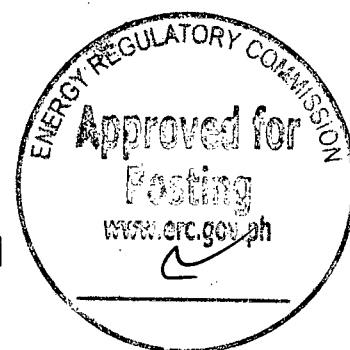


Republic of the Philippines  
**ENERGY REGULATORY COMMISSION**  
San Miguel Avenue, Pasig City



IN THE MATTER OF THE  
APPLICATION FOR THE  
APPROVAL OF THE INTERIM  
CAPITAL EXPENDITURE  
(CAPEX) PROGRAM FOR THE  
YEAR 2014 AND FOR THE  
AUTHORITY TO SECURE LOAN,  
WITH PRAYER FOR  
PROVISIONAL AUTHORITY

ERC CASE NO. 2014-088 RC

SOUTH COTABATO II  
ELECTRIC COOPERATIVE, INC.  
(SOCOTECO II),

Applicant.

X ----- X

BOOKED  
Date: NOV 10 2014  
By: [Signature]

## NOTICE OF PUBLIC HEARING

### TO ALL INTERESTED PARTIES:

Notice is hereby given that on June 19, 2014, South Cotabato II Electric Cooperative, Inc. (SOCOTECO II) filed an application for the approval of its interim capital expenditure project (CAPEX) program for the year 2014 and for the authority to secure loan, with prayer for provisional authority.

In the said application, SOCOTECO II alleged, among others, the following:

1. It is an electric cooperative duly organized and existing under and by virtue of Presidential Decree No. 269 (PD269) and other laws of the Republic of the Philippines, with

principal office address at J. Catolico Sr. Avenue, Lagao, General Santos City, represented herein by its General Manager, Rodolfo G. Ocat, as per Board Resolution No. 33, Series of 2014, a copy of which is attached to the application as Annex "A";

2. It is the holder of an exclusive franchise issued by the National Electrification Commission (hereafter NEA), to operate an electric light and power services in General Santos City and the Municipalities of Glan, Malapatan, Alabel, Malungon, Kiamba, Maasim and Maitum in the Province of Sarangani and Polomolok and Tupi in south Cotabato;

### **THE APPLICATION AND ITS PURPOSE**

3. The instant 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) adopted by the Commission pursuant to Section 43 of Republic Act No. 9136, otherwise known as the Electric Power Industry Reform Act of 2001 (EPIRA), and its Implementing Rules and regulations, in relation to ERC Resolution No. 20, Series of 2010, which categorically provides that all CAPEX projects shall be submitted for approval to the Commission prior to its implementation;
4. It is likewise in accordance with ERC Resolution No. 20, Series of 2011, (A Resolution Adopting the Revised Timeline for the Filing of Multi-Year Capital Expenditure (CAPEX) Applications of Electric Cooperatives Prescribed in Section 6.2 (Transitory Provisions) of the Amended Rules for the Approval of Regulated Entities' Capital Expenditure Projects);

### **THE PROJECTS**

5. The following details its interim CAPEX Projects for 2014:

Table 1: Projects for 2014 Interim CAPEX					
Count	Proposed Project	Location	Quantity	Unit Cost	Cost
<b>Capacity Augmentation and Mandatory Projects</b>					
1	Development and construction of Malandag Substation	Malandag, Malungon	1		9,353,678

