

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

IN THE MATTER OF THE
APPLICATION FOR THE
APPROVAL OF THE
PROPOSED CAPITAL
EXPENDITURE PROJECTS FOR
THE YEARS 2022 – 2024 WITH
APPLICATION FOR AUTHORITY
TO SECURE LOAN FROM THE
NATIONAL ELECTRIFICATION
ADMINISTRATION (NEA)
AND/OR PRIVATE FINANCIAL
INSTITUTION

ERC CASE NO. 2022 - 026 RC

April 07, 2022

SURIGAO DEL SUR II ELECTRIC
COOPERATIVE, INC. (SURSECO
II),

Applicant.

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APPLICATION

APPLICANT, Surigao del Sur II Electric Cooperative, Inc. (SURSECO II for brevity), by counsel and unto this Honorable Commission, most respectfully states:

THE APPLICANT

1. Applicant Surigao del Sur II is an Electric Cooperative created and existing pursuant to the provisions of Presidential Decree No. 269 as amended, with principal office located at Balilahan, Mabua, Tandag City, Surigao del Sur, Philippines, represented herein by its General Manager, **Roel E. Abad**, duly authorized by virtue of Board Resolution No. 025, Series of 2022 dated February 9, 2022 of the Board of Directors, copy of which is

attached hereto as **Annex “A”** and made an integral part hereof.

The filing of the instant Application is likewise authorized under the afore-mentioned Resolution;

2. Applicant has been granted by the National Electrification Administration (NEA) an authority to operate and distribute electric light and power in the City of Tandag and the Municipalities of Carrascal, Cantilan, Madrid, Carmen, Lanuza, Cortes, Tago, San Miguel, Bayabas, Cagwait, Marihatag, San Agustin and Lianga, all in the Province of Surigao del Sur.

THE APPLICATION AND ITS PURPOSE

3. This Application is filed in compliance with ERC Resolution No. 26, Series of 2009 (A Resolution Amending the Rules for Approval of Regulated Entities’ Capital Expenditure Projects)” adopted pursuant to the mandate of Section 43 of Republic Act No. 9136 otherwise known as the Electric Power Industry Reform Act of 2001 (EPIRA) and its implementing Rules and Regulations, which categorically provides that all capital expenditure projects (CAPEX) shall be submitted to and for the approval of the Commission prior to its implementation, in relation to ERC Resolution No. 20, Series of 2011 which sets the timelines for the filing of the instant application;
4. The aforecited amended rules was issued by the Honorable Commission to ensure that the projects are timely, appropriate, necessary and cost efficient; to ensure that the proposed capital projects are consistent with the Distribution Development Plan (DDP), the Philippine Grid Code (PGC), the Philippines Distribution Code (PDC), and other relevant government issuances; and to ensure that the procurement of equipment, materials and services are transparent, competitive and compliant with the applicable laws and regulations.
5. In accordance with the Amended CAPEX Rules, consistent with the Distribution Development Plan and the Philippine Distribution Code, Applicant shall acquire, construct, and implement the following capital expenditure projects for the years 2022-2024, with a total approximate cost of **Five Hundred Eighty-One Million One Hundred Thirty Thousand Four Hundred Twenty-Seven Pesos and Sixty-Six Centavos (PhP581,130,427.66)**.

