

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



**IN THE MATTER OF THE APPLICATION FOR CONFIRMATION AND APPROVAL OF EMERGENCY CAPITAL EXPENDITURE PROJECTS FOR 2018, NAMELY: (1) PURCHASE, INSTALLATION AND COMMISSIONING OF 5 MVA POWER SUBSTATION AND ACCESSORIES FOR CATEEL SUBSTATION AND (2) PURCHASE OF NEW 10 MVA POWER TRANSFORMER FOR LUPON SUBSTATION, WITH APPLICATION FOR AUTHORITY TO SECURE LOAN FROM THE NATIONAL ELECTRIFICATION ADMINISTRATION (NEA)**

**ERC CASE NO. 2018-104 RC**

**DAVAO ORIENTAL ELECTRIC COOPERATIVE, INC. (DORECO),**

**Applicant.**

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**DOCKETED**  
Date: DEC 20 2018  
By: K

**NOTICE OF PUBLIC HEARING**

**TO ALL INTERESTED PARTIES:**

Notice is hereby given that on 25 October 2018, Davao Oriental Electric Cooperative, Inc. (DORECO) filed an *Application* dated 10 September 2018 for the confirmation and approval of its emergency capital expenditure (CAPEX) projects for 2018, namely: (1) the purchase, installation and commissioning of a 5 MVA power substation and accessories for the Cateel Substation and (2) the purchase of a new 10 MVA power transformer for the Lupon Substation, with application for authority to secure loan from the National Electrification Administration (NEA) (Application).

In the said *Application*, DORECO 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 Madang, National Highway, Mati City, Davao Oriental;
2. It holds an exclusive franchise issued by the National Electrification Commission (NEC) to operate an electric light and power distribution service in the city of Mati and municipalities of Lupon, Banaybanay, San Isidro, Governor Generoso, Tarragona, Manay, Caraga, Baganga, Cateel and Boston, all in the province of Davao Oriental;

#### **LEGAL BASES FOR THE APPLICATION**

3. Pursuant to Republic Act No. 9136 (R.A. No. 9136), ERC Resolution 26, Series of 2009 and other laws and rules, and in line with its mandate to provide safe, quality, efficient and reliable electric service to its consumers, DORECO submits the instant application for the Commission's confirmation and approval of its emergency capital expenditure (CAPEX) projects for 2018;
4. On the other hand, the accompanying application for authority to secure loan from the NEA in connection with the funding source for subject projects, is being filed pursuant to Section 20(e) of Commonwealth Act No. 146, otherwise known as the Public Service Act, which requires every public service to secure the approval and authorization of the Commission for issuance of any bonds or other evidence of indebtedness payable in more than one year;

#### **STATEMENT OF THE FACTS**

5. Sometime in February 2017, DORECO engaged the services of the Trans Power System Corporation (TPSC) to test the condition of the three (3) units – 833kVA power transformer of its Cateel Substation as part of regular maintenance activity. After a series of tests, the contractor certified that the power transformers are no longer reliable for prolonged period of operation due to deteriorating insulation of the equipment. Thus, there is a need to address the capacity concern of Cateel Substation to ensure stability and efficiency of delivery of power supply to affected consumers as well as the safety of the substation, by upgrading the old

protection system, and likewise to be able to meet the growing demand of the two (2) municipalities being served by the substation;

6. On the other hand, on April 3, 2018, five (5) days after its Lupon Substation underwent annual preventive maintenance, heavy rains with lightning and strong winds hit the area of the municipality of Lupon where the 10 MVA Lupon Substation is situated. At around 9:45 p.m., the power transformer of the Lupon Substation was forcibly shut down due to abnormal sounds emanating from said equipment. Assessment done by its contractor, Transpower, Inc. (TI), showed that the power transformer's primary winding was damaged. The damage was attributed to excessive voltage surge brought about by lightning and thunderstorm. Up to this date, DORECO temporarily transferred some of the affected loads to the San Isidro Substation to minimize the number of affected consumers. However, a rotational curtailment scheme is being implemented so as not to overload San Isidro Substation, which concurrently supplies power to the municipalities of Governor Generoso and San Isidro. Since San Isidro Substation cannot accommodate the entire demand that was being served by Lupon Substation, there is an urgent need to immediately address the capacity concern of the cooperative;
7. Hence, the urgent necessity to implement the projects subject of the instant application;

**PROJECT DESCRIPTION**

8. The projects subject of the instant *Application* are described in the table below, as follows:

<b>Project Type</b>	<b>Project Category</b>	<b>Project Title</b>	<b>Project Cost (PhP)</b>
Reliability	Substation Project	Purchase, Installation and Commissioning of 5 MVA Power Substation and Accessories for Cateel Substation	28,826,756.70
		Purchase of New 10 MVA Power Transformer for Lupon Substation	12,550,000.00
<b>Total</b>			<b>41,376,756.70</b>

**PROJECT SCHEDULE**

9. The schedules of implementation of subject projects are as follows:

	<b>Project Title</b>	<b>Start</b>	<b>Completion</b>
<b>1</b>	Purchase, Installation and Commissioning of 5 MVA Power Substation and Accessories for Cateel Substation	4 <sup>th</sup> Quarter of 2018	2 <sup>nd</sup> Quarter of 2019
<b>2</b>	Purchase of New 10 MVA Power Transformer for Lupon Substation	June 15, 2018	July 1, 2018

**PROJECT FINANCING**

10. The funding for the projects are being sourced through a loan from the NEA. Accruing amortizations shall be paid out of the cooperative's internally - generated Reinvestment Fund for Sustainable Capital Expenditures (RFSC);

**JUSTIFICATIONS AND BENEFITS TO BE DELIVERED BY THE PROJECTS**

11. The 5 MVA power substation and accessories for Cateel Substation will address the reliability problem on the existing three (3) units 833 kVA (2.5 MVA) power transformers in Cateel Substation;
12. The new 10 MVA power transformer for Lupon Substation will replace the damaged 10 MVA power transformer of said substation;
13. In general, the implementation of the projects will provide a safe, adequate, reliable and efficient electric service to its consumers.

