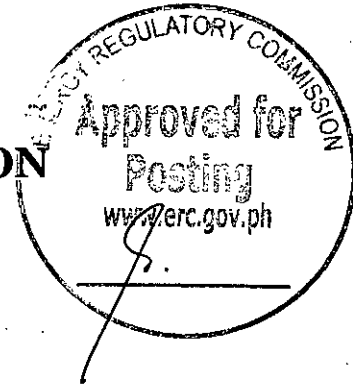


Republic of the Philippines  
**ENERGY REGULATORY COMMISSION**  
San Miguel Avenue, Pasig City



**IN THE MATTER OF THE  
APPLICATION FOR THE  
APPROVAL OF THE  
PROPOSED THREE (3) YEAR  
CAPITAL EXPENDITURE  
PROJECTS FOR THE YEARS  
2017-2019**

**ERC CASE NO. 2016-140 RC**

**CEBU III ELECTRIC  
COOPERATIVE, INC. (CEBECO  
III),**

**Applicant.**

X-----X

**DOCKETED**  
Date: **SEP 27 2016**  
By: \_\_\_\_\_

**NOTICE OF PUBLIC HEARING**

**TO ALL INTERESTED PARTIES:**

Notice is hereby given that on 13 June 2016, Cebu III Electric Cooperative, Inc. (CEBECO III) filed with the Commission an Application dated 8 June 2016 (Application) for the approval of its proposed three (3) year capital expenditure projects for the years 2017 to 2019.

In the said Application, CEBECO III alleged the following:

1. CEBECO III is an electric cooperative created and existing pursuant to the provisions of Presidential Decree No. 269 as amended, with principal office located at Luray II, Toledo City, Cebu, Philippines, represented by its General Manager, Virgilio C. Fortich, duly authorized by virtue of Board Resolution No. 44, Series of 2016 dated 21 March 2016, of the Board of Directors, copy of which is attached to the Application as **Annex "A"** and made an integral part thereof;

The filing of the Application is likewise authorized under the afore-mentioned Resolution;

2. CEBECO III has been granted by the National Electrification Administration (NEA) an authority to operate and distribute electric light and power within the coverage area comprising of the City of Toledo and the Municipalities of Aloguinsan, Pinamungajan, Balamban and Asturias all in the Province of Cebu;

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

3. The 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 pursuant to the mandate of 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, 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 was issued by the Commission to ensure the following: 1) that the projects are timely, appropriate, necessary and cost efficient; 2) 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 3) that the procurement of equipment, materials and services are transparent, competitive and compliant with the applicable laws and regulations;
5. In accordance with the Amended CAPEX Rules, consistent with the DDP and the PDC, CEBECO III shall acquire, construct and implement the following three (3) year capital expenditure projects with a total approximate cost of **One Hundred Forty Three Million Five Hundred Thirty-Eight Thousand Four Hundred Four Pesos (PhP143,538,404.00)**;

**THE PROPOSED CAPITAL EXPENDITURE PROJECTS**

**5.a.1 NETWORK CAPEX PROJECTS**

• **SAFETY PROJECTS**

| Project Code           | Project Description   | Fund Source | Amount per Year of Implementation |         |         | Total Cost (Php)  |
|------------------------|---|-------------|-----------------------------------|---------|---------|-------------------|
|                        |   |             | 2017                              | 2018    | 2019    |                   |
| NCP-001                | Rehab/Uprating/Rerouting of Toledo Feeder 1 Phase 1: From Toledo S/S to Bulubugan via 69 kV Underbuilt on 336.4 MCM ACSR.                         | Bank        | 13,888,629                        |         |         | 13,888,629        |
| NCP-002                | Rehab/Uprating/Rerouting of Toledo Feeder 1 Phase 2: From Bulubugan to Pinamungajan S/S via 69 kV Underbuilt on Steel Poles using 336.4 MCM ACSR. | Bank        | 6,669,982                         |         |         | 6,669,982         |
| NCP-003                | Rehab/Rerouting/Reconductoring of Toledo Feeder 1 From Pina S/S to Dakit, Bonbon and Cement Plant via Triple Circuit Design via 4/0 ACSR          | Bank        | 7,653,478                         |         |         | 7,653,478         |
| NCP-004                | Installation of Gang Type Disconnect Switches   | Bank        | 600,000                           | 350,000 | 375,000 | 1,325,000         |
| NCP-005                | Installation of Disconnect Switches   | Bank        | 650,000                           | 780,000 | 910,000 | 2,340,000         |
| NCP-006                | Installation of Fuse Cutouts  | Bank        | 418,000                           | 498,960 | 586,971 | 1,503,931         |
| <b>Sub-Total (Php)</b> |   |             |                                   |         |         | <b>33,381,020</b> |

