

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



IN THE MATTER OF THE APPLICATION FOR CONFIRMATION AND APPROVAL OF FORCE MAJEURE EVENT CAPITAL EXPENDITURE PROJECT, RE: REPLACEMENT OF UTILIZED DISTRIBUTION LINE MATERIALS AND EQUIPMENT, SERVICE DROP WIRES AND KWH METERS; REPLACEMENT OF SF6 BREAKER, OFFICE FACILITIES, FURNITURE AND EQUIPMENT; AND CONSTRUCTION OF NEW MAIN OFFICE BUILDING DUE TO DAMAGE CAUSED BY TROPICAL DEPRESSION AURING AND 6.7 MAGNITUDE EARTHQUAKE

ERC CASE NO. 2018-095 RC

**SURIGAO DEL NORTE ELECTRIC COOPERATIVE, INC. (SURNECO),
Applicant.**

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D O C K E T E D
Date: NOV 21 2018
By: [Signature]

NOTICE OF PUBLIC HEARING

TO ALL INTERESTED PARTIES:

Notice is hereby given that on 20 September 2018, Surigao Del Norte Electric Cooperative Inc. (SURNECO), Inc. filed an *Application* dated 10 August 2018, seeking for the confirmation and approval of force majeure event capital expenditure project, replacement of utilized distribution line materials, equipment service drop wires and kWh meters; replacement of sf6 breaker, office facilities, furniture and equipment; and construction of new main office building due to damage caused by Tropical Depression Auring and 6.7 magnitude earthquake.

In the said *Application*, SURNECO alleged, among others, the following:

1. It is a non-stock, non-profit electric cooperative duly organized and existing under and by virtue of the laws of the Republic of the Philippines, with principal office at Narciso corner Espina Sts., Surigao City.
2. It holds an exclusive franchise from the National Electrification Commission (NEC), to operate an electric light and power distribution service in Surigao City as well as certain municipalities in the Province of Surigao del Norte, namely: Alegria, Bacuag, Claver, Gigaquit, Mainit, Malimono, Placer, San Francisco, Sison, Taganaan and Tubod.

Legal Basis of the Application

3. The instant force majeure capital expenditure (CAPEX) *Application* is being filed pursuant to Section 3.3 of ERC Resolution No. 26 Series of 2009¹, which provides that if a force majeure or fortuitous event, as the case may be, occurs, the regulated entity shall seek the Commission's confirmation of the implementation of capital expenditure projects arising from such event.

Force Majeure Events (Tropical Depression Auring and 6.7 Magnitude Earthquake)

4. On 08 January 2017, Tropical Depression Auring made a landfall in the island of Siargao, Surigao del Norte. Storm Signal No. 1 was hoisted over several areas in Western and Southern Visayas, and the northeastern part of Mindanao which includes the Province of Surigao del Norte where SURNECO's franchise area is located. These areas affected by Typhoon Depression Auring experienced floods and landslides that caused damage to some of the distribution lines and other facilities of SURNECO in several barangays of Surigao City and some barangays in three (3) municipalities, namely: Placer, Tagana - an, and Malimono.

¹ Resolution Amending the Rules for Approval of Regulated Entities' Capital Expenditure Projects

5. On 10 February 2017, following the disastrous Tropical Depression Auring, a magnitude 6.7 earthquake struck the Province of Surigao del Norte in Northeastern Mindanao and the entire Province of Surigao del Norte was declared under a state of calamity.
6. The total cost of damage from Tropical Depression Auring and the 6.7 magnitude earthquake on the distribution lines, equipment and other facilities of SURNECO, including the construction of its new main office building is in the amount of Sixty-Five Million Seven Hundred Three Thousand Seven Hundred Sixty- Nine Pesos and 4/100 (PhP 65,703,769.04).

Description of the Project

7. The force majeure CAPEX project subject of the instant application is for the immediate replacement of the distribution line materials and equipment as well as service drop wires, kWh meters and metering facilities utilized in the reconstruction, repair and rehabilitation of the damaged network assets, the procurement and installation of SF6 Breaker (primary protection) for the 10 MVA Tubod Substation, the replacement of damaged office facilities, furniture and equipment, and construction of new Main Office Building, as a result of the damage caused by Tropical Depression Auring and the 6.7 magnitude earthquake.

Project Cost

8. The total cost of the project is Sixty-Five Million Seven Hundred Three Thousand Seven Hundred Sixty-Nine Pesos and 4/100 (PhP 65,703,769.04).

Project Schedule

9. The restoration of SURNECO's facilities had already been completed and in this application, the cooperative only seeks the replacement of the distribution line materials and equipment as well as service drop wires, kWh meters and metering facilities utilized in the reconstruction, repair and rehabilitation of network assets.
10. With respect to the replacement of SF6 Breaker (Primary Protection) for the 10 MVA Tubod Substation damaged by the 6.7 magnitude earthquake, the works will take about 190 days.

11. The construction of the cooperative's new main office building as a result of the total damage caused by the 6.7 magnitude earthquake on the existing office building would take about 400 calendar days.

Justifications or Benefits Delivered

12. The project ensured power restoration in the entire coverage area of SURNECO and delivery of more reliable and efficient service to its consumers. It was also intended to restore the safety and protection of the cooperative's entire distribution system.

Project Financing Plan

13. The total cost of the project shall be funded partly through a Calamity Loan from the National Electrification Administration (NEA) and partly through loans from other financing institutions.