**Summary of the Proposed Projects with Corresponding Costs
for the Years 2022 - 2024**

Proposed Projects			Project Cost (PhP)			
No.	Title	Problem Type	2022	2023	2024	Total
1	Installation of 69 kV Circuit Breaker at Cagwait Substation	Safety	3,918,833.57	-	-	3,918,833.57
2	Replacement of Line Conductors to Insulated on Critical Areas	Safety	2,400,531.60	2,482,389.72	2,567,039.22	7,449,960.54
3	Re-routing and Rehabilitation of Electrical Facilities	Safety	50,472,763.84	29,024,772.51	21,160,735.92	100,658,272.27
4	Replacement of Deteriorated Poles	Safety	7,026,650.95	7,266,259.75	7,514,039.21	21,806,949.91
5	Installation of Circuit Breakers on SURSECO II's Backbone Line	Safety	-	3,499,799.01	-	3,499,799.01
6	Personal Protective Equipment (PPE) Requirement	Safety	1,884,270.74	792,878.73	343,061.05	3,020,210.52
7	Tandag Substation Capacity Augmentation	Capacity	66,354,240.24	-	-	66,354,240.24
8	Installation of a 5MVA Substation in Brgy. Gamut, Tago	Capacity	-	70,984,007.27	-	70,984,007.27
9	Line Extensions	Capacity	12,095,071.74	29,571,917.21	19,891,373.33	61,558,362.28
10	Distribution Transformer Requirement	Capacity	12,987,180.90	14,035,260.83	15,140,406.89	42,162,848.62
11	Connection Requirement for New Customers	Capacity	6,727,526.30	7,324,982.28	8,127,183.72	22,179,692.30
12	Buffer Stock Requirement	Reliability	11,078,003.37	-	-	11,078,003.37
13	Kilowatt-hour Meter Replacement	System Loss	6,449,742.28	6,669,678.50	6,897,114.54	20,016,535.32
14	Vehicle Requirement	Service Efficiency	77,047,590.46	7,519,630.96	7,776,050.37	92,343,271.79
15	Linemen Tools Requirement	Service Efficiency	11,024,061.21	604,578.33	842,214.86	12,470,854.40
16	Communication Equipment Requirement	Service Efficiency	317,600.75	1,002,433.16	-	1,320,033.91
17	Software and License Acquisition and Upgrade	Service Efficiency	8,474,979.47	8,745,349.68	14,789,899.20	32,010,228.35
18	Installation of IT Equipment	Service Efficiency	3,363,701.62	1,617,357.78	544,389.25	5,525,448.65
19	New Furnitures for SURSECO II's Offices	Service Efficiency	862,778.49	1,910,096.85	-	2,772,875.34
Total Project Cost (PhP)			282,485,527.53	193,051,392.57	105,593,507.56	581,130,427.66

Justification of the Proposed Projects

No.	Project Title	Justification
1	Installation of 69 kV Circuit Breaker at Cagwait Substation	The proposed project is intended to comply with GCR 4.6.1.2 of the Philippine Grid Code, by installing the appropriate circuit breakers, to ensure the safe operation of the Cagwait Substation.
2	Replacement of Line Conductors to Insulated on Critical Areas	The proposed project is intended to replace identified line sections from bare to insulated conductor to ensure the safety of public.
3	Re-routing and Rehabilitation of Electrical Facilities	The proposed project intends to relocate facilities within the road right-of-way to ensure immediate access by SURSECO II's linemen during emergency or maintenance activity and to rehabilitate distribution lines to meet the required standard.
4	Replacement of Deteriorated Poles	The project is intended to replace old, deteriorated, as well as improvised poles so that the safety requirement (structure integrity, height clearance, and appropriate spacing of distribution lines) of the distribution network is met.
5	Installation of Circuit Breakers on SURSECO II's Backbone Line	The project will ensure that Feeders Cagwait F2, Lianga F2, and Tandag F2 will be able to isolate the expected/calculated short circuit current in the system during minimum fault condition.
6	Personal Protective Equipment (PPE) Requirement	The project intends to equip the personnel of SURSECO II with the appropriate PPEs in compliance with the mandate of Section 4 of R.A. No. 11058.
7	Tandag Substation Capacity Augmentation	The project intends to address the capacity problem of SURSECO II's 10 MVA Tandag Substation.
8	Installation of a 5MVA Substation in Brgy. Gamut, Tago	The project intends to address the capacity problem of SURSECO II's 5 MVA Cagwait Substation.
9	Line Extensions	The project involves the extension of primary and secondary distribution lines to accommodate the connection requirement of new customers.
10	Distribution Transformer Requirement	The project is intended to address the forecasted growth in demand of the SURSECO II's distribution system. Further, the procurement of additional distribution transformers shall serve as stand-by inventory to immediately replace any damaged and/or busted distribution transformers.
11	Connection Requirement for New Customers	The project involves the procurement and installation of kWh-meters and service drop wire to accommodate the connection requirement of new customers.
12	Buffer Stock Requirement	The proposed project is in line with NEA's Memorandum No. 2015-023 to ensure availability of vital materials and equipment for immediate restoration/rehabilitation of distribution lines damaged by disasters and calamities.
13	Kilowatt-hour Meter Replacement	The project is for the annual replacement of defective or damaged kilowatt-hour meter to ensure accurate registration of electricity consumption.