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		Sarangani Province			
	extension of 69 kV line Going to the proposed substation at Malandag (25 CKT Kms)	Malandag, Malungon Sarangani	1		62,500,000
2	Modification of Existing 69 kV Subtransmission line from 336 ACSR to 795 ACSR Conductor.	GSC	1	16,342,831	16,342,831
3	Construction of Double Circuit 69 kV Line from NGCP Substation to Existing Ligaya Substation.	GSC	1	45,039,015	45,039,015
4	1 unit - 35 MVA Mobile Substation	GSC	1	90,000,000	90,000,000
<b>13.2 kV Reliability Improvement Projects</b>					
5	Relocation of 20/25 MVA Substation from main office to POLOMOLOK S/S	Municipality of Polomolok	1	10,000,000	10,000,000
6	Modification of New Society Substation to Maximize the 12 Hectares Land Area of New Society SOCOTECO II Property.	GSC	1	27,000,000	27,000,000
7	Installation of Automatic Circuit Reclosers at strategic locations of selected feeders with longer line reach for public protection & Safety	SOCOTECO II System	15	750,000	11,250,000
<b>SPARES</b>					
18	Unit of 15 KV (seimens) outdoor type circuit breaker		1	1,712,896	1,712,896
19	Battery Charger spare 48VDC & 125VDC Spare		6	120,000	720,000
20	Industrial Batteries		150	5,000	750,000
21	Set of station class 69 KV lightning arresters		2	500,000	1,000,000
22	Set of station class 13.2 KV lightning arresters		4	105,000	420,000
<b>Count</b>	<b>Proposed Project</b>		<b>Quantity</b>	<b>Unit Cost</b>	<b>Cost</b>
<b>Other Network Projects</b>					
<b>Other Network Project # 1</b>					
1	Transfer of NGCP billing meter at connection point in Klinan substation. (5 Meters, 6 Instrument Transformers and torrets structure)		5	1,700,000	8,500,000
<b>Other Network Project # 2</b>					
1	5 units of 3 Phase IEC for M1 New Society		1	331,000	331,000
2	4 units of 3 Phase IEC for M4		1	281,378	281,378

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	Calumpang				
3	4 units of 3 Phase IEC for M9 Fishport		1	281,378	281,378
4	5 units of 3 Phase IEC for M12 Main Office		1	281,378	281,378
5	4 units of 3 Phase IEC for M14 Leon Lido		1	281,378	281,378
<b>Other Network Project # 3</b>					
1	24 units 70:1 Potential Transformer, 15 kV Single Bushing PT		72	42,000	3,024,000
2	24 units 15 kV Extended Range Current Transformer, 200:5		72	58,000	4,176,000
<b>Other Network Project # 4</b>					
1	Installation of new Meters for 15 Substation in replacement for TRANSCO Meters		15	120,000	1,800,000
<b>Other Network Project # 5</b>					
1	CCTV Cameras and Radio Frequency Repeater		1	6,000,000	6,000,000
<b>Other Network Project # 6</b>					
1	10 kVA Distribution Transformer		6	54,500	335,123
2	15 kVA Distribution Transformer		11	70,000	763,411
3	25 kVA Distribution Transformer		28	80,385	2,221,981
4	37.5 kVA Distribution Transformer		5	125,900	598,883
5	50 kVA Distribution Transformer		15	126,000	1,841,932
6	75 kVA Distribution Transformer		3	159,335	485,258
7	100 kVA Distribution Transformer		3	253,000	792,532
<b>Other Network Project # 7</b>					
1	Forecasted Kms of 240 Volts secondary Lines to be constructed		47	296,000	13,771,623
<b>Other Network Project # 8</b>					
1	kWhr meters for add on 2014 customers		6,809	1,750	11,915,869

6. In summary, the forgoing projects are as listed in the table below:

<b>Summary</b>	
<b>Capacity Augmentation and Mandatory Projects</b>	71,853,678
<b>69 kV Reliability Improvement Projects</b>	151,381,846
<b>13.2 kV Reliability Improvement Projects</b>	48,250,000
<b>SPARES</b>	4,602,896