• **POWER QUALITY PROJECTS**

| Project Code           | Project Description   | Fund Source | Amount per Year of Implementation |            |      | Total Cost (Php)  |
|------------------------|---|-------------|-----------------------------------|------------|------|-------------------|
|                        |   |             | 2017                              | 2018       | 2019 |                   |
| NCP-007                | Construction of 13 km, 69 kV Subtrans on 336.4 MCM Conductors from Toledo to Poog | Bank        |                                   |            |      |                   |
| NCP-008                | Rehab and Uprating of Poog to DASUNA Line Section (Lutopan Feeder 3)              | Bank        | 1,861,591                         |            |      | 1,861,591         |
| NCP-009                | Repair and Refurbishment of 10/12.5 MVA Power Transformer                         | Bank        | 4,468,564                         |            |      | 4,468,564         |
| NCP-010                | Construction of 5/6.25 MVA Asturias Substation                                    | Bank        |                                   | 27,000,000 |      | 27,000,000        |
| <b>Sub-Total (Php)</b> |   |             |                                   |            |      | <b>33,330,155</b> |

**5.a.2. OTHER NETWORK CAPEX PROJECTS**

|                        |   |      |           |           |           |                   |
|------------------------|---|------|-----------|-----------|-----------|-------------------|
| ONCP-001               | Installation of Amorphous Distribution Transformers | Bank | 4,740,600 | 5,476,400 | 6,327,450 | 16,544,450        |
| ONCP-002               | Installation of Service Drop Wire                   | Bank | 3,656,048 | 2,145,110 | 2,252,365 | 8,053,523         |
| ONCP-003               | Purchase of Metering Equipment                      | Bank | 4,373,494 | 6,245,067 | 6,557,530 | 17,176,091        |
| <b>Sub-Total (PhP)</b> |   |      |           |           |           | <b>41,774,064</b> |

**5.a.3. NON-NETWORK CAPEX PROJECTS**

|                        |   |      |           |           |           |                   |
|------------------------|---|------|-----------|-----------|-----------|-------------------|
| NNCP-001               | Acquisition and Installation of SCADA System  | Bank | 450,000   | 1,800,000 | 1,200,000 | 3,450,000         |
| NNCP-002               | Purchase of Vehicles                          | Bank | 6,630,000 | 7,736,500 | 2,343,326 | 16,709,826        |
| NNCP-003               | Purchase of Test Equipment                    | Bank | 1,100,000 | -         | 2,550,000 | 3,650,000         |
| NNCP-004               | Purchase of Line Maintenance Tools            | Bank |           | 880,000   |           | 880,000           |
| NNCP-005               | Purchase of Safety Apparel                    | Bank | 715,000   | 747,500   | 780,000   | 2,242,500         |
| NNCP-006               | Acquisition of Lot and Site Development       | Bank |           |           | 2,000,000 | 2,000,000         |
| NNCP-007               | Acquisition of Lot for Asturias Area Office   | Bank |           |           | 1,000,000 | 1,000,000         |
| NNCP-008               | Construction of Asturias Area Office Building | Bank |           |           | 1,250,000 | 1,250,000         |
| NNCP-009               | Purchase of Tools and Equipment               | Bank | 327,150   | 18,000    | 58,000    | 403,150           |
| NNCP-010               | Bagonan Renovation                            | Bank | 500,000   |           |           | 500,000           |
| NNCP-011               | Purchase of IT Softwares and Hardwares        | Bank | 1,213,607 | 437,275   | 493,886   | 2,144,768         |
| NNCP-012               | Purchase of Communication Equipment           | Bank | 66,500    | 89,909    | 97,100    | 253,509           |
| NNCP-013               | Purchase of Meter Reading Equipment           | Bank | 64,000    | 67,200    | 70,560    | 201,760           |
| NNCP-014               | Purchase of Office Equipment                  | Bank | 220,000   | 50,400    | 97,252    | 367,652           |
| <b>Sub-Total (PhP)</b> |   |      |           |           |           | <b>35,053,165</b> |