No.	Project Title	Justification
14	Vehicle Requirement	The proposed project is intended for the replacement of SURSECO II's ageing fleet of vehicles and provides sufficient equipment to properly maintain its vehicles.
15	Linemen Tools Requirement	The project will equip each lineman of SURSECO II with the appropriate tools to perform their respective duties in a safe and efficient manner.
16	Communication Equipment Requirement	SURSECO II intends to acquire new handheld radios (with their respective base radio) for its field personnel to facilitate efficient delivery of services.
17	Software and License Acquisition and Upgrade	The project includes the acquisition of an integrated information system software, registration of database product license and cloud storage subscriptions.
18	Installation of IT Equipment	The project includes the acquisition and installation of IT Infrastructure and Equipment.
19	New Furnitures for SURSECO II's Offices	SURSECO II intends to acquire new furniture to replace old and deteriorated items. The project is also intended to provide a more convenient facility for its personnel as well as the member consumers.

6. With the prevailing situation in the electric power industry vis-à-vis the consumers' demand, Applicant deems it appropriate to embark on asset development and expansion in order to meet the member-consumers' growing demands; and
7. The procurement of the aforementioned project is of great necessity in the schedules herein provided, otherwise service decline is eminent, to the prejudice of the consumers.
8. That the afore-enumerated capital projects will be implemented on staggered basis, and, if a Force Majeure or Fortuitous event, as the case may be occurs causing delay in the implementation, the Applicant shall inform the ERC of such condition and seek the latter's confirmation of the delayed implementation of the particular CAPEX;

RELATED AND INDISPENSABLE DOCUMENTS

9. Consistent with the requirement of the filing of applications for approval of capital projects, Applicant attached and made an integral part of this Application the detailed justifications, related and indispensable documents chronologically arranged and contained in **Annex "B"** hereof.

BOARD APPROVAL OF THE PROPOSED PROJECTS

10. Finding the proposed capital expenditure projects reasonable, appropriate, necessary, and ultimately redound to the benefit of the members-consumers by way of efficient, continuous and reliable service, the Board of Directors of the Applicant passed Board Resolution No. 024, Series of 2022 dated February 9, 2022 approving the proposed CAPEX, copy of which is attached hereto as **Annex “C”**;

11. In compliance with Resolution No. 26, Series of 2009, information on the proposed capital projects had been widely disseminated through posting in the conspicuous places of the City of Tandag and the Municipalities of Carrascal, Cantilan, Madrid, Carmen, Lanuza, Cortes, Tago, San Miguel, Bayabas, Cagwait, Marihatag, San Agustin and Lianga, all in the Province of Surigao del Sur, as certified to by Leonor T. Montenegro, an employee of the Applicant tasked to undertake such dissemination, copy of the affidavit of posting is attached hereto as **Annex “D”**. The Notices posted in the areas aforementioned specifically contained the following:
 - a. the proposed projects;
 - b. the reasons for proposing said projects;
 - c. the source of fund for the said projects;
 - d. indicative rate impact of the said projects;

SOURCES OF FUNDS FOR THE PROJECTS

12. SURSECO II's Capital Expenditure Projects Plan is envisioned to have the least rate impact and that brings the most value to its consumers.

13. In the implementation of the proposed projects, the Applicant shall source the funds through a loan with the National Electrification Administration (NEA) and/or other Private Financing Institution that will provide the least interest rate to the benefit of the member-consumers. Thus, a parallel Application for the grant of authority to secure loan with the aforesaid government agency and/or other private financing institution is incorporated herein.

Financing Plan

Source of Funds	Project Costs to be Financed	Annual Projects Costs		
		Year 2022	Year 2023	Year 2024
National Electrification Administration and/or Other Financing Institutions	581,130,427.66	282,485,527.53	193,051,392.57	105,593,507.56
Total	581,130,427.66	282,485,527.53	193,051,392.57	105,593,507.56

14. The implementation of the proposed CAPEX shall bring forth an indicative rate impact as follows:

Indicative Rate Impact with Loan (i=6.0%, p=12 years)