**APPLICATION FOR AUTHORITY TO SECURE LOAN FROM NEA**

14. As shown above, the projects are being financed through a loan from NEA considering that the cooperative's RFSC is not readily available to finance the immediate implementation of the projects. In view thereof, it now applies for authority from the Commission to secure said loan from NEA.

**INDICATIVE RATE IMPACT OF THE PROJECTS**

15. The implementation of subject projects will have a reasonable impact on the RFSC rate of the cooperative as follows, *to wit*:

	2018	2019	2020	2021	2022	TOTAL
Forecasted Energy Sales, kWh	121,572,662	130,531,229	138,171,790	146,034,994	154,047,332	690,358,007
Cash Balance beginning, Php excess/(shortfall)	4,148,165.43	12,632,540.76	22,567,192.51	33,604,120.71	45,705,649.41	118,657,668.82
<b>CASH INFLOWS</b>						
Current Year Collection @ Php 0.3534/ kWh @ 95%	40,421,517.66	41,561,468.40	42,663,744.85	43,728,345.36	44,755,271.58	213,130,347.85
Loan Proceeds from financial Institutions, Php	41,376,756.70					41,376,756.70
Government Subsidy (if any), Php						
50% income on leased properties	160,810.00	160,810.00	160,810.00	160,810.00	160,810.00	804,050.00
Total Cash Inflows, Php	81,959,084.36	41,722,278.40	42,824,554.85	43,889,155.36	44,916,081.58	255,311,154.55
Available Cash for disbursement	86,107,249.79	54,354,819.16	65,391,747.36	77,493,276.07	90,621,730.99	373,968,823.37
<b>CASH OUTFLOWS</b>						
CAPEX Requirement - Emergency	41,376,756.70					41,376,756.70
CAPEX Requirement - Regular	180,310,580.40	281,664,231.50	196,717,593.75			658,692,405.65
Old debt (Old amortization)	25,009,311.00	25,009,311.00	25,009,311.00	25,009,311.00	25,009,311.00	125,046,555.00
New Amortization (Emergency CAPEX), Php	6,778,315.65	6,778,315.65	6,778,315.65	6,778,315.65	6,778,315.65	33,891,578.25
New Amortization (Regular CAPEX), Php	24,109,040.43	61,769,916.08	88,072,712.12	88,072,712.12	88,072,712.12	350,097,092.88
ERC Permit Fee, Php	310,325.68					310,325.68
Total Cash Outflows, Php	277,894,329.86	375,221,774.23	316,577,932.52	119,860,338.77	119,860,338.77	1,209,414,714.15
Cash Balance Ending, Php, excess/(shortfall)	-191,787,080.07	-320,866,955.07	-251,186,185.16	-42,367,062.70	-29,238,607.78	-835,445,890.78
Excess/(Shortfall) on RFSC, Php/kWh	-1.5776	-2.4582	-1.8179	-0.2901	-0.1898	-1.2102

**SUBMISSION OF DOCUMENTARY AND PRE-FILING REQUIREMENTS**

16. Finally, in compliance with the documentary as well as pre-filing requirements under ERC Resolution 26, Series of 2009 and the ERC Rules of Practice and Procedure, respectively, the following documents are being submitted herewith to form integral parts hereof, *to wit*:

<b>Annex Markings</b>	<b>Nature of Document</b>
<b>"A"</b>	Executive Summary of the Emergency CAPEX Projects
<b>"B"</b>	Supporting documents for the application for authority to secure loan from NEA
<b>"C" and series</b>	Proof of furnishing of copies of the Application to the Sangguniang Panlungsod of Mati City and Sangguniang Panlalawigan of Davao Oriental
<b>"D" and series</b>	Proof of publication of the Application in a newspaper of general circulation in DORECO's franchise area or where it principally operates.

**PRAYER**

17. It prayed that the Commission after due notice and hearing, DORECO's emergency CAPEX projects for 2018 be confirmed and approved accordingly. Other reliefs, just and equitable in the premises are likewise prayed for.

The Commission has set the *Application* for determination of compliance with the jurisdictional requirements, expository presentation, pre-trial conference, and presentation of evidence on **17 January 2019 (Thursday) at nine o'clock in the morning (9:00 A.M.), at DORECO's Principal Office at Madang, National Highway, Mati City, Davao Oriental.**

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 Rules of Practice and Procedure, indicating therein the docket number and title of the case and stating the following:

- i. The petitioner's name and address;
- ii. 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
- iii. 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 it be furnished with the same, prior to the date of the initial hearing. DORECO 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 the Honorable Commissioners **ALEXIS M. LUMBATAN** and **CATHERINE P. MACEDA**, Energy Regulatory Commission, this 12th day of December 2018 in Pasig City.

  
**JOSEFINA PATRICIA A. MAGPALE-ASIRIT**  
*Oversight Commissioner for Legal*

  
LS:SLAN/MCC/BSA/GLO