

Republic of the Philippines
ENERGY REGULATORY COMMISSION
Pasig City



**IN THE MATTER OF THE
APPLICATION FOR
APPROVAL OF INTERIM
CAPITAL EXPENDITURE
PROJECTS FOR RY 2019-
RY2021, WITH PRAYER FOR
PROVISIONAL AUTHORITY**

ERC CASE NO. 2021-013 RC

**CAGAYAN ELECTRIC
POWER AND LIGHT
COMPANY, INC., (CEPALCO),
Applicant.**

Promulgated:
April 23, 2021

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NOTICE OF VIRTUAL HEARING

TO ALL INTERESTED PARTIES:

Notice is hereby given that on 2 March 2021, Cagayan Electric Power and Light Company, Inc., (CEPALCO) filed an *Application* dated 29 October 2020 seeking the Commission's approval of its prayer for provisional authority or interim relief in the immediate implementation of the proposed Capital Expenditure Projects for RY 2019 to RY 2021 prior to and/or pending hearing on the merits, and its eventual approval.

The pertinent allegations of the *Application* are hereunder quoted as follows:

1. Applicant CEPALCO is a privately-owned distribution utility, with principal office address at CEPALCO Administration Building, Fr. Masterson Avenue, Upper Balulang, Cagayan de Oro City. It operates a legislative franchise to maintain an electric distribution system in the city of Cagayan de Oro, and in the municipalities of Tagoloan, Jasaan and Villanueva, all in the Province of Misamis Oriental.¹ A copy of Republic Act 9284 granting CEPALCO its franchise is hereto attached as Annex "A" to form an integral part hereof;

¹ Except the barangays of Baikingon, San Simon, Pagatpat, Tagpangi, Pagalungan, Taglimao, Tuburan, Pigsagan, Tumpagon, Bayanga, Mambuaya, Dansolihon, Tignapoloan, Besigan and a portion of Canitoan, all located in the City of Cagayan de Oro. [Republic Act No. 9284, Section 1.

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2. CEPALCO is one of the first entrants to the Performance Based Regulation (PBR) adopted by the Honorable Commission pursuant to Section 43 (f) of Republic Act 9136 or the EPIRA;
3. Pursuant to the Rules in Setting Distribution Wheeling Rates (RDWR), as updated for privately-owned distribution utilities entering PBR at First Entry Point, Applicant CEPALCO filed an Application for the Approval of its Annual Revenue Requirement (ARR) and Performance Incentive Scheme (PIS) for the Third Regulatory Period (3rd RP), covering the period 1 July 2011 to 30 June 2015. The Honorable Commission approved said Application in a Decision dated 6 June 2011 in ERC Case No. 2010-064 RC;
4. Under the PBR, capital expenditure (CAPEX) projects are included in the filing of the Annual Revenue Requirement application at the start of a Regulatory Period. Since the 3th RP already expired, CEPALCO was supposed to have filed its ARR for the 4th RP, which would include its CAPEX projects;
5. Based However, the regulatory reset for the 4th RP covering the period July 2015 to June 2019 was not filed. Thus, Applicant CEPALCO previously filed these applications:
 - a) "In the Matter of the Application for Approval of Interim Capital Expenditure Projects for 2015-2016 with Prayer for Provisional Authority" docketed as ERC Case No. 2016-143 RC
 - b) "In the Matter of the Application for Approval of Interim Capital Expenditure Projects for 2017-2018 with Prayer for Provisional Authority" docketed as ERC Case No. 2018-009RC, for the approval of its CAPEX program for RY 2015 to RY 2016 and RY 2017 to RY 2018, respectively. These Applications are still awaiting final approval by the Honorable Commission;
6. The 4th RP expired, and we are now in the 5th Regulatory Period covering the period July 2019 to June 2023, and still without the regulatory reset. Applicant therefore is filing the instant Application for its CAPEX projects for implementation in RY 2019, 2020 and 2021, pursuant to existing ERC Guidelines, particularly, Resolution No. 26, Series of 2009, entitled, "Resolution Amending the Rules for Approval of Regulated Entities' Capital Expenditure Projects", Resolution No. 18, Series of 2008, entitled "Resolution Adopting the Rules for Approval of Regulated Entities' Capital Expenditure Projects", and in relation with Section 43 (f) of Republic Act No. 9136;

I. PROPOSED PROJECTS

7. Under The undertaking of the capital expenditure projects for Applicant CEPALCO's network and non-network assets are driven by these factors:

a. Load Growth

Applicant CEPALCO expects the total peak demand of its electricity consumers to reach 350 MW in 2030, from the present peak demand of about 223 MW.

