved for immediate implementation.

II. FULL COMPUTERIZATION AND AUTOMATION OF ACCOUNTING SERVICES, FINANCIAL SERVICES, TECHNICAL SERVICES, INSTITUTIONAL SERVICES AND WAREHOUSING; AND

III. ACQUISITION OF METER READING AND BILLING DEVICES

13. In the above-quoted decision, the Honorable Commission deferred the implementation of the said projects on the ground that QUEZELCO II failed to provide details of the projects breakdown of costs;

14. Again, QUEZELCO II apologizes for its failure to satisfy the Honorable Commission's documentary requirements for the proposed projects, but attests to the urgent necessity of said projects. The cooperative urgently needs to improve the efficiency in the delivery of its services in order to attain higher customer satisfaction.

15. In support of the projects, QUEZELCO II is submitting the details as well as the cost components of the projects attached hereto and made integral parts hereof as Annex "D";

16. In view thereof, the cooperative respectfully moves for the reconsideration of the decision with respect to the deferment of the proposed Full Computerization and Automation of Accounting Services, Financial Services, Technical Services, Institutional Services and Warehousing with project cost of PhP5,000,000.00 and the Acquisition of Meter Reading and Billing Devices amounting to PhP2,500,000.00, and prays that the same be approved.

IV. RATE IMPACT

17. In the above-quoted Decision, the Honorable Commission approved the cooperative's application for authority to secure loan from NEA. However, it did not provide for the corresponding additional rate of the Reinvestment Fund for Sustainable Capital Expenditure (RFSC) to be charged against its

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consumers to be able to implement the approved projects;

18. Noteworthy, however, as of 2014, the RFSC collection and utilization of QUEZELCO II resulted to negative balance of PhP4,639,179.54. On the other hand, as of April 2015, the RFSC collection and utilization of QUEZELCO II resulted to negative balance of PhP10,851,950.92. This does not include the recently approved but unimplemented projects subject of this application;
19. Evidently, the existing RFSC rate is not sufficient to cover the total approved project cost.
20. In view thereof, QUEZELCO II respectfully prays that the Honorable Commission clarify the rate impact on the RFSC as a result of the authority to secure loan from NEA to fund the approved projects.

V. PAYMENT OF PERMIT FEE

21. Finally, in the above-quoted Decision, the Honorable Commission directed QUEZELCO II to remit a total permit fee of SIX HUNDRED FORTY FIVE THOUSAND ONE HUNDRED SIXTY FIVE PESOS (PhP645,165.00).
22. However, considering the filing of the instant Motion for Reconsideration which may necessitate a re-computation of the total project cost as well as the required Permit Fee, QUEZELCO II respectfully moves that the payment of said amount be deferred until the instant motion is finally resolved by the Honorable Commission.
23. Likewise, upon final resolution of the instant Motion, , QUEZELCO II respectfully prays that it be allowed to pay the Permit Fee in twelve (12) monthly installments starting from the date of receipt of the resolution on the instant Motion.
24. This motion is not intended for delay the proceedings, but is prompted solely due to the above reasons.

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ISSUE

The issue for Commission's resolution is whether the *Motion* filed by QUEZELCO II should be granted.

DISCUSSION

On 26 July 2016, the Commission resolved to partially grant the instant *Motion*. However, due to supervening events¹, the Order could no longer be promulgated without undergoing reconfirmation by the Commission *En Banc*. Thus, the Commission resolved to reconfirm the Order on 20 March 2018.

**I. THE IMPROVEMENT OF
THE MAIN OFFICE
BUILDING IS HEREBY
RECONSIDERED AND
APPROVED**

In the Decision dated 23 March 2015, the Commission resolves to defer the implementation of the improvement of the main office for failure of QUEZELCO II to submit supporting documents to justify the need for the improvement of its main office, and breakdown of the cost component of the project.

a. Project Description

This project deals with the rehabilitation of the cooperative administration building. It involves the construction of new head office building, refurbishment of the old building and the construction of perimeter fence.

b. Project Justification

The project seeks to address safety and proper office arrangement for convenience and efficiency

QUEZELCO II in its *Motion* justified that the existing building has stood for almost nineteen (19) years. Wear and tear, as well as natural elements, had caused dilapidation of the structure, thereby incurring structural damages. Likewise, QUEZELCO II submitted pictures of the dilapidated building structure showing damaged/cracked portions and the itemized project description and breakdown of cost component of the project.

¹ The previous Chairman was dismissed as per Decision of the Office of the President (OP-DC Case No. 17-D-094).

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In view of these submissions, the Commission finds that the project is necessary. However, upon evaluation of the project cost for the construction of the main office building, refurbishment of the old building, and construction of the perimeter fence, the project cost only amounts to PhP12,101,823.00 instead of the proposed cost of PhP12,340,000.00.

Accordingly, the implementation of the project is hereby approved but only in the amount of **PhP12,101,823.00**.

