

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



**IN THE MATTER OF THE
APPLICATION FOR APPROVAL
OF CAPITAL EXPENDITURE
PROJECTS FOR THE YEARS 2015
TO 2017 AND AUTHORITY TO
SECURE LOAN FROM THE
NATIONAL ELECTRIFICATION
ADMINISTRATION (NEA), WITH
PRAYER FOR PROVISIONAL
AUTHORITY**

ERC CASE NO. 2015-053 RC

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

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ORDER

On March 30, 2015, the Davao Oriental Electric Cooperative, Inc. (DORECO) filed an application for approval of capital expenditure (CAPEX) projects for the years 2015 to 2017 and authority to secure loan from the National Electrification Administration (NEA), with prayer for provisional authority.

In the said application, DORECO 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 Madang, 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 all the Municipalities in the Province of Davao Oriental, namely: Baganga, Banaybanay, Boston, Caraga, Cateel, Governor Generoso, Lupon, Manay, San Isidro and Tarragona;

3. The instant application is being filed for the Commission's consideration and approval of the proposed capital expenditure (CAPEX) projects for years 2015 to 2017, 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;

4. The following are the proposed CAPEX projects subject of the instant application:

PROJECT No.	PROJECT TYPE	PROJECT DESCRIPTION	PROJECT COST (PhP)	YEAR OF IMPLEMENTATION
1	NETWORK PROJECTS	Purchase and Installation of SF6 Power Circuit Breaker, 69 KV for Baganga and Cateel Substation	16,200,000.00	2015
3		Uprating/upgrading of Mati SS – Provincial Hospital line section	4,383,103.58	2015
9		Upgrading/uprating of Lupon – Banaybanay line section	5,327,289.62	2015
18/20		Purchase and installation of Automatic Circuit Recloser	17,982,000	2015/2016
21		Uprating/upgrading of San Isidro – Tibanban line section	18,313,445.42	2016
22		Construction/Looping of Mati Substation – Poblacion Three Phase Line (Feeder # 14)	1,661,984.91	2016
35		Relocation of Tomoaong – Baliwagan Three Phase line	3,648,563.09	2017
36		Relocation of Jovellar – Banhawan Three Phase Line	1,354,128.37	2017
37		Relocation of Nanaingan – San Jose Three Phase Line	3,962,699.68	2017
38		Purchase and refurbishment of Pintatagan – Mati 69 KV Subtransmission Line	25,885,993.96	2017

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22	Other Network Project	Purchase and installation of Tariff Metering 2 (Revenue Metering) at the Cateel substation	3,270,000.00	2015
4/23/40		Replacement of old kWh Meter , single phase, 2W, 10(60) A, class 1 and installation for new projected consumers	20,088,000.00	2015/2016/2017
5/24/41		Replacement of old kWh meter, single phase, 2W, class 200, form 1S	864,000.00	2015/2016/2017
39		Purchase and installation of Feeder Metering (check meter) at the Monserrat line section	480,000.00	2017
6/25/42		Distribution Transformer, various size with cut-out & Arrester comb., 100 amperes	15,440,488.03	2015/2016/2017
7	Non-Network Project	Purchase of Maintenance Truck with front drive & winch with Van	11,680,000.00	2015
8		Purchase of Maintenance Vehicles, 4 x 2 M/T 2.5 cc Diesel Engine	3,766,182.00	2015
10		Purchase of Motorcycle, 125 cc	441,000	2015
11		Purchase of Motorcycle, 155 cc	226,800.00	2015
12	Non-Network Project	Construction of three (3)-storey T.S.D. Building	11,948,878.00	2015
13		Construction of one (1) – StoreyManay Action Center Building	3,658,145.98	2015
14		Purchase and Installation of Office Workstation Cubicle	2,478,069.07	2015
15/28/45		Materials and Supplies – Electric	11,842,485.63	2015/2016/2017
16		Laboratory Equipments	5,094,448.80	2015
17		Purchase and Installation of Local Communication/Telephone Trunkline	68,979.25	2015
19		Lot Purchase	2,800,000.00	2015
26		Purchase of Maintenance Vehicle, double cab, dropside, 4x4 pick-up	3,261,063.08	2016
27		Purchase of Office Furnitures and Equipments	341,970.30	2016