Particulars	2022	2023	2024	TOTAL
Forecasted energy sales, kWh	104,123,830.00	111,194,312.00	118,760,772.00	334,078,913.91
Cash balance beginning, PhP, excess/(shortfall)	37,503,083.21	75,246,233.38	83,299,111.70	37,503,083.21
CASH INFLOWS				
current year collection @PhP0.4004/kWh	41,691,181.38	44,522,202.57	47,551,813.18	133,765,197.13
50% of income on leased properties	699,150.63	699,150.63	699,150.63	2,097,451.88
loan proceeds from financial institutions, PhP	282,485,527.53	193,051,392.57	105,593,507.56	581,130,427.66
government subsidy (if any), PhP	-	-	-	-
Total Cash Inflows, PhP	324,875,859.53	238,272,745.76	153,844,471.37	716,993,076.66
Available cash for disbursement	362,378,942.74	313,518,979.14	237,143,583.07	754,496,159.87
CASH OUTFLOWS				
CAPEX requirement	282,485,527.53	193,051,392.57	105,593,507.56	581,130,427.66
old debt (previous CAPEX), PhP	2,528,540.38	2,528,540.38	2,528,540.38	7,585,621.14
new amortization (new CAPEX), PhP	-	33,192,049.04	55,875,587.37	89,067,636.41
ERC Permit Fee, PhP	2,118,641.46	1,447,885.44	791,951.31	4,358,478.21
Total Cash Outflows, PhP	287,132,709.37	230,219,867.44	164,789,586.61	682,142,163.42
Cash balance ending, PhP, excess/(shortfall)	75,246,233.38	83,299,111.70	72,353,996.46	72,353,996.46
Excess/(shortfall) on RFSC, PhP/kWh	0.72	0.75	0.61	0.22

**APPLICATION FOR AUTHORITY TO SECURE LOAN
WITH THE NATIONAL ELECTRIFICATION
ADMINISTRATION (NEA) AND/OR OTHER PRIVATE
FINANCING INSTITUTIONS**

15. That, Applicant reiterates and incorporate the foregoing allegations in support of its Application for Authority to Secure Loan with the National Electrification Administration (NEA) and/or other Private Financing Institutions, which will provide the least interest rate, and further allege:

16. That the need of immediate implementation of the foregoing proposed Capital Expenditure Projects is imperative to ensure safety, quality of service and compliance with the power industry's regulatory requirements;

17. Unfortunately, the current rate of the Reinvestment Fund for Sustainable CAPEX (RFSC) of Applicant SURSECO II is not enough to finance the proposed Capital Expenditure Projects. Thus, a setback in the implementation of the Projects is foreseen by Applicant due to insufficiency of funds, as can be shown below:

Rate Impact Calculation Without Availing Any Loan

Particulars	2022	2023	2024	TOTAL
Forecasted energy sales, kWh	104,123,830.00	111,194,312.00	118,760,772.00	334,078,913.91
Cash balance beginning, PhP, excess/(shortfall)	37,503,083.21	(207,239,294.15)	(359,045,759.35)	37,503,083.21
CASH INFLOWS				
current year collection @PhP0.4004/kWh	41,691,181.38	44,522,202.57	47,551,813.18	133,765,197.13
50% of income on leased properties	699,150.63	699,150.63	699,150.63	2,097,451.88
loan proceeds from financial institutions, PhP	-	-	-	-
government subsidy (if any), PhP	-	-	-	-
Total Cash Inflows, PhP	42,390,332.00	45,221,353.19	48,250,963.81	135,862,649.00
Available cash for disbursement	79,893,415.21	(162,017,940.96)	(310,794,795.55)	173,365,732.21
CASH OUTFLOWS				
CAPEX requirement	282,485,527.53	193,051,392.57	105,593,507.56	581,130,427.66
old debt (previous	2,528,540.38	2,528,540.38	2,528,540.38	7,585,621.14

CAPEX), PhP				
new amortization (new CAPEX), PhP	-	-	-	-
ERC Permit Fee, PhP	2,118,641.46	1,447,885.44	791,951.31	4,358,478.21
Total Cash Outflows, PhP	287,132,709.37	197,027,818.39	108,913,999.25	593,074,527.01
Cash balance ending, PhP, excess/(shortfall)	(207,239,294.15)	(359,045,759.35)	(419,708,794.79)	(419,708,794.79)
Excess/(shortfall) on RFSC, PhP/kWh	(1.99)	(3.23)	(3.53)	(1.26)

