

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



**IN THE MATTER OF THE  
APPLICATION FOR  
APPROVAL OF THE  
PROPOSED SIX (6) YEARS  
CAPITAL EXPENDITURE  
PROJECTS**

**ERC CASE NO. 2015-176 RC**

**MARINDUQUE ELECTRIC  
COOPERATIVE, INC.  
(MARELCO),**

**Applicant.**

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**D O C K E T E D**

Date: FEB 05 2016

By: fm

**ORDER**

On 19 October 2015, Marinduque Electric Cooperative, Inc. (MARELCO) filed an application for the approval of its proposed six (6) years capital expenditure projects.

In the said application, MARELCO alleged, among others, the following:

1. MARELCO is an electric cooperative created and existing pursuant to the provisions of P.D. 269, as amended, with principal office at Brgy. Ihatud, Boac, Marinduque, Philippines, represented herein by its general manager, Engr. Gaudencio M. Sol, Jr. who is duly authorized by virtue of Resolution No. 2015-129, Series of 2015 dated 23 September 2015;
2. MARELCO has been granted by the National Electricifaction Administration (NEA) an authority to operate and distribute electric light and power within the coverage area comprising of the Municipalities of Boac, Buenavista, Mogpog, Gasan, Sta. Cruz, and Torrijos, all in the province of Marinduque;

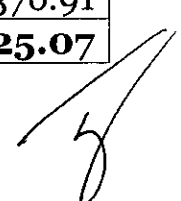
**THE APPLICATION AND ITS PURPOSE**

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) and Section 43 of RA 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 were issued by the 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 Philippine 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 regulation;

**THE PROJECTS**

5. In accordance with the Amended CAPEX Rules, consistent with the Distribution Development Plan and the Philippine Distribution Code, MARELCO shall acquire, construct and implement the following six (6) years capital expenditure, the total approximate cost of which is PhP 158, 663, 566.31, as follows:

<b>NETWORK PROJECTS:</b>	<b>COST (PhP)</b>
a. Safety	36,380,169.37
b. Power Quality	17,525,800.23
c. Capacity	30,489,385.37
d. System Loss	29,927,993.19
e. Buffer Stocks	5,790,376.91
<b>Sub-Total</b>	<b>120,113,725.07</b>



<b>NON-NETWORK PROJECTS</b>	
a. Building Structures & Equipment	10,402,497.50
b. Office Furniture & Equipment	2,245,360.75
c. Laboratory Equipment	4,674,447.65
d. Information Technology Equipment	9,268,982.69
e. Tools, Shop, Safety & Garage Equipment	2,786,052.65
f. Transportation Equipment	9,172,500.00
<b>Sub-total</b>	<b>38,549,841.24</b>
<b>GRAND TOTAL</b>	<b>158,663,566.31</b>

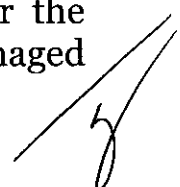
### 5.1 Description of the Projects

5.1.1 The Network CAPEX projects are intended to address the safety, power quality and reliability of the distribution system of the electric cooperative;

5.1.2 The other Network CAPEX projects are intended to respond to customer requirements in terms of additional distribution transformers, meters and service drop wires due to annual customer growth as forecasted, rural electrification projects and system loss reduction programs;

5.1.3 Non-network CAPEX projects will enhance its capability in responding to customer requests and concerns for better and efficient electric service. Non-network projects will include building structures, and improvement of existing facilities, acquisition of office furniture and equipment, meter laboratory equipment, information technology equipment, tools, shop, safety and garage equipment, and transportation equipment; and

5.1.4 MARELCO will also strive to have contingency projects and acquire materials and equipment buffer stock for emergency response for the repair and rehabilitation of damaged



distribution lines and restoration of electric service soonest after the occurrence of force majeure and/or fortuitous event.

### **JUSTIFICATION OF THE CAPITAL PROJECTS**

6. The prevailing situation in the electric power industry, particularly, the supply of power necessitates the distribution utility to maximize the available power to serve its customers in a more equitable and efficient manner. This could be attained by MARELCO by improving and enhancing its capabilities through the appropriate asset-development and expansion in order to meet the growing demands;
7. The procurement of the aforementioned project is of great necessity in the schedules herein provided, in order to avoid the possibility of service decline which will be prejudicial to MARELCO's consumers;

### **SUPPORTING DOCUMENTS**

8. MARELCO attached and made integral part of the instant application the following documents:
  - a. Chapter 1- Executive Summary;
  - b. Chapter 2- Distribution Planning Process;
  - c. Chapter 3- Historical Date and Load Forecast;
  - d. Chapter 4- Analysis of Existing Distribution System;
  - e. Chapter 5- Proposed CAPEX Projects consisting of Network, Non-network and other CAPEX projects;
  - f. Chapter 6- Financial Analysis;
  - g. Chapter 7- Recommendation; and
  - h. Various Annexes to further support the application.