29		Purchase of Tools, Shop, safety gadgets and garage equipment	1,437,749.89	2016
30		Purchase of Service Vehicle, 2.5 cc, Diesel engine, 4 x4 M/T	1,335,337.50	2016
31		Repair and improvement of Staff/Guest House	679,630.46	2016
32		Purchase of Desktop Computer, Laptop, Printers & UPS/AVR	1,233,225.00	2016
33		Purchase of Radio Communication	246,750.00	2016
34		Construction/improvement of Motorpool Building	1,958,748.98	2016
43		Purchase of Service Vehicle, 4 x 2	897,750.00	2017
44		Construction of one (1) storey Cateel Action Center Building	4,464,932.23	2017
46		Purchase of Miscellaneous Equipment	998,550.00	2017
TOTAL PROJECT COST			199,722,395.82	

5. The proposed projects, together with justifications, are discussed in detail in the cooperative's Capital Expenditure Plan and Distribution Development Plan (DDP) for the years 2015 to 2017 together with supporting data presented in the Commission-specified templates;
6. The proposed projects shall be financed through loans from the National Electrification Administration (NEA). Shown below is the summary of the proposed loan from NEA:

Source of Fund	Project Cost to be Financed (PhP)	Annual Project Cost ('000) (PhP)		
		2015	2016	2017
NEA	199,722.00	86,610.00	57,752.00	55,360.00

7. Its cash flow shows that it can viably pursue and implement the proposed projects without necessarily resulting to a significant increase in its electricity rates. The table below shows the projected amounts that it needs annually to cover the cost of the proposed projects including the projected CAPEX approval fee:

8. The whole of its capital expenditure structure also considered previous indebtedness incurred in financing past capital projects outstanding as of 2014, such that including the amortization of said indebtedness will have the cash flow shown in the table below, as follows:

**Summary of Cash Flow Cost of CAPEX Plan including
Amortization of Past Indebtedness**

	2015	2016	2017
Revenue from RFSC	65,295	37,803	39,001
CAPEX Plan Amortization	9,211	15,353	21,241
CAPEX Approval Fee	650	433	415
Sub-total CAPEX Plan Cost	9,861	15,786	21,656
Previous Loan Amortization	33,295	38,187	43,086
Total CAPEX Plan Cost	43,156	53,973	64,742
Net Cash Flow	22,139.00	(16,170.30)	(25,741.47)

9. 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 RFSC:

Rate Impact in Terms of Rate per kWh

Particulars	2015	2016	2017	TOTAL
kWh Sales Projection	94,218	101,158	104,363	299,739
kWh	0.3737	0.3737	0.3737	0.3737
Projected CAPEX Revenue	35,209	37,803	39,000	112,012
Previous Year's Excess on Reinvestment Fund	30,086			30,086
Total CAPEX Fund	65,295	37,803	39,001	142,099
Amortization, new NEA at 6.5% for 15 years	9,211	15,353	21,241	45,805
Permit Fee	650	433	415	1,498
Existing Loans-NEA/Others	33,295	38,137	43,086	114,518
Proposed Capex Requirement	43,156	53,923	64,742	161,821
Revenue Gap	221,410	(16,120)	(25,741)	(197,200)
Indicative Rate Excess(Shortfall)(Php/kWh)	0.2350	(0.1594)	(0.2466)	
Total CAPEX Fund (3 years)				142,099
Total Proposed CAPEX Requirements (3 years)				161,821
Total Revenue Gap				(19,720)
Total Forecasted Sales (3 years)				299,739
Cumulative Indicative Rate Excess /(Shortfall)				(0.06579)

Authority to Secure Loan

10. As shown above, the proposed projects will be financed solely thru loans from the NEA. In this regard, Section 3.2.1.15 of Resolution No. 26, Series of 2009 provides that the “[A]pproval to secure loans sourced from NEA may be filed together with the CAPEX Application”. In view thereof, it likewise applies with the Commission for authority to secure loan from NEA to finance the proposed projects;

Prayer for the Provisional Authority

11. Some of the proposed projects need to be implemented while the instant application is pending evaluation, or unforeseen situations or occurrences may arise which might necessitate the immediate implementation of a particular proposed project. In view thereof, it prays for the issuance of a provisional authority while this case is pending, to implement said projects and to obtain loan from NEA to finance the same as may be deemed necessary and urgent under the circumstances. This will enable the cooperative to deliver a safe, more reliable and efficient electric service to its consumers;