A copy of its Load Forecast, showing Impact of the COVID-19 Pandemic, Historical and Forecasted Demand is herewith attached to form an integral part hereof as Annex "B".

Because of this projected load growth, CEPALCO needs to upgrade and construct new Sub-transmission and Distribution Lines to ensure system capacity and acquire sub-transmission and distribution line materials and metering facilities to address the requirement of projected new customers.

Additional heavy and transportation equipment, office equipment, tools, and necessary facilities will also be acquired to cope with the increased operational requirement resulting from the increase in number and demand of customers.

Aside from coping with the forecasted load growth, these projects will also ensure compliance with regulatory requirements, and enhance voltage quality, reliability and efficiency of CEPALCO'S distribution system.

b. Automation/Communication and Information Technology

With the increasing size and capacity of CEPALCO's distribution system including customer service requirement, CEPALCO has to undertake improvement in the monitoring and control of facilities. Hence, as part of its capital expenditure program, it will implement automation and communication infrastructure projects and acquire new application systems.

The implementation of advanced network systems, such as Smart Grid, also entails CEPALCO to embark on Enterprise Resource Planning and System Integration of Information Technology and Operational Technology (IT/OT) to ensure system interoperability, and enhance system reliability and performance.

c. Renewal/refurbishment

Some of the capital expenditure projects are undertaken to replace or refurbish existing assets due to

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technological obsolescence, physical condition and performance efficiency. This is to ensure quality and reliability of distribution system and customer service.

8. In due consideration of the foregoing factors, Applicant CEPALCO's proposed 2019-2021 CAPEX projects are as follows:

Code	Project Title/Asset Category	Project Cost (in mill Php)			
		2019	2020	2021	Total
	A. NETWORK CAPEX				
	I. Substation Capacity Upgrading/Expansion				
R01	Looc Substation Primary Bus Upgrade	-	1.5	5.8	7.3
R02	Protective Equipment for Tagoloan Substation	4.8	4.8	0.0	9.8
R03	Various Substation Projects	1.2	3.3	3.1	7.6
	II. Line Construction, Extension, Capacity Upgrading & Reconductoring				
	138kV Line Projects				
M01	Sanjia Steel	-	2.4	38.5	40.9
R04	Rehab of Existing Line from NGCP Jasaan Cut-in Point to PSC	-	-	17.1	17.1
R05	Kirahon Switchyard to San Miguel Corp	-	15.7	5.7	21.4
R06	Rehab of Existing Line from NGCP Tagoloan to Sanjia Cut-in	-	-	5.3	5.3
R27	PSC-PKI Tie Line	5.9	1.0	-	6.9
R07	69kV Line ACRS from Looc SS to Tapping Point of RI Chemicals	-	5.2	0.2	5.4
R08	Various Safety Improvement Projects in the Med Voltage System	-	1.1	11.6	12.7
R09	Aerial Cable System for Conversion of 34.5kV Lines at Malasag	-	17.6	7.0	24.6
R10	Installation of Automatic Circuit Recloser w/ Automatic Transfer	-	-	3.2	3.2

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	Switch				
R11	34.5kV Line from PdeO Substation to Kauswagan Substation Ph1	-	5.6	5.6	11.2
	III. Line Materials for Regular Load Growth Related Projects				
R12	Line Extension, Commercial and Reconductoring	48.2	102.4	85.0	235.6
R13	Meters and Accessories for New Customers	18.5	35.7	44.1	98.3
	IV. Renewal or Refurbishment of Distribution Lines and Meters				
R14	Line Maintenance/Line Revision	21.8	67.7	99.7	189.2
R15	Meters and Accessories, Service Materials, PT/CT	26.7	47.6	64.7	139.0
	V. Network Automation				
R29	Electric Arc Furnace Modelling & Consultation	-	2.2	-	2.2
R16	Various Network Automation Software	-	3.2	-	3.2
	Sub-total - Network	127.1	317.0	396.6	840.7
	B. INFORMATION COMMUNICATIONS TECHNOLOGY				
	I. ICT Infrastructure Reliability				
R17	Replacement of Disaster Recovery Infrastructure	-	-	6.1	6.1
R18	Replacement/Refurbishment of Server Consolidation Infrastructure	-	-	11.8	11.8
R19	Storage Expansion for Corporate Applications	-	-	1.0	1.0
R20	Replacement of Core Router (IT/OT)	-	-	1.2	1.2
R21	Other ICT Infrastructure Reliability Projects	5.8	1.0	9.6	16.5
	II. Information Security and	-	-	-	