**SUMMARY OF PROJECTS:**

| Capital Expenditure Project Type | Source of Funds | Project Costs to be Financed | Annual Project Costs |                   |                  |
|----------------------------------|-----------------|------------------------------|----------------------|-------------------|------------------|
|                                  |                 |                              | 2017                 | 2018              | 2019             |
| <b>Network CAPEX Projects</b>    |                 |                              |                      |                   |                  |
| Safety                           | Bank            | 33,381,020                   | 29,880,089           | 1,628,960         | 1,871,971        |
| Power Quality                    | Bank            | 33,330,155                   | 6,330,155            | 27,000,000        | -                |
| <b>Sub-total</b>                 |                 |                              | <b>36,210,244</b>    | <b>28,628,960</b> | <b>1,871,971</b> |

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| <b>Other Network CAPEX Projects</b>  |             |                   |                   |                   |                   |
|--------------------------------------|-------------|-------------------|-------------------|-------------------|-------------------|
| <b>Service Drop Wire</b>             | <b>Bank</b> | <b>8,053,523</b>  | <b>3,656,048</b>  | <b>2,145,110</b>  | <b>2,252,365</b>  |
| <b>Metering Equipment</b>            | <b>Bank</b> | <b>17,176,091</b> | <b>4,373,494</b>  | <b>6,245,067</b>  | <b>6,557,530</b>  |
| <b>Distribution Transformers</b>     | <b>Bank</b> | <b>16,544,450</b> | <b>4,740,600</b>  | <b>5,476,400</b>  | <b>6,327,450</b>  |
| <b>Sub-total</b>                     |             |                   | <b>12,770,142</b> | <b>13,866,577</b> | <b>15,137,345</b> |
| <b>Non - Network CAPEX Projects</b>  |             |                   |                   |                   |                   |
| <b>SCADA</b>                         | <b>Bank</b> | <b>3,450,000</b>  | <b>450,000</b>    | <b>1,800,000</b>  | <b>1,200,000</b>  |
| <b>Vehicles</b>                      |             | <b>16,709,826</b> | <b>6,630,000</b>  | <b>7,736,500</b>  | <b>2,343,326</b>  |
| <b>Test Equipment</b>                | <b>Bank</b> | <b>3,650,000</b>  | <b>1,100,000</b>  | <b>-</b>          | <b>2,550,000</b>  |
| <b>Line Maintenance Tools</b>        | <b>Bank</b> | <b>880,000</b>    |                   | <b>880,000</b>    |                   |
| <b>Safety Apparel</b>                | <b>Bank</b> | <b>2,242,500</b>  | <b>715,000</b>    | <b>747,500</b>    | <b>780,000</b>    |
| <b>Land</b>                          | <b>Bank</b> | <b>3,000,000</b>  |                   |                   | <b>3,000,000</b>  |
| <b>Building</b>                      | <b>Bank</b> | <b>1,750,000</b>  | <b>500,000</b>    |                   | <b>1,250,000</b>  |
| <b>Tools and Equipment</b>           | <b>Bank</b> | <b>403,150</b>    | <b>327,150.00</b> | <b>18000</b>      | <b>58,000</b>     |
| <b>IT Softwares and Hardwares</b>    | <b>Bank</b> | <b>2,144,768</b>  | <b>1,213,607</b>  | <b>437,275</b>    | <b>493,886</b>    |
| <b>Communication</b>                 | <b>Bank</b> | <b>253,509</b>    | <b>66,500</b>     | <b>89,909</b>     | <b>97,100</b>     |
| <b>Meter Reading Equipment</b>       | <b>Bank</b> | <b>201,760</b>    | <b>64,000</b>     | <b>67,200</b>     | <b>70,560</b>     |
| <b>Office Equipment</b>              | <b>Bank</b> | <b>367,652</b>    | <b>220,000</b>    | <b>50,400</b>     | <b>97,252</b>     |
| <b>Sub-total</b>                     |             |                   | <b>11,286,257</b> | <b>11,826,784</b> | <b>11,940,124</b> |
| <b>GRAND TOTAL per Year (in PhP)</b> |             |                   | <b>60,266,643</b> | <b>54,322,321</b> | <b>28,949,440</b> |

**5.b. TYPE OF THE CAPITAL EXPENDITURE PROJECTS IN ACCORDANCE WITH SECTION 2.3 OF RESOLUTION NO. 26, SERIES OF 2009**

- 5.b.1 As described above in Section 5.a.1, the projects are categorized as Network CAPEX which will address safety, power quality and reliability of the distribution system of CEBECO III;
- 5.b.2 The Other Network CAPEX projects as shown in 5.a.2 are necessary in terms of additional distribution transformers, meters and metering materials due to annual customer growth as forecasted including replacement; and

