

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



IN THE MATTER OF THE  
APPLICATION FOR APPROVAL  
OF INTERIM CAPITAL  
EXPENDITURE PROJECTS FOR  
THE YEARS 2013 AND 2014  
AND FOR AUTHORITY TO  
SECURE LOAN, WITH PRAYER  
FOR PROVISIONAL  
AUTHORITY

ERC CASE NO. 2014-044 RC

LA UNION ELECTRIC  
COOPERATIVE, INC. (LUELCO),  
Applicant.

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**DOCKETS**  
Date: JAN 28 2015  
*[Signature]*

**ORDER**

On April 21, 2014, the La Union Electric Cooperative, Inc. (LUELCO) filed an application for approval of its interim capital expenditure projects for the years 2013 and 2014 and for authority to secure loan, with prayer for provisional authority.

In the said application, LUELCO alleged, among others, that:

1. It is an electric cooperative duly organized and existing under and by virtue of the laws of the Republic of the Philippines, with principal offices at Barangay Sta. Rita, East Aringay, La Union;
2. It is the holder of an exclusive franchise issued by the National Electrification Commission (NEC) to operate an electric light and power distribution service in in the City of San Fernando and the municipalities of Aringay, Agoo, Caba, Bauang, Sto.Tomas, Tubao Pugo, Rosario, Naguilian, Burgos, Bagulin, San Juan, Bacnotan, Balaoan, Luna, San Gabriel, Sudipen, Santol, Bangar, all in the province of La Union, and the municipality of Sison in the province of Pangasinan;

3. Pursuant to the Commission's Resolution No. 26 Series of 2009 and Resolution No. 20, Series of 2011, as well as other pertinent laws and rules, the application is being submitted to the Commission for its consideration and approval, of LUELCO's Interim Capital Expenditure (Capex) Projects for the Years 2013 and 2014, summarized and enumerated hereunder, as follows:

**Table F1.** Summary of Capital Projects at its Present Value.

PROJECT TITLE	Year		Total (PhP)
	2013 (PhP)	2014 (PhP)	
<b>NETWORK ASSETS</b>			
<b>LOW VOLTAGE SERVICE DEVELOPMENT PLAN</b>			
Acquisition/Procurement of Additional Distribution Transformers	20,326,518	21,223,335	41,549,853
NEW LOW VOLTAGE CUSTOMERS CONNECTIONS	12,729,728	13,630,119	26,359,846
<b>ASSET RENEWAL PROJECT - SYSTEM LOSS REDUCTION PROGRAM</b>			
Replacement of Defective, Low Accuracy and Old Kilowatt-hour Meters	6,064,622	5,438,098	11,502,720
<b>TOTAL NETWORK ASSETS</b>	<b>39,120,867</b>	<b>40,291,552</b>	<b>79,412,420</b>
<b>NON-NETWORK ASSETS</b>			
Acquisition of Additional Boom Trucks and Pick-up Trucks	10,000,000		10,000,000
PCB TESTING FOR SUSPECTED DISTRIBUTION TRANSFORMERS	3,000,000		3,000,000
<b>TOTAL NON-NETWORK ASSETS</b>	<b>13,000,000</b>	<b>-</b>	<b>13,000,000</b>
<b>TOTAL PROJECT COST</b>	<b>52,120,867</b>	<b>40,291,552</b>	<b>92,412,420</b>

