

Republic of the Philippines
ENERGY REGULATORY COMMISSION
Pasig City



**IN THE MATTER OF THE
APPLICATION FOR
AUTHORITY TO SECURE
LOAN WITH SECURITY
BANK AND METROBANK
WITH PRAYER FOR
ISSUANCE OF
PROVISIONAL AUTHORITY**

ERC Case No. 2016-044MC

**BUKIDNON SECOND
ELECTRIC COOPERATIVE,
INC. (BUSECO),**

Applicant.

X-----X

D O C K E T E D
Date: FEB 16 2017
By: W

ORDER

On 28 December 2016, the Bukidnon Second Electric Cooperative, Inc. (BUSECO), filed an Application dated 9 December 2016 (Application) for authority to secure loan to finance its approved capital expenditure projects (CAPEX) 2014-2016 with prayer for the issuance of provisional authority.

In the said Application, BUSECO alleged the following:

1. Applicant BUSECO is an Electric Cooperative created and existing pursuant to the provisions of Presidential Decree No. 269 as amended, with principal office located at Manolo Fortich, Bukidnon, represented herein by its General Manager, DEITER HOFF P. ARELLANO, duly authorized by virtue of Resolution No. 16-173, Series of 2016, dated November 11, 2016, by 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 aforecited Board Resolution;

2. Applicant has been granted by the National Electrification Administration (NEA) an authority to operate and distribute electric light and power within the coverage area comprising the City of Malaybalay and the Municipalities of Baungon, Malitbog, Libona, Manolo Fortich, Sumilao, Impasug-ong, Lantapan, Cabanglasan, Talakag, and Barangay Lilingayon, part of Valencia City;
3. That Applicant filed its CAPEX for the 2014 to 2016 on 29 August 2013 and was approved through a decision issued on 14 September 2015. Considering that the source of funds necessary for the implementation of the aforesaid approved CAPEX when will be thru private financing, specifically Security Bank and Metrobank, Applicant needs an authority to secure loan pursuant to the Commission's Guidelines;
4. That in compliance with the aforesaid guidelines, Applicant hereby submits its application for the grant of authority to secure loan with the aforementioned Banks, and in support thereof attached the following documents as required under the guidelines:
 - 4.a. Copy of Audited Financial Statements including notes for test year 2015, and years 2014 and 2013 as Annexes "B", "B-1" and "B-2";
 - 4.b. Letter of Proposal from Security Bank and Metrobank as Annexes "C" and "C-1";
 - 4.c. List of projects and/or items of equipment and their estimated cost, as Annex "D";
 - 4.d. Copy of the Draft Loan Agreement from Security Bank and Metrobank as Annexes "E" and "E-1";
 - 4.e. Loan Amortization schedule from Security Bank and Metrobank as Annexes "F" and "F-1";
 - 4.f. Filed copy and the Decision of the CAPEX Application docketed as ERC Case No. 2013-178 RC as Annex "G" and "G-1";

- 4.g. Detailed schedule of utilization (of Annual RFSC Utilization for the test year and the prior 2 years) as Annex "H";
 - 4.h. Justification, study, computation and benefits resulting from securing loans, as Annex "I".
 - 4.i. NEA loan profile 2013 to present as Annex "J".
5. BUSECO reserves its right to submit other documents as may be required by this Honorable Commission in the course of the hearing;
6. Applicant's Approved Capital Projects are as follow, to wit:

| Item | Proposed CAPEX Projects | Approved Cost (PhP) |
|------|---|---------------------|
| 1 | Installation of control unit for feeder protection recloser at Aglayan Substation | 2,309,280.00 |
| 2 | Installation of circuit breaker at Lunocan Substation | 6,759,132.00 |
| 3 | Replacement of dilapidated poles | 27,522,687.20 |
| 4 | Conductor up-rating from #2 ACSR to 2/o ACSR and 2/o ACSR to 4/o ACSR | 3,501,510.17 |
| 5 | Conversion from single-phase/v-phase lines to three phase lines | 6,279,121.82 |
| 6 | Capacitor placement/ installation | 402,288.00 |
| 7 | Voltage regulator installation/ placement | 816,000.00 |
| 8 | Rehabilitation and upgrading of over-extended secondary lines | 75,885,229.39 |
| 9 | Line augmentation | 4,341,823.44 |
| 10 | Expansion of distribution lines | 3,901,500.00 |
| 11 | Purchase of kilowatt-hour meters for residential, low voltage and high voltage customer | 37,979,654.16 |
| 12 | Reconfiguration of Lunocan Substation feeder | 2,448,000.00 |
| 13 | Relocation of service entrance, kilowatt-hour meters and service dropwires of residential customers | 3,175,487.53 |
| 14 | Substation check metering (69 kV | 9,520,680.00 |