Indicative Rate Impact

14. There shall be no increase in the Reinvestment Fund for Sustainable Capital Expenditure (RFSC) Rate in the implementation of the force majeure CAPEX project. The table below shows the Cash Flow Analysis of the RFSC for years 2018 -2022, to wit:

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	2018	2019	2020	2021	2022	TOTAL
Forecasted Energy Sales, kWh	142,173,419	151,922,261	161,765,334	171,610,350	181,397,347	808,868,711
Cash Balance beginning, PhP, excess(shortfall)	48,688,252	62,022,125.58	73,290,445.77	89,075,958.79	109,369,154.83	382,445,937
CASH INFLOWS						
Project RFSE Revenue @0.2508PhP/kWh	35,657,093.49	38,102,103.06	40,570,745.77	43,039,875.78	45,494,454.63	202,864,272.72
Loan Proceeds from Financial Institutions, PhP		65,703,769.04				65,703,769.04
Government Subsidy						
Total Cash Inflows, PhP	35,657,093.49	103,805,872.10	40,570,745.77	43,039,875.78	45,494,454.63	268,568,041.76
Available Cash for Disbursement	84,345,345.64	165,827,997.68	113,861,191.54	132,115,834.57	154,863,609.46	651,013,978.88
Cash Outflows						
CAPEX requirement		65,703,769.04				65,703,769.04
Old Debt(old amortization)	22,323,220.05	21,195,452.58	20,432,270.00	18,393,716.98	12,527,006.62	94,871,666.22
Fortuitous CAPEX - NEA Calamity Fund 3.25%		1,814,617.13	1,814,617.13	1,814,617.13	1,814,617.13	7,258,468.54
Fortuitous CAPEX -DBP 5%		2,538,345.62	2,538,345.62	2,538,345.62	6,647,711.46	14,262,748.33
For registration of Loan Agreement		299,811.00				299,811.00
For Documentary Stamp Tax		492,778.27				492,778.27
ERC Permit Fee, PhP		492,778.27				492,778.27
Total Cash Outflows, PhP	22,323,220.05	92,537,551.91	24,785,232.75	22,746,679.74	20,989,335.22	183,382,019.66
Cash balance ending, PhP, excess/(shortfall)	62,022,125.58	73,290,445.77	89,075,958.79	109,369,154.83	133,874,274.24	467,631,959.22
Excess/(shortfall) on RFSC, PhP/kWh	0.44	0.48	0.55	0.64	0.74	0.58

Submissions

15. Finally, in support of the instant application as well as compliance with the pre-filing requirements under the ERC Rules of Practice and Procedure, SURNECO submitted following documents which were made integral parts of the *Application*, as follows:

Annex Markings	Nature of Document
A	Notice of Force Majeure Event
B	Executive Summary of the Force Majeure Event Capital Expenditure Project
C and series	Proof of furnishing copies of the Application to the Sangguniang Panlungsod of Surigao City and the SangguniangPanlalawigan of Surigao del Norte
D and series	Proof of publication of the Application in a newspaper of general circulation within SURNECO's franchise area or where it principally operates.

SURNECO prayed that, after due notice and hearing, the Commission approves the following:

1. The replacement of the cooperative's distribution line materials and equipment as well as service drop wires, kWh meters and metering facilities utilized in the reconstruction, repair and rehabilitation of network assets;
2. The procurement and installation of SF6 Breaker (Primary Protection) for the 10 MVA Tubod Substation; the replacement of damaged office facilities, furniture and equipment; and
3. Construction of Main Office Building, all undertaken in order to restore the damage caused to SURNECO by Tropical Depression Auring on 8 January 2017 and the 6.7 magnitude earthquake on 10 February 2017, be confirmed and approved accordingly.

The Commission has set the *Application* for determination of compliance with the jurisdictional requirements, expository presentation, pre-trial conference, and presentation of evidence on **24 January 2019 (Thursday) at two o'clock in the afternoon (2:00 P.M.) at SURNECO's Principal's Office at Narciso corner Espina Street, Surigao City.**

All persons who have an interest in the subject matter of the instant case may become a party by filing with the Commission a verified Petition to Intervene at least five (5) days prior to the initial hearing and subject to the requirements under Rule 9 of the 2006 ERC Rules of Practice and Procedure, indicating therein the docket number and title of the case and stating the following:

- 1) The petitioner's name and address;
- 2) The nature of petitioner's interest in the subject matter of the proceeding and the way and manner in which such interest is affected by the issues involved in the proceeding; and
- 3) A statement of the relief desired.

All other persons who may want their views known to the Commission with respect to the subject matter of the case may file their Opposition or Comment thereon at any stage of the proceeding before

Applicant rests its case, subject to the requirements under Rule 9 of the 2006 ERC Rules of Practice and Procedure. No particular form of Opposition or Comment is required, but the document, letter, or writing should contain the following:

- 1) The name and address of such person;
- 2) A concise statement of the Opposition or Comment; and
- 3) The grounds relied upon.

All such persons who wish to have a copy of the *Application* may request from Applicant that they be furnished with the same, prior to the date of the initial hearing. Applicant is hereby directed to furnish all those making such request with copies of the *Application* and its attachments, subject to the reimbursement of reasonable photocopying costs. Any such person may likewise examine the *Application* and other pertinent records filed with the Commission during the standard office hours.

WITNESS, the Honorable Chairperson and CEO **AGNES VST DEVANADERA**, and Commissioners **ALEXIS M. LUMBATAN** and **CATHERINE P. MACEDA**, Energy Regulatory Commission, this 5th of November 2018 in Pasig City.


JOSEFINA PATRICIA A. MAGPALE-ASIRIT
Oversight Commissioner for Legal