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	Data Privacy				
R22	Replacement of Corporate Network Firewall	4.0	-	3.0	7.0
R23	Cyber Security for Communications /OT Network	1.2	-	14.5	15.7
R24	Information Security Management/Data Privacy Management Program	-	-	1.4	1.4
R25	Information Security Solution (IT/OT)	-	-	6.0	6.0
	III. Business Process Automation/IT-OT System Integration	-	-	-	
R26	Web Applications Development and Implementation	0.2	-	4.0	4.1
R28	SOA Based System & Data Integration	-	-	4.5	4.5
R32	Other Business Process Automation Project	2.1	2.0	14.7	18.8
	Sub-total - Information Communications Technology	13.3	3.0	77.8	94.1
	C. NON-NETWORK				
	I. LOAD GROWTH	-	-	-	-
R33	Structures and Improvements	10.2	1.5	12.9	24.7
R34	Office Furniture and Equipment	3.0	0.8	1.0	4.8
R35	Transportation Equipment	-	-	2.4	2.4
R36	Tools, Shop and Garage Equipment	1.8	1.6	13.1	16.5
R38	Miscellaneous Equipment	0.2	2.0	0.9	3.2
R39	Communication Plant and Equipment	0.5	3.9	1.2	5.6
	II. REPLACEMENT/REFURBISHMENT				
R40	Structures and Improvements	1.1	0.4	3.1	4.6
R41	Office Furniture and Equipment	4.0	6.5	10.8	21.3
R42	Transportation Equipment	1.1	0.0	3.2	4.4

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R43	Tools, Shop and Garage Equipment	0.5	1.0	3.9	5.4
R44	Miscellaneous Equipment	0.4	0.3	0.1	0.9
R45	Communication Plant and Equipment	0.1	1.1	6.4	7.7
Sub-total - Non network		22.9	19.1	59.5	101.5
Total CAPEX		163.3	339.1	533.9	1,036.3

9. The total cost of these projects is PESOS: One Billion, Thirty-six Million, Two Hundred Seventy-Nine Thousand, Five Hundred Six Sixty-Three (1,036,279,563).
10. The long-term expansion program is aimed to improve system capacity, reliability, efficiency, and comply with safety requirements, as well as to meet the fast-growing demand of electricity in CEPALCO's franchise area. Thus, the implementation of these projects will enable Applicant CEPALCO to comply with its obligation to provide reliable and efficient service to its customers;

II. RATE IMPACT

11. The CAPEX Plan was designed to achieve reasonable and justifiable electricity rates, such that implementation of the proposed projects will have a reasonable rate impact of 0.0999 PhP/kWhr. A detailed computation of the rate impact is herein attached as Annex "C";
12. In support of the approval of the instant Application, the following documents are herewith attached to form integral parts hereof, to wit:

Annex	Document
"D"	Compliance with <i>ERG Resolution No. 17 Series of 2011, "Resolution Adopting the Investor Owned Distribution Utility Planning Manual"</i> . This manual provides guidelines on how investor-owned utilities should undertake planning of their sub-transmission and distribution networks and is intended to support the Revenue Application of DUs operating under PBR.
"E"	Summary of Proposed Capital Projects
"F"	Project Financing
"G"	Details or Justification of the RY 2019 to RY 2021 Capital Projects including technical analysis, economic evaluation and other information.

III. COMPLIANCE WITH PRE-FILING REQUIREMENTS

13. The Dedicated Facility Project is the most cost-effective and viable option for the immediate connection of the San Manuel BESS. Applicant manifests its compliance with the pre-filing requirements in accordance with the Implementing Rules and Regulations of the EPIRA and Rule 6 of ERC Rules of Practice and Procedure. Below are the documents as proof of its compliance:

Annex	Document
"H" and "H-1"	Proof of service of a copy of the Application and annexes to the local legislative bodies of the City of Cagayan de Oro and the Province of Misamis Oriental
"I"	Copy of newspaper of general circulation within CEPALCO's franchise area where the Application was published
"J"	Affidavit of Publication of Newspaper Editor

IV. ISSUANCE OF PROVISIONAL AUTHORITY OR INTERIM RELIEF

14. As stated above, due to the significant increase in the demand for electricity within its franchise area, CEPALCO needs to implement the foregoing projects as soon as possible so that additional capacity received from its power suppliers can be efficiently fed to its distribution system facilities for distribution to its customers;
15. The construction of the above capital projects takes time and requires long lead time for the ordering of electrical equipment, materials and other electrical hardware as well as finding electrical contractors who can implement the projects;
16. CEPALCO also has to seek long term loans or avail of credit facilities to finance the project;
17. In view thereof, CEPALCO needs a provisional authority so it can commence the implementation of the projects and enable it to complete the same in a timely manner. Attached as Annex "K" to form an integral part hereof is the Affidavit of Engr. Leonardo G. Gumalal, Senior Vice President and Head of CEPALCO's Engineering Services Division, to support herein Prayer for Provisional Authority or Interim Relief.