| Item | Proposed CAPEX Projects | Approved Cost (PhP) |
|------|---|-----------------------|
| | line) | |
| 15 | Procurement of potential transformer and current transformer for Aglayan Substation | 1,494,135.25 |
| 16 | Replacement of defective kilowatt-hour meters | 6,037,000.00 |
| 17 | Installation of switching facilities to identified higher voltage customer | 2,907,000.00 |
| 18 | Asset Management | 7,823,354.00 |
| 19 | New building and building improvements program | 77,003,545.90 |
| 20 | Integrated Automation Program (IAP) | 30,360,708.22 |
| 21 | Network Connectivity Program (NCP) | 32,430,145.56 |
| 22 | Safety equipments and gadgets | 15,678,425.71 |
| 23 | Vehicle Augmentation Program (VAP) | 20,564,656.16 |
| 24 | Lot Acquisition | 2,060,000.00 |
| 25 | Distribution asset labeling | 5,033,700.00 |
| | Total Cost | 386,235,064.51 |

The above project shall be funded by a loan from Security Bank of ONE HUNDRED FIFTY-FIVE MILLION ONE HUNDRED TWENTY-SEVEN THOUSAND ONE HUNDRED SIXTY NINE PESOS AND 22/100 (Php 155,127,169.22) and loan from Metrobank of ONE HUNDRED FORTY-SIX MILLION NINETEEN THOUSAND FOUR HUNDRED FIFTY-FOUR PESOS AND 55/100 (Php 146,019,454.55) and the remaining balance from the NEA.

7. That the above projects will be implemented on staggered basis and are necessary for the operation and maintenance of the distribution system of BUSECO in order to further enhance dependable and quality electric service to its consumers-members;
8. The financing sought by the Applicant will bring forth the following impact on its rate, to wit:

Indicative effect on the existing RFSC rate of BUSECO @ 6% interest rate for 10 years

| | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | TOTAL |
|---|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|-------------------------|
| Forecasted energy sales, kWh | 124,365,644.67 | 129,340,270.46 | 134,314,896.24 | 139,289,522.03 | 144,264,147.82 | 149,238,773.60 | 820,813,254.82 |
| Cash balance beginning, PhP, excess/(shortfall) | 55,107,114.33 | 44,974,115.95 | 13,828,118.87 | (38,087,381.18) | (75,138,392.24) | (107,586,076.45) | (106,902,500.71) |
| CASH INFLOWS | | | | | | | |
| current year collection | 109,924,188.19 | 98,793,978.78 | 102,593,747.20 | 106,393,515.61 | 110,193,284.03 | 113,993,052.44 | 641,891,766.25 |
| 50% of income on leased properties | 339,903.79 | 339,903.79 | 339,903.79 | 339,903.79 | 339,903.79 | 339,903.79 | 2,039,422.71 |
| loan proceeds from financial institutions, PhP | - | 496,743,483.87 | 54,043,277.23 | - | - | - | 550,786,761.10 |
| government subsidy | - | - | - | - | - | - | - |
| Total Cash Inflows, PhP | 110,264,091.98 | 595,877,366.44 | 156,976,928.21 | 106,733,419.40 | 110,533,187.81 | 114,332,956.23 | 1,194,717,950.06 |
| Available cash for disbursement | 165,371,206.31 | 640,851,482.39 | 170,805,047.08 | 68,646,038.22 | 35,394,795.58 | 6,746,879.78 | 1,087,815,449.35 |
| CASH OUTFLOWS | | | | | | | |
| CAPEX requirement | 65,642,794.04 | 467,928,643.31 | 54,043,277.23 | - | - | - | 587,614,714.58 |
| Rural electrification projects | - | - | - | - | - | - | - |
| new amortization (new CAPEX), PhP | - | 68,903,961.33 | 73,377,642.96 | 63,236,268.57 | 63,236,268.57 | 63,236,268.57 | 331,990,410.01 |
| amortization of approved CAPEX, PhP | 54,754,296.32 | 87,220,774.88 | 81,471,508.07 | 80,548,161.88 | 79,744,603.45 | 76,249,455.19 | 459,988,799.79 |
| amortization of old debts | - | - | - | - | - | - | - |
| ERC Permit Fee, PhP | - | 2,969,983.99 | - | - | - | - | 2,969,983.99 |
| Total Cash Outflows, PhP | 120,397,090.36 | 627,023,363.52 | 208,892,428.26 | 143,784,430.46 | 142,980,872.02 | 139,485,723.76 | 1,382,563,908.37 |
| Cash balance ending, PhP, excess/(shortfall) | 44,974,115.95 | 13,828,118.87 | (38,087,381.18) | (75,138,392.24) | (107,586,076.45) | (132,738,843.98) | (294,748,459.03) |
| Excess/(shortfall) on RFSC, PhP/kWh | 0.3616 | 0.1069 | (0.2836) | (0.5394) | (0.7458) | (0.8894) | (0.3591) |