Other Network Projects	57,683,124
Total	333,771,544

### JUSTIFICATION

7. Generally, the projects subject of the instant application are either necessary or mandatory or both for it to meet the criteria specified in the Philippine Distribution Code (PDC) for performance standards and the Philippine electrical Code (PEC) for safety;
8. Specifically, the construction of 25 Circuit Kilometers 69 kV Line and 5MVA substation in Malandag, Malungon is mandatory project that will bring about improvements in power quality, system reliability and capacity;
9. Similarly, the modification of the 8.7 km sub-transmission conductor from Barangay Ligaya to its main office from 336.4 ACSR to 795 ACSR will result in a more efficient system, will enhance power quality, reliability and availability, and will reduce line inherent losses;
10. On the other hand, the construction of the double circuit lines from the NGCP General Santos City-Klinan Substation to its Ligaya 69 kV Line is necessary to ensure the security of power supply to the municipalities of Alabel, Malapatan and Glan;
11. After the commissioning of the 35/43.75 MVA power transformer in its main office in 2013, the relocation of the existing 20/25 MVA power transformer (M12) from the main office to replace the existing 10/12.5 MVA power transformer (M6) in the Polomolok Substation to address the increasing demand for electric power in said area;
12. Another relocation, that of the New Society Substation, will maximize the usage of the land and will give way to future developments and the integration of the facilities in the commercial district and the development of a loop system a step higher than the existing radial configuration to primary improve the reliability of its distribution system;

13. The installation of automatic circuit reclosers will eliminate the possibility of failure and insure the safety and protection of the public;
14. Finally, the purchase of materials, supplies and spares will provide an insurance against possible breakdown or failure of equipment/component while the other network projects are indispensable for its operation in order to comply with the provisions of the regulatory requisites, e.g., the Distribution Services and Open Access Rules (DSOAR), the Philippine Grid Code (PGC) and PDC;

### **RELATED DOCUMENTS**

15. The details of its technical performance, as well as an analysis of its existing distribution system and its forecasts, are detailed in the Distribution Development Plan (Proposed 2014 Interim CAPEX), a copy of which is attached to the instant application as Annex "B" while a copy of the Financial Analysis is attached as Annex "C";

### **BOARD APPROVAL**

16. Board Resolution No. 33, Series of 2014, evidences the approval by its Board of Directors of the filing of the instant Application as well as to secure loans to finance said projects, and the authorization of its General Manager, Rodolfo G. Ocat, as its representative;

### **SOURCES OF FUNDS**

17. With the total project cost of PhP243, 771,544, the RFSC (Reinvestment Fund for Sustainable Capital Expenditures) fund for 2014 can only finance PhP13,771,623 of the proposed CAPEX Projects. The remaining PhP229,999,921 will be sourced from various lending institutions such as NEA, banks and other financial institutions, for which authority to secure loans is herein sought. The details of these funding are shown in Annex "A" of the application;
18. **Rate Impact.** Table below shows the financing options yield small variances in their amortization repayments. The least minimal option is the 10 years 7% financing scheme with

PhP311,170,726 amortization payment for 10 years, while the option which yields the most amortization repayments is the 10 years 9% financing scheme with PhP334,362,385;

**TABLE 3. Cumulative Rate Impact Under Various Financing Plans**

OPTION	INTEREST RATE IN Percent (%)	REPAYMENT TERM in Years	10 YEAR AMORTIZATION In Pesos (PhP)	CUMULATIVE CAPEX RATE Impact Per KWH sufficiency (insufficiency)
1	7	5	270,920,740	(0.0443)
2	8	5	276,766,572	(0.1345)
3	9	5	282,612,403	(0.0476)
4	7	10	311,170,726	(0.0087)
5	8	10	322,766,556	(0.0074)
6	9	10	334,362,385	(0.0060)

19. Its current average distribution, supply and metering rate is P 1.1866 inclusive of the MCC rate of PhP0.1518. The rate it applied to its consumers is based on the latest approved unbundled rate issued by the Commission last February 4, 2004 as per ERC Case No. 2001-1009;
  
20. There is no rate increase for the proposed interim CAPEX projects for 2014. As the simulation show, at the most probable rate of 8% for a 10-year term loan, the 10-year forecasted sales at the existing RSFC rate of 0.1518 is sufficient to cover the additional loan amortization resulting from the amount to be loaned from the outside financiers for the portion of the Interim CAPEX that cannot be funded through the RSFC;
  