**Table F2.** Summary of Capital Projects at its Future Costs with 3.2% Inflation Factor.

PROJECT TITLE	Year		Total (PhP)
	2013 (PhP)	2014 (PhP)	
<b>NETWORK ASSETS</b>			
<b>LOW VOLTAGE SERVICE DEVELOPMENT PLAN</b>			
Acquisition/Procurement of Additional Distribution Transformers	20,976,967	22,603,361	43,580,328
<b>NEW LOW VOLTAGE CUSTOMERS CONNECTIONS</b>	13,137,079	14,516,404	27,653,482
<b>ASSET RENEWAL PROJECT - SYSTEM LOSS REDUCTION PROGRAM</b>			
Replacement of Defective, Low Accuracy and Old Kilowatt-hour Meters	6,258,690	5,791,705	12,050,395
<b>TOTAL NETWORK ASSETS</b>	<b>40,372,735</b>	<b>42,911,470</b>	<b>83,284,205</b>
<b>NON-NETWORK ASSETS</b>			
Acquisition of Additional Boom Trucks and Pick-up Trucks	10,320,000	-	10,320,000
PCB TESTING FOR SUSPECTED DISTRIBUTION TRANSFORMERS	3,096,000	-	3,096,000
<b>TOTAL NON-NETWORK ASSETS</b>	<b>13,416,000</b>	<b>-</b>	<b>13,416,000</b>
<b>TOTAL PROJECT COST</b>	<b>53,788,735</b>	<b>42,911,470</b>	<b>96,700,205.26</b>

4. **Capex Plan.** Its Interim Capex Projects for the Years 2013 and 2014 together with justifications are discussed in detail in its Distribution and Development Plan (DDP) for 2013 and 2014 together with supporting data presented in a Commission specified templates;
  
5. **Financing Plan.** Its Interim Capex Projects shall be financed from its Reinvestment Fund for Sustainable Capital Expenditures (RFSC) of PhP0.2904/kWh as approved by the Commission as well as from loans from the National Electrification Administration (NEA). The Table below summarizes LUELCO's Interim CAPEX projects financiers to be pursued and the corresponding costs to be financed:

**Table F1. Summary of Capital Projects at its Present Value.**

PROJECT TITLE	Recommended Financing Institution	Year		Total (PhP)
		2013 (PhP)	2014 (PhP)	
<b>NETWORK ASSETS</b>				
<b>LOW VOLTAGE SERVICE DEVELOPMENT PLAN</b>				
Acquisition/Procurement of Additional Distribution Transformers	NEA	20,326,518	21,223,335	<b>41,549,853</b>
<b>NEW LOW VOLTAGE CUSTOMERS CONNECTIONS</b>	NEA	12,729,728	13,630,119	<b>26,359,846</b>
<b>ASSET RENEWAL PROJECT - SYSTEM LOSS REDUCTION PROGRAM</b>				
Replacement of Defective, Low Accuracy and Old Kilowatt-hour Meters	Coop/RFSC	6,064,622	5,438,098	<b>11,502,720</b>
<b>TOTAL NETWORK ASSETS</b>		<b>39,120,867</b>	<b>40,291,552</b>	<b>79,412,420</b>
<b>NON-NETWORK ASSETS</b>				
Acquisition of Additional Boom Trucks and Pick-up Trucks	NEA	10,000,000		<b>10,000,000</b>
PCB TESTING FOR SUSPECTED DISTRIBUTION TRANSFORMERS	Coop/RFSC	3,000,000		<b>3,000,000</b>
<b>TOTAL NON-NETWORK ASSETS</b>		<b>13,000,000</b>	<b>-</b>	<b>13,000,000</b>
<b>TOTAL PROJECT COST</b>		<b>52,120,867</b>	<b>40,291,552</b>	<b>92,412,420</b>

**Table F2. Summary of Capital Projects at its Future Costs with 3.2% Inflation Factor.**

PROJECT TITLE	Recommended Financing Institution	Year		Total (PhP)
		2013 (PhP)	2014 (PhP)	
<b>NETWORK ASSETS</b>				
<b>LOW VOLTAGE SERVICE DEVELOPMENT PLAN</b>				
Acquisition/Procurement of Additional Distribution Transformers	NEA	20,976,967	22,603,361	<b>43,580,328</b>