9. The Applicant's debt equity ratio is 1.53:1 while its quick index ratio is 1.12:1 determined for the year ended December 31, 2015, details of which is attached hereto as Annex "K";

**APPLICATION FOR
PROVISIONAL AUTHORITY**

10. That, Applicant reiterates and incorporate the foregoing allegations in support of its application for issuance of provisional authority and further alleges:

10.1. That the present facilities and equipment of the Applicant are found to be inadequate to meet the current increase in power demand, causing overloading of the said facilities which will result to severe damage of the system, eventually resulting to power interruptions and decline in power reliability. 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 urgent and time is of the essence;

10.2. 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 secure the needed financing be granted;

10.3. The provisional authority that may be issued by the Honorable Commission will provide Applicant the opportunity to draw the corresponding amounts from Security Bank and Metrobank, thus, its 2014-2016 Capital

Expenditure Projects can be implemented in accordance with the schedule of actual utilization. As such, the reliability and quality of its service will not be unduly compromised.

COMPLIANCE
WITH PRE-FILING REQUIREMENTS

11. 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 Local Government Unit (LGU) Legislative Body of the franchise area where Applicant principally operates;
12. As proof of compliance of the service of the copies of the Application together with all its annexes and accompanying documents is the stamped "RECEIVED" on the first page of the Application, evidencing its receipt by the said legislative body as Annexes "L" to "L-11";
13. 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, premises considered, it is respectfully prayed of this honorable Commission that after due hearing:

1. A Provisional Authority allowing Applicant to draw amounts from Security Bank and Metrobank be issued pending hearing and consideration of the Application.
2. After due notice and hearing, the herein Application for authority to secure loan be APPROVED.

3. To allow Applicant to include in its billing and pass on to the consumers the cost/amounts of its Capital Expenditure Projects incurred in its implementation through the RFSCE as may be approved by the Commission.

Other reliefs just and equitable under the premises are likewise prayed for.

Finding the said Application to be sufficient in form and substance, with the required fees having been paid, pursuant to Section 4, Rule 13 of the Commission's 2006 Rules of Practice and Procedure (2006 RPP), the same is hereby set for determination of compliance with the jurisdictional requirements, expository presentation, pre-trial conference, and presentation of evidence on **30 March 2017 (Thursday) at ten o'clock in the morning (10:00 A.M.) at the ERC Hearing Room, 15th Floor, Pacific Center Building, San Miguel Avenue, Pasig City.**

BUSECO is hereby directed to cause the publication of the attached Notice of Public Hearing, at its own expense, once (IX) in a newspaper of general circulation in the Philippines, at least 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 to the Offices of the Provincial Governor and its Local Government Unit (LGU) Legislative Body, the City and Municipal Mayors, and the LGU Legislative Bodies within BUSECO's franchise area for the appropriate posting thereof on their respective bulletin boards.