V. RESERVATION

18. The filing of the instant Application shall be without prejudice to Applicant CEPALCO's filing of any unforecasted or emergency CAPEX, as the need therefor arises.

PRAYER

WHEREFORE, in view of all the foregoing, it is most respectfully prayed of this Honorable Commission: That -

- (a) Prior to and/or pending hearing on the merits, a *provisional authority* or *interim relief* be issued to Applicant CEPALCO for the immediate implementation of herein proposed Capital Expenditure Projects for RY 2019 to RY 2021; and
- (b) After due notice and hearing, CEPALCO's Capital Expenditure Program for RY 2019 to RY 2021 be approved.

Other reliefs as may be just and equitable under the premises are, likewise, most respectfully prayed for.

The Commission hereby sets the instant *Application* for determination of compliance with the jurisdictional requirements, expository presentation, Pre-trial Conference and presentation of evidence on the following dates and online platform for the conduct thereof, pursuant to Resolution No. 09, Series of 2020², dated 24 September 2020:

Date	Platform	Activity
01 June 2021 (Tuesday) at two o'clock in the afternoon (2:00 PM)	Microsoft Teams	Determination of compliance with the jurisdictional requirements and expository presentation
08 June 2021 (Tuesday) at two o'clock in the afternoon (2:00 PM)	Microsoft Teams	Pre-trial Conference and presentation of evidence

Any interested stakeholder may submit its comments and/or clarifications at least one (1) calendar day prior to the scheduled virtual hearing, via electronic mail (e-mail) at docket@erc.ph, copy furnish the Legal Service through legal@erc.ph. The Commission shall give priority to the stakeholders who have duly submitted their respective comments and/or clarifications, to discuss the same and propound questions during the course of the expository presentation.

Moreover, any persons who have an interest in the subject matter of the instant case may become a party by filing with the Commission via e-mail at docket@erc.ph, copy furnish the Legal Service through

² A Resolution Adopting the Guidelines Governing Electronic Applications, Filings and Virtual Hearings Before the Energy Regulatory Commission.

legal@erc.ph, a verified Petition to Intervene at least five (5) calendar days prior to the date of the initial virtual hearing and subject to the requirements under Rule 9 of the ERC Revised Rules of Practice and Procedure, indicating therein the docket number and title of the case and stating the following:

- 1) The petitioner's name, mailing address, and e-mail address;
- 2) The nature of petitioner's interest in the subject matter of the proceeding and the way and manner in which such interest is affected by the issues involved in the proceeding; and
- 3) A statement of the relief desired.

Likewise, all other persons who may want their views known to the Commission with respect to the subject matter of the case may file through e-mail at docket@erc.ph, copy furnish the Legal Service through legal@erc.ph, their Opposition or Comment thereon at least five (5) calendar days prior to the initial virtual hearing and subject to the requirements under Rule 9 of the ERC Revised Rules of Practice and Procedure. No particular form of Opposition or Comment is required, but the document, letter, or writing should contain the following:

- 1) The name, mailing address, and e-mail address of such person;
- 2) A concise statement of the Opposition or Comment; and
- 3) The grounds relied upon.

Any of the persons mentioned in the preceding paragraphs may access the copy of the Application on the Commission's official website at www.erc.gov.ph.

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Finally, all interested persons may be allowed to join the scheduled initial virtual hearing by providing the Commission, thru legal.virtualhearings@erc.ph, with their respective e-mail addresses and indicating therein the case number of the instant *Application*. The Commission will send the access link/s to the aforementioned hearing platform within five (5) working days prior to the scheduled hearing.

WITNESS, the Honorable Commissioners **ALEXIS M. LUMBATAN, CATHERINE P. MACEDA, FLORESINDA G. BALDO-DIGAL** and **MARKO ROMEO L. FUENTES**, Energy Regulatory Commission, this 12th day of April 2021 in Pasig City.


AGNES VST DEVANADERA
Chairperson and CEO




LS: EDR/CLB/MCCG