

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



**IN THE MATTER OF THE
APPLICATION FOR
APPROVAL OF THE MULTI-
YEAR CAPITAL
EXPENDITURE PROJECTS
(2015-2017) WITH PRAYER
FOR AUTHORITY TO
SECURE LOANS AND
PROVISIONAL AUTHORITY,**

ERC CASE NO. 2017 – 073 RC

**NEGROS ORIENTAL
ELECTRIC COOPERATIVE,
INC. I (NORECO I),
Applicant.**

D O C K E T E D
Date: APR 05 2018
By: W

X ----- X

NOTICE OF PUBLIC HEARING

TO ALL INTERESTED PARTIES:

Notice is hereby given that on 11 August 2017, Negros Oriental I Electric Cooperative, Inc. (NORECO I) filed an *Application* seeking the Commission's approval of its Multi-Year Capital Expenditures Projects (2015-2017) with prayer for authority to secure loans and provisional authority.

NORECO I alleged the following in its *Application*:

1. NORECO I is an electric cooperative duly organized and existing under the laws of the Republic of the Philippines with office address at Tinaogan, Bindoy, Negros Oriental.
2. NORECO I was granted a franchise to operate an electric light and power distribution service in the municipalities of Mabinay, Manjuyod, Bindoy, Ayungon, Tayasan, Jimalalud, La Libertad, and Vallehermoso, and the cities of Guihulngan, Bais, and Canlaon, all in the province of Negros Oriental.

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3. The instant Application is filed pursuant to Section 43 (f) of Republic Act No. 9136, otherwise known as the “Electric Power Industry Reform Act of 2001”, ERC Resolution No. 26, Series of 2009, ERC Rules of Practice and Procedure, and other relevant laws and rules, for the Honorable Commission’s approval, confirmation and authority for NORECO I to implement the proposed Capital Expenditure (CAPEX) projects for the years 2014 to 2016.
4. NORECO I furnished the legislative bodies of the local government units where it principally operates with copies of the Application with all its annexes and accompanying documents. Copies of the proofs of service to the Sangguniang Panlalawigan of Negros Oriental and the Sangguniang Bayan of Bindoy, Negros Oriental are attached as **Annexes “A”** and **“B”**, respectively.
5. NORECO I also published the Application *sans* annexes in its entirety in a newspaper of general circulation within its franchise area. Copies of the Affidavit of Publication and the Newspaper where the Application was published are attached as **Annexes “C”** and **“D”**, respectively.
6. NORECO I’s Multi-Year Capital Expenditure Projects are divided into network and non-network projects, with the specific projects indicated as follows:

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CAPITAL EXPENDITURE PROJECTS (2015-2017)

| PROJECT | YEAR OF IMPLEMENTATION | | | TOTAL COST | |
|--------------------------|---|----------------------|----------------------|----------------------|----------------------|
| | 2015 | 2016 | 2017 | | |
| Network | | | | | |
| 1 | Purchase of Poles, Transformers, Conductors and Line Hardwares | 10,005,212.00 | 12,085,754.58 | 15,626,406.42 | 37,717,373.00 |
| 2 | Purchase of kWh Meters, Poles, Transformers, Conductors, and Line Hardwares for New Consumers | | 4,949,355.08 | 8,413,843.42 | 13,363,198.50 |
| 3 | Purchase of kWh Meters for the Replacement of Defective and Stuck-up Meters | 688,665.79 | 2,054,242.06 | 10,354,447 | 13,097,385.00 |
| 4 | Purchase of Distribution Lightning Arresters | | | 425,209.05 | 425,209.05 |
| 5 | Procurement of Substation Feeder Metering | | | 2,100,000.00 | 2,100,000.00 |
| 6 | Purchase of Recloser | | | 5,040,000.00 | 5,040,000.00 |
| 7 | Purchase of Line Tools and Protective Equipment | 240,283.47 | 289,858.68 | 3,495,644.16 | 4,025,786.30 |
| TOTAL NETWORK | | 10,934,161.27 | 19,379,210.40 | 45,455,580.02 | 75,768,951.86 |
| Non-Network | | | | | |
| 8 | Acquisition of Land and Construction of Sub-office Building in Vallehermoso | | | 1,000,000.00 | 1,000,000.00 |
| 9 | Purchase of Transformer Tester (3 in 1) and Polyphase kWh Meter Calibrator | | | 2,940,000.00 | 2,940,000.05 |
| 10 | Purchase of Vehicles and Motorcycles | | | 7,392,000.00 | 7,392,000.00 |
| 11 | Information System Automation | 57,528.07 | 46,998.22 | 2,950,973.71 | 3,055,500.00 |
| 12 | Construction of New Building and Office Improvement | | 31,500.00 | 5,597,473.95 | 5,628,973.95 |
| 13 | Purchase of Meter Reading, Communication Equipment, Desktop Computers and Printers | 99,230.00 | 68,792.12 | 854,677.88 | 1,022,700.00 |
| TOTAL NON-NETWORK | | 156,758.07 | 147,290.34 | 20,735,125.54 | 21,039,173.95 |
| TOTAL | | 11,090,919.34 | 19,526,500.74 | 66,190,705.74 | 96,808,125.81 |

7. The above-enumerated CAPEX projects were proposed after a performance assessment of the distribution system of NORECO I, in response to the identified problems.
8. NORECO I's Profile, Forecasting Model, Forecasted Energy Sales, kW Demand, and Consumer Count, Existing Distribution System Analysis, Identified Problems, Proposed Projects with Description and Justification, Project Financing Plan, and Proposed Gantt Chart Schedule are discussed in detail in the CAPEX Plan of NORECO I, attached as **Annex "E"** hereof.
9. Applicant's estimated capital expenditure for 2015-2017 exclusive of permit fee, legal and consultancy fees and capitalized interests is Ninety-Six Million Eight Hundred Eight Thousand One Hundred Twenty-Five Pesos and Eighty-One Centavos (P96,808,125.81).