18. While Applicant has internally generated funds, same is insufficient and needs to be augmented by a loan through NEA's lending program, designed to assist the electric cooperatives and/or other Private Financing Institution, which can offer the least interest rates to the benefit of the member-consumers; hence, to apply for an authority to secure loan from the Commission is deemed prudent, rational and necessary.
19. In support of its application for the grant of authority to secure a loan from NEA and/or other Private Financing Institution, which will provide the least interest rate, Applicant hereto attached the following documents:
- 19.a. Copy of Audited Financial Statements including notes for test year 2020, 2019, 2018 and 2017 as **Annexes "E", "E-1", "E-2" and "E-3"**;
 - 19.b. List of projects and/or items of equipment and their estimated cost as **Annex "F"**.
 - 19.c. Bases of the reasonableness of the estimated cost as **Annex "G"**;
 - 19.d. Detailed schedule of utilization (of Annual RFSC Utilization for the test year and the prior 2 years) as **Annex "H"**;
 - 19.e. Computation of Financial ratios as **Annex "I"**.
 - 19.f. Cost-Benefit Analysis and Justification in securing loans as **Annex "J"**;

**MOTION FOR THE ISSUANCE OF
PROVISIONAL AUTHORITY
IN SECURING A LOAN**

20. That, Applicant reiterates and incorporate the foregoing allegations in support of its application for issuance of provisional authority and further allege:
- a. That the present facilities and equipment of the Applicant are found to be inadequate to meet the current increase in power demand and number of new customers, thus, operational decline is imminent which will result to power interruptions and decline in power reliability and customer service efficiency. The need for immediate improvement by providing additional or new facilities is the only solution to prevent an imminent decline in Applicant's power service; and such urgent need/remedy is imperative and should necessarily be implemented;
 - b. Considering the length of time to resolve the instant Application, it being not the only application to be resolved by the Commission, it is only appropriate, justifiable and reasonable that a provisional authority to immediately implement the capital expenditure projects applied for approval and secure the needed financing be granted;
 - c. The provisional authority that may be issued by the Honorable Commission will provide Applicant the opportunity to implement the Capital Expenditure Projects in accordance with the schedule of actual utilization and avoid the imminent escalation of prices. Thus, the reliability and quality of its service will not be unduly compromised.
 - d. That Applicant is aware that the Provisional Authority that may be granted is subject to the final evaluation of the Honorable Commission.

**COMPLIANCE
WITH PRE-FILING REQUIREMENTS**

21. In compliance with Section 2, Rule 6 of the ERC Rules of Practice and Procedure, copies of this Application together with all its annexes and accompanying documents had been

furnished by Applicant the Office of the Mayor and the Legislative Body of the City of Tandag, where Applicant principally operates and the Office of the Governor and the Legislative Body of the Province of Surigao del Sur. Likewise, the Application was published in a newspaper of general circulation within the franchise area of the Applicant.

22. As proof of compliance of the service of the copies of the Application together with all its annexes are the Certifications issued by the Authorized Representatives of the Local Government Units and/or the Affidavit of Service executed by an employee of the Applicant and the first page of the Application bearing the receiving stamp of the aforementioned Offices as **Annexes “K”, “L”, “M” and “N”**, respectively. Likewise attached hereto as **Annexes “O” and “P”** are the Affidavit of Publication and the newspaper issue containing the published Application;
23. Moreover, prior to the filing of this Application, a pre-filing conference with the concerned staff of the Commission was conducted pursuant to Section 4 of Rule 6, and for purposes of determining completeness of the supporting documents attached to the Application.

PRAYER

WHEREFORE, foregoing considered, Applicant respectfully prays that the Honorable Commission after due hearing and evaluation of the Application, an Order be issued:

1. **Approving** the proposed capital expenditures projects for the years 2022-2024 and declared just, reasonable, and equitable pursuant to the provisions of ERC Resolution No. 26, Series of 2009, and other related laws, rules and regulations;
2. **Approving** the application for authority to secure a loan with the National Electrification Administration (NEA) and/or other Private Financing Institution that will provide the least interest rate to the benefit of the member-consumers;
3. **Allowing** Applicant, through a Provisional Authority, to Secure a Loan with the National Electrification Administration (NEA) and/or other Private Financing Institution that will provide the least interest rate to the benefit of the member-consumers pending resolution of the

Application in order to allow Applicant to implement the proposed CAPEX as scheduled.