NEW LOW VOLTAGE CUSTOMERS CONNECTIONS	NEA	13,137,079	14,516,404	27,653,482
<b>ASSET RENEWAL PROJECT - SYSTEM LOSS REDUCTION PROGRAM</b>				
Replacement of Defective, Low Accuracy and Old Kilowatt-hour Meters	Coop/RFSC	6,258,690	5,791,705	12,050,395
<b>TOTAL NETWORK ASSETS</b>		<b>40,372,735</b>	<b>42,911,470</b>	<b>83,284,205</b>
<b>NON-NETWORK ASSETS</b>				
Acquisition of Additional Boom Trucks and Pick-up Trucks	NEA	10,320,000	-	10,320,000
PCB TESTING FOR SUSPECTED DISTRIBUTION TRANSFORMERS	Coop/RFSC	3,096,000	-	3,096,000
<b>TOTAL NON-NETWORK ASSETS</b>		<b>13,416,000</b>	<b>-</b>	<b>13,416,000</b>
<b>TOTAL PROJECT COST (PhP)</b>		<b>53,788,735</b>	<b>42,911,470</b>	<b>96,700,205.26</b>

6. **Cash Flow.** Its cash flow shows that it can viably pursue and implement the two (2) years Interim Capex Projects without necessarily effecting a significant increase in its electricity rates. The Table below shows the capex plan cash flow cost or the cost of service thereto (in PhP) including projected Commission Capex Approval Fee:

**Table F3.** Summary of annual cash flow cost of capex plan.

Financing Amortization	2013 (PhP)	2014 (PhP)	TOTAL (PhP)
National Electrification Administration	-	2,556,554	2,556,554
Coop-Direct Capex Rate Financing	9,354,690	5,791,705	15,146,395
<b>Annual Cost of Amortizations</b>	<b>9,354,690</b>	<b>8,348,260</b>	<b>17,702,949</b>
Add: Capex Approval Cost	390,907	302,187	693,093
<b>Total Capex Plan Cost to Consumers</b>	<b>9,745,596</b>	<b>8,650,446</b>	<b>18,396,042</b>

7. Further, its Interim Capital Expenditure structure also considered previous indebtedness incurred in financing past capital projects outstanding as of 2008, such that including the amortization of the said indebtedness will have the cash flow as shown in the Table below, as follows:

**Table F4.** Cash flow cost of capex plan including existing amortization:

	2013 (PhP)	2014 (PhP)	TOTAL (PhP)
<b>Annual Revenue Cash Flow from RFSC/MCC Rate</b>	<b>43,756,891</b>	<b>46,449,190</b>	<b>90,206,081</b>
Total Cost of Amortization (New Capex Projects)	9,354,690	8,348,260	17,702,949
ERC Capex Approval Fees	390,907	302,187	693,093
Total Cost of Amortization (existing)	27,269,486	56,103,932	83,373,418
<b>Annual Capex Plan CF (Revenue Requirement )</b>	<b>37,015,082</b>	<b>64,754,378</b>	<b>101,769,460</b>
<b>Net Cash Flow (Add'l Revenue Requirement)</b>	<b>6,741,809</b>	<b>(18,305,188)</b>	<b>(11,563,379)</b>

8. The table above shows that funds generated from the distribution utility's Reinvestment Fund for Sustainable CAPEX (RFSC) is not sufficient to finance the annual capital project costs of the distribution utility;
9. **Rate Impact.** The instant Capex Plan was envisioned to have the least rate impact focusing on a capital expenditure plan that will bring the value to consumers at the most reasonable and justifiable electricity rates or at the least cost of service. Shown below is the annual rate impact of the Capex Plan on its MCC/RFSC:

**Table F5.** Capex Plan Cost Cash flow per KWh Rate (indicative rates).

Particulars	2013 (PhP)	2014 (PhP)	Total (PhP)
kWh Sales Forecast	150,678,000	159,949,000	310,627,000
<b>Annual Revenue Cash Flow from MCC Rate</b>	<b>43,756,891</b>	<b>46,449,190</b>	<b>90,206,081</b>
Current MCC Rate per kWh	0.2904	0.2904	0.2904
Capex Plan Cost Cash Flow	37,015,082	64,754,378	101,769,460
<b>Indicative Additional Revenue Requirement (Excess)</b>	<b>(6,741,809)</b>	<b>18,305,188</b>	<b>11,563,379</b>
Current MCC Rate per kWh	0.2904	0.2904	0.2904
Capex Plan Cost Cash Flow Indicative Rate per kWh	0.2457	0.4048	0.3276
<b>Indicative Additional (Excess) Revenue Requirement/kWh</b>	<b>(0.0447)</b>	<b>0.1144</b>	<b>0.0372</b>

10. **Authority to Secure Loan.** As shown above, the projects will be financed thru loans from the NEA. In view thereof, applicant likewise applies with the Commission for authority to secure those loans;
11. **Prayer for Provisional Authority.** Moreover, as shown above, some of the proposed projects will need implementation while the instant application is pending evaluation of the Honorable Commission, or unforeseen situations or occurrences may arise which might necessitate the immediate implementation of particular proposed projects. In view thereof, applicant respectfully moves for the issuance of a provisional authority while the case is pending, to implement said projects and to secure loan from NEA as may be deemed necessary and urgent under the circumstances, to enable the cooperative to deliver a safe, more reliable and efficient electric service to its consumers;
12. **Pre-Filing and Documentary Requirements.** Finally, in compliance with the Commission's pre-filing as well as other documentary requirements, it submitted documents which are being made integral parts of the application as Annexes "A" to "G-2"; and
13. It prays that: a) upon initial review of the application and pending trial on the merits, a provisional authority be issued permitting it to implement the proposed projects as they become urgently necessary and to secure loans from the National Electrification Administration (NEA) to finance the same; b) after due notice and hearing, its Interim Capex Projects for the years 2013 and 2014 as well as the corresponding application for authority to secure loans from NEA to finance the same be granted accordingly; and c) it be allowed to pay the corresponding Commission's Permit Fee on installment over a period of two (2) years.

Finding the said application sufficient in form and in substance with the required fees having been paid, the same is hereby set for jurisdictional hearing, expository presentation, pre-trial conference and evidentiary hearing on **April 15, 2015 (Wednesday) at nine o'clock in the morning (9:00 A.M.), at the LUELCO's Main Office, Barangay Sta. Rita, East Aringay, La Union.**

LUELCO is hereby directed to cause the publication of the attached Notice of Public Hearing, at its own expense, twice (2x) for two (2) successive weeks in two (2) newspapers of general circulation in the Philippines, with the date of the last publication to be made not later than ten (10) days before the date of the scheduled initial hearing. It is also directed to inform the consumers within its franchise area, by any other means available and appropriate, of the filing of the instant application, its reasons therefor and of the scheduled hearings thereon.

Let copies of the application, this Order, and the attached Notice of Public Hearing be furnished the Office of the Solicitor General (OSG), the Commission on Audit (COA) and the Committees on Energy of both Houses of Congress. They are hereby requested, if they so desire, to send their duly authorized representatives at the scheduled hearings.

Likewise, let copies of this Order and the attached Notice of Public Hearing be furnished the Offices of the Governors of La Union and Pangasinan and the Mayors of the City/Municipalities within the franchise area of LUELCO for the appropriate posting thereof on their respective bulletin boards.

LUELCO is hereby directed to furnish all those making requests therefor with copies of the application and its attachments, subject to reimbursement of reasonable photocopying costs.

On the date of the initial hearing, LUELCO must submit to the Commission its written Compliance with the jurisdictional requirements attaching therewith, methodically arranged and duly marked, the evidences of the actual posting and publication of the Notice of Public Hearing consisting of certifications issued to that effect, signed by the afore-mentioned Governors and Mayors or their duly authorized representatives, bearing the seals of their offices, and the affidavits of the Editors or Business Managers of the newspapers where said Notice of Public Hearing were published together with the complete issues of the said newspapers, and such other proofs of compliance with the requirements of the Commission.