Documentary and Pre-Filing Requirements

12. In compliance with the documentary as well as pre-filing requirements for the instant application, it submitted the following documents:

Annexes	Nature of Document
A	CAPEX Plan and Distribution Development Plan for 2015 to 2017 with supporting data in ERC-specified templates
B to B-1	Affidavit of Posting with Notice on the Proposed Projects as proof of Public Information Dissemination
C	Affidavit of Undertaking that the corresponding application for approval of concerned agencies shall be filed, when required
D	Documents in support of the Application for Authority to Secure Loan from NEA
E	Judicial Affidavit in Support of the Prayer for Provisional Authority

F to F-1	Proof of furnishing of copies of the Application to the Sangguniang Panglungsod of Mati City and Sangguniang Panlalawigan of Davao Oriental
G to G-2	Publication of the Application in a newspaper of general circulation in DORECO's franchise area, with Affidavit of Publication

13. It prays that:

- a. Upon initial review of the instant application and pending trial on the merits, a provisional authority be issued permitting it to implement the proposed projects as they may be deemed necessary and urgent under specific circumstances and to secure loan from NEA to finance the projects;
- b. After due notice and hearing, its CAPEX Projects for the years 2015 to 2017 as well as the corresponding application for authority to secure loan from NEA to finance the same be granted and approved accordingly; and
- c. It be allowed to pay the corresponding permit fee on installment over a period of one (1) year.

Finding the said application to be sufficient in form and 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 **October 1, 2015 (Thursday) at two o'clock in the afternoon (2:00 P.M.) at the DORECO's Main Office, Madang, Mati City, Davao Oriental.**

DORECO 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 hearing 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 Provincial Governor of Davao Oriental and the Mayors of the City and Municipalities within the franchise area of DORECO for the appropriate posting thereof on their respective bulletin boards.

DORECO 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, DORECO 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 certification issued to that effect, signed by the afore-mentioned Governor 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.

DORECO 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 DORECO 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.

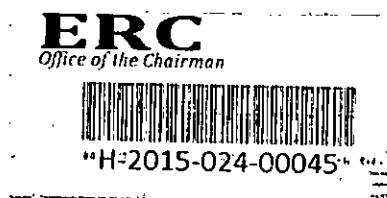
As part of the pre-trial conference, DORECO must also be prepared to make an expository presentation of its application, aided by whatever communication medium that it may deem appropriate for the purpose, in order to put in plain words and explain, for the benefit of the consumers and other concerned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

SO ORDERED.

Pasig City, August 17, 2015.

FOR AND BY AUTHORITY
OF THE COMMISSION

JOSE VICENTE B. SALAZAR
Chairman



Copy Furnished:

1. Atty. Marvey Jay A. Gonzales
Counsel for Applicant DORECO
Units 1609-1610, Tycoon Centre
Pearl Drive, Ortigas Center
Pasig City
2. The General Manager
Davao Oriental Electric Cooperative, Incorporated (DORECO)
Madang National Highway, Mati, Davao Oriental
3. Office of the Solicitor General
34 Amorsolo Street, Legaspi Village
Makati City, Metro Manila
4. Commission on Audit
Commonwealth Avenue
Quezon City, Metro Manila
5. Senate Committee on Energy
GSIS Bldg., Roxas Blvd., Pasay City
Metro Manila
6. House Committee on Energy
Batasan Hills, Quezon City, Metro Manila
7. Office of the Municipal Mayor
Baganga, Davao Oriental
8. Office of the Municipal Mayor
Banay-Banay, Davao Oriental
9. Office of the Municipal Mayor
Boston, Davao Oriental
10. Office of the Municipal Mayor
Caraga, Davao Oriental
11. Office of the Municipal Mayor
Cateel, Davao Oriental
12. Office of the Municipal Mayor
Governor Generoso, Davao Oriental
13. Office of the Municipal Mayor
Lupon, Davao Oriental
14. Office of the Municipal Mayor
Manay, Davao Oriental
15. Office of the Municipal Mayor
Mati, Davao Oriental

16. Office of the Municipal Mayor
San Isidro, Davao Oriental
17. Office of the Municipal Mayor
Tarragona, Davao Oriental
18. Office of the Governor
Province of Davao Oriental