BUSECO 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 and Pre-trial Conference, BUSECO must submit to the Commission its written Compliance with the jurisdictional requirements attaching therewith, methodically arranged and duly marked, the evidence of the actual posting and publication of the Notice of Public Hearing consisting of certifications issued to that effect, signed by the aforementioned Governor, Mayors, and LGU Legislative Bodies, or their duly authorized representatives, bearing the seals of their offices, and the affidavit of the Editor or Business Manager of the newspaper where the said Notice of Public Hearing was published, together with the complete issue of the said newspaper, and such other proofs of compliance with the requirements of the Commission.


BUSECO 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 the Petitioner to submit the required Pre-trial Brief and Judicial Affidavits of their 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, Petitioner must also be prepared to make an expository presentation of the instant Application, aided by whatever communication medium it may deem appropriate for the purpose, in order to put in plain words and explain, for the benefit of the other concerned parties, what the Application is all about and the reasons and justifications being cited in support thereof.

SO ORDERED.

Pasig City, 13 February 2017. 

FOR AND BY AUTHORITY
OF THE COMMISSION:


JOSE VICENTE B. SALAZAR
Chairman & CEO


LS: KTB/RFM/APV

ERC



Office of the Chairman and CEO



B-2017-016-OC-00129

Copy furnished:

1. **Atty. Eleuterio F. Diao IV**
Counsel for Applicant BUSECO
Corner Arch Hayes Ext and Lim Ket Kai Drive, Macajalar,
Camaman-an, Cag.de Oro City
2. **Bukidnon Electric Cooperative, Inc.**
Tankulan, Manolo Fortich, Bukidnon
3. **Office of the Solicitor General (OSG)**
134 Amorsolo Street, Legaspi Village
Makati City, Metro Manila
4. **Commission on Audit (COA)**
Commonwealth Avenue
Quezon City, Metro Manila
5. **Senate Committee on Energy**
GSIS Bldg. Roxas Blvd., Pasay City
Metro Manila
6. **House of Representatives Committee on Energy**
Batasan Hills, Quezon City, Metro Manila
7. **Office of the Provincial Governor**
Province of Bukidnon
8. **Sangguniang Panlalawigan ng Bukidnon**
Province of Bukidnon
9. **Office of the City Mayor**
Malaybalay, Bukidnon
10. **Sangguniang Panlungsod ng Malaybalay**
Malaybalay City, Bukidnon
11. **Office of the City Mayor**
Valencia City, Bukidnon
12. **Sangguniang Panlungsod ng Valencia**
Valencia City, Bukidnon
13. **Office of the Municipal Mayor**
Malitbog, Bukidnon
14. **Sangguniang Bayan ng Malitbog**
Malitbog, Bukidnon
15. **Office of the Municipal Mayor**
Baungon, Bukidnon
16. **Sangguniang Bayan ng Baungon**
Baungon, Bukidnon

17. **Office of the Municipal Mayor**
Talakag, Bukidnon
18. **Sangguniang Bayan ng Talakag**
Talakag, Bukidnon
19. **Office of the Municipal Mayor**
Cabanglasan, Bukidnon
20. **Sangguniang Bayan ng Cabanglasan**
Cabanglasan, Bukidnon
20. **Office of the Municipal Mayor**
Impasug-ong, Bukidnon
21. **Sangguniang Bayan ng Impasug-ong**
Impasug-ong, Bukidnon
22. **Office of the Municipal Mayor**
Libona, Bukidnon
23. **Sangguniang Bayan ng Libona**
Libona, Bukidnon
24. **Office of the Municipal Mayor**
Manolo Fortich, Bukidnon
25. **Sangguniang Bayan ng Manolo Fortich**
Manolo Fortich, Bukidnon
26. **Office of the Municipal Mayor**
Sumilao, Bukidnon
27. **Sangguniang Bayan ng Sumilao**
Sumilao, Bukidnon
28. **Office of the Municipal Mayor**
Lantapan, Bukidnon
29. **Sangguniang Bayan ng Lantapan**
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