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- a. Applicant intends to secure loans from the National Electrification Administration (NEA) in the amount of Thirty-Four Million Three Hundred Ninety-Four Thousand Seven Hundred Twenty-Six Pesos and Ninety Nine Centavos (34,394,726.99).
- b. The balance will be financed from the Reinvestment Fund for Sustainable Capital Expenditures (RFSC). The implementation of all the proposed projects is projected to have an average indicative additional revenue requirement on the RFSC rate of Php 0.1861 per kWh in order to cover the shortfall on the existing RFSC.

| | 2015 | 2016 | 2017 | 2018 | 2019 | TOTAL |
|---|---------------|---------------|----------------|----------------|---------------|----------------|
| Forecasted energy sales, kWh | 52,942,544 | 59,350,631 | 59,567,259 | 63,273,634 | 67,188,469 | 302,322,537.00 |
| Cash balance beginning, PhP, excess/(shortfall) | | 6,931,831.13 | 7,573,405.23 | (9,540,332.54) | 8,622,107.60 | 28,130,859.49 |
| CASH INFLOWS | | | | | | |
| current year collection @PhPo.3439/kWh | 18,206,940.88 | 20,410,682.00 | 20,485,180.37 | 21,759,802.73 | 23,106,114.49 | 103,968,720.47 |
| 50% of income on leased properties | 1,361,935.49 | 1,361,935.49 | 1,361,935.49 | 1,361,935.49 | 1,361,935.49 | 6,809,677.45 |
| loan proceeds from financial institutions, PhP | - | | 34,394,726.99 | | | 34,394,726.99 |
| Total Cash Inflows, PhP | 19,568,876.37 | 21,772,617.49 | 56,241,842.85 | 23,121,738.22 | 24,468,049.98 | 145,173,124.91 |
| Available cash for disbursement | 19,568,876.37 | 28,704,448.63 | 63,815,248.08 | 13,581,405.69 | 33,090,157.58 | 173,303,984.40 |
| CASH OUTFLOWS | | | | | | |
| CAPEX requirement | 11,090,919.34 | 19,526,500.74 | 66,190,705.74 | | | 96,808,125.81 |
| Emergency CAPEX- Mabinay Repair | | | 1,166,200.00 | | | 1,166,200.00 |
| new amortization (new CAPEX), PhP | | | 4,959,298.09 | 4,959,298.09 | 4,959,298.09 | 14,877,894.26 |
| old debt, PhP | 1,462,944.00 | 1,458,093.90 | 534,200.00 | | | 3,455,237.90 |
| ERC Permit Fee, PhP | 83,181.90 | 146,448.76 | 505,176.79 | | | 734,807.44 |
| Total Cash Outflows, PhP | 12,637,045.23 | 21,131,043.39 | 73,355,580.62 | 4,959,298.09 | 4,959,298.09 | 117,042,265.41 |
| Cash balance ending, PhP, excess/(shortfall) | 6,931,831.13 | 7,573,405.23 | (9,540,332.54) | 8,622,107.60 | 28,130,859.49 | 56,261,718.98 |
| Excess/(shortfall) on RFSC, PhP/kWh | 0.1309 | 0.1276 | (0.1602) | 0.1363 | 0.4187 | 0.1861 |

10. The proposed CAPEX projects and plans to secure loans to finance said projects were already approved by the Board of Directors of NORECO I.

**ALLEGATIONS IN SUPPORT OF THE PRAYER
FOR AUTHORITY TO SECURE LOANS
AND PROVISIONAL AUTHORITY**

Applicant re-pleads the foregoing allegations and further states that:

11. There is an urgent necessity to commence the implementation of proposed CAPEX projects as the identified problems include safety deficiencies, power quality violations and poor reliability.
12. In particular, the following CAPEX projects are extremely urgent: the replacement of aging, broken and rotten wood poles and worn-out line tools and protective equipment,

because these are safety projects, and the replacement of defective meters.

PRAYER

WHEREFORE, premises considered, it is most respectfully prayed to this Honorable Commission that:

- (1) Upon filing of the Application, and pending hearing thereon, an Order be issued granting **PROVISIONAL AUTHORITY** to NORECO I to implement its capital expenditure projects for 2015 to 2017; and
- (2) After hearing thereon on the merits, a **DECISION** be rendered **APPROVING** the instant Application and **GRANTING AUTHORITY TO SECURE LOANS** to NORECO I to finance its capital expenditure projects for 2015 to 2017.

Other just and equitable reliefs 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 **05 July 2018 (Thursday) at nine o'clock in the morning (9:00 A.M.), at NORECO I's Principal Office, Tinaogan, Bindoy, Negros 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.

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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 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. Applicants are 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 **ALFREDO J. NON**, **GLORIA VICTORIA C. YAP-TARUC**, and **GERONIMO D. STA. ANA**, Energy Regulatory Commission, this 26th day of March 2018 in Pasig City.

FOR AND BY THE AUTHORITY
OF THE COMMISSION:


JOSEFINA PATRICIA A. MAGPALE-ASIRIT
Oversight Commissioner for Legal