**II. THE FULL
COMPUTERIZATION AND
AUTOMATION OF
ACCOUNTING SERVICES,
FINANCIAL SERVICES,
TECHNICAL SERVICES,
INSTITUTIONAL SERVICES
AND WAREHOUSING IS
HEREBY APPROVED**

In the Decision dated 23 March 2015, the Commission resolves to defer the implementation of the full computerization and automation of QUEZELCO II's Accounting Services, Financial Services, Technical Services, Institutional Services and Warehousing for failure of QUEZELCO II to provide supporting documents and details of this project.

a. Project Description

This project includes the purchase of computer software, programs and hardware.

b. Project Justification

The project is intended to improve efficiency and accuracy in the delivery of its services in order to attain higher customer satisfaction.

For this project, QUEZELCO II plans to acquire the Integrated On-Line System, a web-based application which will be implemented in three (3) phases and will be operated on-line via a dedicated internet system, as detailed below:

INTEGRATED ON-LINE SYSTEM			COST (PhP)
Phase 1	Integrated Financial (Accounting, Inventory, Warehousing, Work Order)	Consumer Management System (New Connection / Apprehension, Complaints, Disconnections, Other related requirements)	5,000,000.00 (1-LOT)
Phase 2	Administrative System (HRIS, Timekeeping, Payroll, 201 system and Training, Vehicle monitoring, Property and Procurement Management and Monitoring system)		
Phase 3	Asset Management, Line Material Costing, System Loss Segregation and Voltage Monitoring		

In its *Motion*, QUEZELCO II prayed that the proposed project be approved in order for QUEZELCO II to become more responsive to the needs of its member consumers while at the same time improving the quality of performance of its employees.

Finding its justification in order and for QUEZELCO II to attain such degree of competitiveness, the Commission approves this project in the amount of **PhP5,000,000.00**.

**III. THE ACQUISITION OF
METER READING AND
BILLING DEVICES IS
HEREBY APPROVED**

In the Decision dated 23 March 2015, the Commission likewise resolves to defer the implementation of this project for failure of QUEZELCO II to provide details of the projects breakdown of costs.

a. Project Description

This project is for the purchase of meter reading and billing gadgets.

b. Project Justification

The read and bill system is intended to facilitate collection of revenues for QUEZELCO II while at the same time save money and time for the consumers.

Upon evaluation, the Commission finds that the existing meter reading system of QUEZELCO II is already old and unable to provide the daily load schedule requirement. Likewise, the processing of data of the existing meter is very slow.

The franchise area of QUEZELCO is composed of the mainland and three (3) big islands. The mainland is mostly rugged terrain while the three big islands can only be reached through motorized bancas. With QUEZELCO II's old meter reading system, it takes a longer period of time for QUEZELCO II to gather billing data every billing cycle that needs to be encoded in the main office. Thus, QUEZELCO II, proposed to upgrade its reading, billing and collection system by procuring new meter read and bill gadgets to facilitate collection of revenues.

QUEZELCO II plans to acquire 25 units of read and bill gadgets with portable printer, including one (1) file server for a total amount of PhP2,500,000.00. Economic evaluation of the project resulted to a benefit over cost ratio of 1.60 and a positive net present value of PhP1,645,569.03, which means that the project is feasible and viable.

Further, the implementation of this project would allow QUEZELCO II to provide fast, reliable, effective and efficient service to its consumers. Thus, the acquisition of meter read and bill equipment is hereby approved.

**IV. RATE IMPACT ON THE
REINVESTMENT FUND FOR
SUSTAINABLE CAPITAL
EXPENDITURE (RFSC)**

QUEZELCO II in its *Motion* sought the reconsideration of the Decision dated 23 March 2015 in so far as the approval of the authority to secure loan without any additional rate to the RFSC. QUEZELCO II stated that the Commission did not provide for the corresponding additional rate of its RFSC to be charged against its member consumer to be able to implement the approved projects. Thus, QUEZELCO II requested for clarification.

Based on the indicative rate impact simulation, the existing RFSC is not sufficient to fund the implementation of the approved projects. Thus, the Commission approved QUEZELCO II's authority to secure loan from the National Electrification Administration.

On the other hand, for an RFSC rate increase, QUEZELCO II is mandated to comply with Section 5.4, Article 5 of the Rules for Setting the Electric Cooperative- Wheeling Rates (RSEC-WR), which states that:

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In the event that the members' contribution for capital expenditure rate caps herein authorized are insufficient for its purpose, the EC may collect such additional Members' Contribution for Capital Expenditures by securing the consent of its member-consumers for such collection through existing legal procedures, provided the expenditure was approved by the Commission as part of such EC's Capital Expenditure Plan. Provided further that the additional member contribution is obtained prior to the incurrence of the indebtedness provided finally that the collection of said additional contribution shall be subject to the principles of fairness and equity, in accordance with the objective of the EPIRA for the elimination of cross subsidy.

Collections made pursuant to this provision may be subject to the audit of the Commission at its discretion.

Thus, any RFSC rate increase must be in accordance with the above-mentioned provisions. QUEZELCO II may secure the consent of its member consumer for any increase of its RFSC if indeed necessary.