21. The results of the rate impact analysis show that the implementation of the interim CAPEX projects, even at the most economic and financially viable option will render the cash flows of the cooperative positive at the most probable scenario of a 10-year term loan at a fixed rate of 8%;

22. At the 7%, a 10-year loan yields the lowest rate, but it is not the preferred option because this interest rate is only available at a variable long term loan. This means that the loan interest rate shall be repriced annually, or every 3 years, at its option, which will make it more difficult for it to predict its cash flows because of the volatile nature of the interest rates;
23. The preferred option, 10 years at 8%, shows that the RSFC (at the rate of P0.1518) revenue for the next 10 years is sufficient to cover the additional loan amortization. This rate is available at a fixed term loan which will make it easier for it to manage its cash flows because of the fixed nature of the annual amortization. There is no need for repricing within the 10 year term of the loan;

**COMPLIANCE WITH**  
**PRE-FILING REQUIREMENTS**

24. In compliance with Section 2, Rule 6 of the ERC Rules of Practice and Procedure, copies of the instant application together with all its supporting annexes and accompanying documents, were furnished to legislative bodies of the relevant local government units (LGUs) within its franchise area. Copies of the Certifications of the LGUs are attached as Annexes "D" to "D-11";
25. The instant application was likewise published in its entirety in a newspaper of general circulation in the Provinces of Sarangani and South Cotabato. Copies of the Affidavit of Publication and of the issue of the newspaper are attached as Annexes "E" to "E-2";

**JUSTIFICATION FOR THE PRAYER FOR**  
**PROVISIONAL AUTHORITY**

26. The ERC Rules of Practice and Procedure authorizes the Commission to issue provisional authority prior to a final decision when the facts so warrant the remedy, which in the instant case is the mandatory nature of the projects and the urgency of their implementation to allow it to provide service to its customers in accordance with the requirements of law;



27. The interim CAPEX Projects are necessary to be implemented in 2014 to address capacity, reliability and power quality problems in its franchise area; and
28. It prays that the Commission:
  - a. pending hearing, issue provisional authority for it to:
    - i. immediately begin implementation of the above 2014 interim CAPEX Projects in the total amount of PhP234,771,554.00, and
    - ii. to secure loans to finance the aforementioned projects; and
  - b. after due notice, hearing and evaluation, grant final approval for it to implement the 2014 interim CAPEX Projects and to secure loan to finance the same.


The Commission has set the application for jurisdictional hearing, expository presentation, pre-trial conference and evidentiary hearing on **November 28, 2014 (Friday) at nine-thirty in the morning (9:30 A.M.) at the SOCOTECO II Main Office, J. Catolico Sr. Avenue, Lagao, General Santos City.**

All persons who have an interest in the subject matter of the proceeding may become a party by filing, at least five (5) days prior to the initial hearing and subject to the requirements in the ERC's Rules of Practice and Procedure, a verified petition with the Commission giving the docket number and title of the proceeding and stating: (1) the petitioner's name and 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.

All other persons who may want their views known to the Commission with respect to the subject matter of the proceeding may file their opposition to the application or comment thereon at any stage of the proceeding before the applicant concludes the presentation of its evidence. No particular form of opposition or comment is required, but the document, letter or writing should contain the name and address of such person and a concise statement of the opposition or comment and the grounds relied upon.

All such persons who may wish to have a copy of the application may request the applicant, prior to the date of the initial hearing, that they be furnished with a copy of the application. The applicant is hereby directed to furnish all those making such request with copies of the application and its attachments, subject to reimbursement of reasonable photocopying costs. Likewise, any such person may examine the application and other pertinent records filed with the Commission during the usual office hours.

**WITNESS**, the Honorable Chairperson, **ZENAIDA G. CRUZ-DUCUT**, and the Honorable Commissioners, **ALFREDO J. NON**, and **JOSEFINA PATRICIA A. MAGPALE-ASIRIT**, Energy Regulatory Commission, this 5<sup>th</sup> day of November, 2014 at Pasig City.

  
**ATTY. NOEL J. SALVANERA**  
Director III, Legal Services