Other reliefs just and equitable are likewise prayed for.

Cebu City (for Pasig City), Philippines. 07 March 2022.

A.C. GAVIOLA LAW OFFICE

Counsel for SURSECO II

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3rd Ave., North Reclamation Area, Cebu City
acgaviola_lawoffice@gaviolalaw.com

BY:

ALAN C. GAVIOLA

PTR No. 927015; Province of Cebu; Feb. 17, 2022
IBP OR (To follow); Cebu City; Feb. 17, 2022
Roll No. 30385
MCLE Compliance III, 0019612; Dec. 14, 2010



ALAN BYRNE S. GAVIOLA

PTR No. 3372230 (For 2022); Cebu City; Nov. 09, 2021
IBP No. 147758 (For 2022); Cebu City; Nov. 10, 2021
Roll No. 62695
MCLE Compliance VI – 0027706; Apr. 14, 2022

VERIFICATION
WITH CERTIFICATION OF NON-FORUM SHOPPING

I, **ROEL E. ABAD**, of legal age, Filipino and with office address at SURSECO II, Balilahan, Mabua, Tandag City, Surigao del Sur, after being duly sworn in accordance with law hereby depose and say:

That I am the General Manager duly authorized by the Board of Directors to file or cause the filing of the foregoing Application;

That by virtue of said resolution, I have caused the preparation of the foregoing application; that I have read and understood all the contents thereof, and hereby state that all allegations therein made are true and correct of my own knowledge and based on authentic records; and

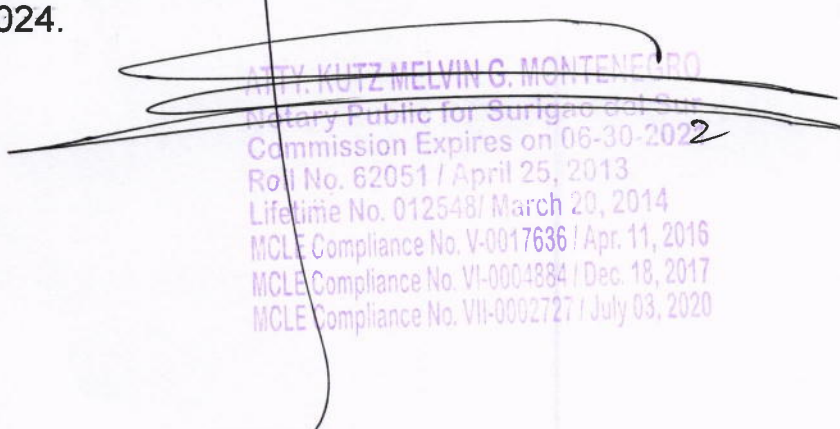
That SURSECO II has not commenced any action or proceedings involving the same issues before the Supreme Court, Court of Appeals, or any other tribunal or agency; that to the best of our knowledge, no such action or proceeding is pending in the Supreme Court, Court of Appeals, or any other tribunal agency; that should hereafter we learn that a similar action or proceedings has been filed or is pending before the Supreme Court, Court of Appeals, or any other Tribunal or agency, we shall undertake to report to the Honorable Commission of said fact within five (5) days from knowledge therefrom.

IN WITNESS WHEREOF, I have hereunto set my hand this 8th day of March 2022 in Tandag City, Philippines.


ROEL E. ABAD
Affiant

SUBSCRIBED AND SWORN TO BEFORE ME this 8th day of March 2022 at Tandag City, Philippines. Affiant, for purposes of identification, exhibited to me his Driver's License ID No. L09-99-004011 valid until July 26, 2024.

Doc. No. 250 ;
Page No. 50 ;
Book No. 05 ;
Series of 2022.


ATTY. KUTZ MELVIN G. MONTENEGRO
Notary Public for Surigao del Sur
Commission Expires on 06-30-2022
Roll No. 62051 / April 25, 2013
Lifetime No. 012548 / March 20, 2014
MCLE Compliance No. V-0017636 / Apr. 11, 2016
MCLE Compliance No. VI-0004884 / Dec. 18, 2017
MCLE Compliance No. VII-0002727 / July 03, 2020