LUELCO and all interested parties are directed to submit, at least five (5) days before the date of initial hearing and pre-trial conference, their respective Pre-Trial Briefs containing, among others:



- (a) A summary of admitted facts and proposed stipulation of facts;
- (b) The issues to be tried or resolved;
- (c) The documents or exhibits to be presented, stating the purposes thereof and proposed markings therefore; and
- (d) The number and names of the witnesses, with their written testimonies in an individual affidavit form, to be attached to the Pre-Trial Brief.

Failure of LUELCO to submit the required Pre-Trial Brief and Judicial Affidavits of its witnesses within the prescribed period shall be a ground for cancellation of the scheduled hearing, and the resetting of which shall be six (6) months from said date of cancellation.

As part of the pre-trial conference, LUELCO must also be prepared to make an expository presentation of its application, aided by whatever communication medium that it may deem appropriate for the purpose, in order to put in plain words and explain, for the benefit of the consumers and other concerned parties, what the application is all about and the reasons and justifications being cited in support thereof.

**SO ORDERED.**

Pasig City, January 20, 2015.

FOR AND BY AUTHORITY  
OF THE COMMISSION:

  
ZENAIDA G. CRUZ-DUCUT  
Chairperson *one 4*

**Copy Furnished:**

1. **LERIOS-AMBOY PINGOL AND GONZALES LAW OFFICES**  
Counsels for Applicant LUELCO  
Units 1609-1610, Tycoon Centre Condominium  
Pearl Drive, Ortigas Center, Pasig City 1605
2. **LA UNION ELECTRIC COOPERATIVE, INC. (LUELCO)**  
Sta. Rita East Aringay, La Union
3. **Commission on Audit**  
Commonwealth Avenue  
Quezon City
4. **Senate Committee on Energy**  
GSIS Building, Roxas Boulevard  
Pasay City
5. **House Committee on Energy**  
Batasan Hills, Quezon City
6. **Office of the President of PCCI**  
Philippine Chamber of Commerce and Industry (PCCI)  
3<sup>rd</sup> Floor, ECC Building, Sen. Gil Puyat Avenue  
Makati City
7. **THE NATIONAL GRID CORPORATION OF THE PHILIPPINES (NGCP)**  
Quezon Avenue corner BIR Road, Diliman, Quezon City
8. **The City Mayor**  
City of San Fernando, La Union
9. **Office of the Municipal Mayor**  
Aringay, La Union
10. **Office of the Municipal Mayor**  
Agoo, La Union
11. **Office of the Municipal Mayor**  
Caba, La Union
12. **Office of the Municipal Mayor**  
Bauang, La Union
13. **Office of the Municipal Mayor**  
Sto. Tomas, La Union
14. **Office of the Municipal Mayor**  
Tubao, La Union
15. **Office of the Municipal Mayor**  
Pugo, La Union

16. **Office of the Municipal Mayor**  
Rosario, La Union
17. **Office of the Municipal Mayor**  
Naguilian, La Union
18. **Office of the Municipal Mayor**  
Burgos, La Union
19. **Office of the Municipal Mayor**  
Bagulin, La Union
20. **Office of the Municipal Mayor**  
San Juan, La Union
21. **Office of the Municipal Mayor**  
Bacnotan, La Union
22. **Office of the Municipal Mayor**  
Balaoan, La Union
23. **Office of the Municipal Mayor**  
Luna, La Union
24. **Office of the Municipal Mayor**  
San Gabriel, La Union
25. **Office of the Municipal Mayor**  
Sudipen, La Union
26. **Office of the Municipal Mayor**  
Santol, La Union
27. **Office of the Municipal Mayor**  
Bangar, La Union
28. **Office of the Municipal Mayor**  
Sison, Pangasinan
29. **Office of the Provincial Governor**  
Province of La Union
30. **Office of the Provincial Governor**  
Province of Pangasinan