To safeguard the consumers' interest, QUEZELCO II is required to file mandatory reports as prescribed in Article 9(B) of RSEC-WR, to wit:

Article 9 (B) Mandatory Reports

1. The EC should file a report on each increase in member's contribution to capital expenditures supported by the minutes of the relevant general assembly. The report should describe in detail the total amount raised, the resulting increases in rates and the reason for the increased member's contribution (real property

tax/capital expenditures) and how the funds were utilized; and

2. The EC should file quarterly and annual report on the collections and disbursement in members' contribution to capital expenditures using the format prescribed by the Commission (Annex C)."

Further Article 5.1 of Resolution No. 26, Series of 2009² (CAPEX Guidelines) provides that:

5.1 Reportorial Requirements

A Regulated Entity shall submit the results of the competitive bidding which shall include 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.

The above-mentioned provisions provides a safeguard to the interest of the consumers when there is a need for RFSC rate increase, and an assurance that any increase could be properly audited.

**V. PAYMENT OF PERMIT FEE
ON A STAGERRED BASIS IS
HEREBY DENIED**

In the Decision dated 23 March 2015, QUZELCO II was directed to pay a total permit fee of Six Hundred Forty Five Thousand One Hundred Sixty Five Pesos (PhP645,165.00).

Considering the approval of the implementation of the above-mentioned projects, the Commission made a corresponding adjustment to the original total project cost from PhP86,022,012.00 to PhP105,623,835.00, excluding donations.

Accordingly, the total permit fee is likewise adjusted from the amount of PhP645,165.00 to PhP792,178.76.

QUEZELCO II in its *Motion* prayed that the payment of permit fee be deferred until the instant Motion is finally resolved. Likewise, it

² A Resolution Amending the Rules for Approval of Regulated Entities' Capital Expenditure Projects.

prayed that it be allowed to pay the corresponding permit fee in twelve (12) monthly installments starting from the date of receipt of the resolution of the instant Motion.

The Commission finds no basis on the staggered payment of the permit fees. Hence, the same is hereby denied.

WHEREFORE, the foregoing premises considered, the *Motion for Partial Reconsideration* filed on 08 June 2015 by QUEZON II Electric Cooperative, Inc. (QUEZELCO II) is hereby **PARTIALLY GRANTED**.

IN VIEW OF THE FOREGOING, the 23 March 2015 *Decision* is accordingly modified, as follows:

1. The following previously deferred projects are hereby **APPROVED** for implementation:
 - a. The Improvement of the Main Office Building Project in the amount of PhP12,101,823.00;
 - b. The Full Computerization and Automation of Accounting Services, Financial Services, Technical Services, Institutional Services and Warehousing project in the amount of PhP5,000,000.00; and
 - c. Acquisition of Meter Reading and Billing Devices project in the amount of PhP2,500,000.00.
2. The total project cost is hereby **ADJUSTED** to **PhP105,623,835.00**, excluding donations.
3. The total permit fee is hereby **ADJUSTED** to **PhP792,178.76**.
4. The payment of the permit fee on a staggered basis is hereby **DENIED**.

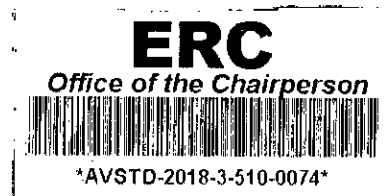
ACCORDINGLY, QUEZELCO II is hereby **DIRECTED** to pay the adjusted total permit fee in the amount of **PhP792,178.76** **within fifteen (15) days from receipt** of this Order.

Finally, QUEZELCO II is hereby **DIRECTED** to comply with Article 5.4 of the RSEC-WR in case of any increase in its RFSC Rate.

SO ORDERED.

Pasig City, 20 March 2018.


AGNES VST DEVANADERA
Chairman and CEO

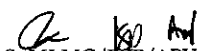



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9. Office of the Sangguniang Bayan
Real, Quezon
10. Office of the Municipal Mayor
Gen. Nakar, Quezon
11. Office of the Sangguniang Bayan
Gen. Nakar, Quezon
12. Office of the Municipal Mayor
Infanta, Quezon
13. Office of the Sangguniang Bayan
Infanta, Quezon
14. Office of the Municipal Mayor
Panukulan, Quezon
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Panukulan, Quezon
16. Office of the Municipal Mayor
Burdeos, Quezon
17. Office of the Sangguniang Bayan
Burdeos, Quezon
18. Office of the Municipal Mayor
Polilio, Quezon
19. Office of the Sangguniang Bayan
Polilio, Quezon
20. Office of the Municipal Mayor
Patnanungan, Quezon
21. Office of the Sangguniang Bayan
Patnanungan, Quezon
22. Office of the Municipal Mayor
Jomalig, Quezon
23. Office of the Sangguniang Bayan
Jomalig Quezon
24. Office of the Provincial Governor
Province of Quezon
25. Office of the Sangguniang Panlalawigan
Province of Quezon
26. Regulatory Operations Services
Energy Regulatory Commission