### **PRE-FILING REQUIREMENTS**

9. MARELCO submitted the following in compliance with the pre-filing requirements of the Commission:
  - a. Board Resolution approving the preparation and filing of the six (6) year CAPEX projects application;



- b. Proof of furnishing copies of the application and its attachments to the Sanggunian Bayan office of where MARELCO's main office is located and the Sangguniang Panlalawigan; and
- c. Publication of the application in a newspaper of general circulation.

**SOURCES OF FUNDS FOR THE PROJECTS**

10. In the implementation of the proposed projects, MARELCO shall partly utilize its internally generated funds out of the members contribution for CAPEX projects, and part of the fund shall be sourced through a financing program from the National Electrification Administration (NEA) which is integrated in this application for the approval of said loan;
11. The implementation of the proposed CAPEX shall bring forth an indicative rate impact as follows:

Source of Fund	2011	2012	2013	2014	2015	2016	Project Cost to be Financed
Annual Revenue from CAPEX Rate	11,765,856.00	12,777,940.00	13,603,218.00	13,987,494.00	14,840,494.00	15,807,370.00	82,782,371.00
Total Cost of amortization	8,581,125.00	10,603,920.00	9,032,581.00	8,434,381.00	17,122,920.00	27,533,619.00	81,308,545.00
Capex Approval Fee	64,358.00	79,529.00	67,744.00	93,277.00	528,600.00	356,467.00	1,189,977.00
Existing Loan Amortization	779,892.00	779,892.00	587,396.00				
Annual Capex Plan Cost (Revenue Requirement)	9,425,376.00	11,463,341.00	9,687,721.00	8,527,658.00	17,651,520.00	27,890,086.00	84,645,702.00
Balance: Additional Revenue Requirement	2,340,480.00	1,314,599.00	3,915,496.00	5,459,836.00	(2,811,026.00)	(12,082,716.)	(1,863,332.00)
Capex Plan cost Cash Flow Rate/Kwh	0.0486	0.0591	0.0499	0.0439	0.0909	0.1437	0.4361
Additional Revenue Req per KWh (RFSC Rate)	(0.0121)	0.0068	0.0202	0.0281	(0.0145)	(0.0623)	(0.0096)

**PRAYER**

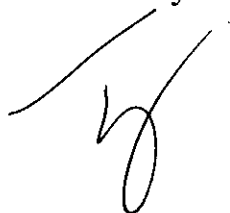
12. MARELCO prays that the Commission:

- a. after due notice and hearing, approve the capital projects/expenditures subject of this application in the amount of PhP 158,663,566.31 and be declared just, reasonable, and equitable pursuant to the provisions of ERC Resolution No. 26, Series of 2009, and other related laws, rules and regulations;
- b. approve the loan contract with NEA; and
- c. allow/authorize the utilization of such loan and thereafter recover from the member-consumers its expenditures/costs incurred in the implementation of the Capital Expenditure Projects.

Finding the said application to be 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 **11 March 2016 (Friday) at one-thirty in the afternoon (1:30 P.M.) at the MARELCO Main Office, Brgy. Ihatub, Boac, Marinduque.**

MARELCO 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 hearing.



Likewise, let copies of this Order and the attached Notice of Public Hearing be furnished the Offices of the Governor of Marinduque and the Mayors of the Municipalities within MARELCO's franchise area for the appropriate posting thereof on their respective bulletin boards.

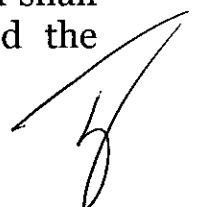
MARELCO is hereby directed to furnish all those making requests therefor with copies of the application and its attachments, subject to reimbursement of reasonable photocopying costs.

On the date of the initial hearing, MARELCO must submit to the Commission its written Compliance with the jurisdictional requirements attaching therewith, methodically arranged and duly marked, the evidences on the actual posting and publication of the Notice of Public Hearing consisting of certifications 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 the 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.

MARELCO 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 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 MARELCO 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



As part of the pre-trial conference, MARELCO 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, 01 February 2016.

FOR AND BY AUTHORITY  
OF THE COMMISSION:



**JOSE VICENTE B. SALAZAR**  
*Chairman and CEO*

  
LBB/APV



**Copy Furnished:**

- 1. ZENON S. SUAREZ**  
Counsel for MARELCO  
Rm. 506 Web-Jet Bldg.  
64 Quezon Ave., cor. BMA St., Quezon City
- 2. Marinduque Electric Cooperative, Inc. (MARELCO)**  
Ihatub, Boac, Marinduque
- 3. Office of the Solicitor General**  
134 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**  
Boac, Marinduque
- 8. Office of the Municipal Mayor**  
Buenavista, Marinduque
- 9. Office of the Municipal Mayor**  
Gasán, Marinduque
- 10. Office of the Municipal Mayor**  
Mogpog, Marinduque
- 11. Office of the Municipal Mayor**  
Sta. Cruz, Marinduque
- 12. Office of the Municipal Mayor**  
Torrijos, Marinduque
- 13. Office of the Provincial Governor**  
Marinduque