- 5.b.3 The Non-Network CAPEX projects of CEBECO III as categorized and indicated in 5.a.3 will enhance its capability in responding to customer requests and concerns for better and efficient electric service. Further, its facilities and equipment will be responsive to the quality service that the consumers deserve;

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

6. With the prevailing situation in the electric power industry vis-à-vis the consumers' demand, CEBECO III deems it appropriate to embark on asset development and expansion in order to meet the growing demands;
7. The procurement of the aforementioned projects are necessary in the schedules provided, otherwise service decline is imminent, to the prejudice of the consumers;
8. If a force majeure or fortuitous event, as the case may be, occurs, CEBECO III shall seek the ERC's confirmation of the implementation of the capital projects arising from such event;

### **RELATED AND INDISPENSABLE DOCUMENTS**

9. Consistent with the requirement of the filing of applications for approval of capital projects, Applicant attached and made an integral part of this Application the detailed justifications, related and indispensable documents chronologically arranged and contained in **Annex "B"** thereof;

### **BOARD APPROVAL OF THE PROPOSED PROJECTS**

10. Finding the proposed capital expenditure projects reasonable, appropriate, necessary and beneficial to the consumers, it being envisioned to further their interests; there being no adverse effects on its implementation, but rather results to service decline if not achieved and implemented on the periods it is projected to occur, the Board of Directors of CEBECO III passed Resolution No. 43, Series of 2016 dated 21 March 2016 approving the proposed CAPEX, copy of which is attached to the Application as **Annex "C"**;

11. Information on the proposed capital projects had been widely disseminated through posting in conspicuous places of the City of Toledo and the Municipalities of Aloguinsan, Pinamungajan, Balamban and Asturias, all in the Province of Cebu as certified to by Engr. Edgardo H. Hernaez Jr., employee of CEBECO III tasked to undertake such dissemination. A copy of the said information on the proposed capital projects is attached to the Application as **Annex "D"**. The Notices posted in the areas aforementioned specifically contained the following:
- a. the proposed projects;
  - b. the reasons for proposing said projects;
  - c. the source of fund for the said projects;
  - d. indicative rate impact of the said project.

**SOURCE OF FUNDS FOR THE PROJECTS**

12. In the implementation of the proposed projects, CEBECO III shall utilize the Reinvestment Fund for Sustainable Capital Expenditures (RFSC) and the big part shall be sourced through loans from interested lenders/financial institutions that shall charge the least interest. A separate application for authority to secure loan shall be filed with the Commission;
13. The implementation of the proposed CAPEX shall bring forth an indicative rate impact of PhPo.0734 as follows:

**RATE IMPACT CALCULATION**

|  | 2011-2013   | 2014-2016    | 2017        | 2018         | 2019         | Total         |
|--|-------------|--------------|-------------|--------------|--------------|---------------|
| kWh Sales  | 277,669,460 | 330,583,264  | 126,948,814 | 134,380,551  | 141,899,758  | 1,011,481,846 |
| Approved RFSC Rate, PhP/KWh                                      | 0.2508      | 0.2508       | 0.2508      | 0.2508       | 0.2508       | 0.2508        |
| Cash balance beginning, PhP, excess/(shortfall)                  | 5,475,413   | (33,903,280) | 7,654,320   | (18,249,961) | (47,794,261) | 5,475,413     |
| <b>CASH INFLOWS</b>  |             |              |             |              |              |               |
| Current year RFSC Collection, PhP                                | 69,639,501  | 82,910,283   | 31,838,762  | 33,702,642   | 35,588,459   | 253,679,647   |
| 50% income on leased properties, PhP                             | 540,761     | 540,761      | 180,254     | 180,254      | 180,254      | 1,622,284     |
| Subsidy  | 9,622,438   | 14,292,881   | -           | -            | -            | 23,915,319    |
| Loan proceeds from financial institutions, PhP (Capex 2011-2013) | -           | 98,225,508   | 52,095,003  | 7,000,000    |              | 157,320,511   |
| Loan proceeds from financial institutions, PhP (Capex 2014-2016) | -           | 146,343,213  | 10,197,914  |              |              | 156,541,127   |
| Loan proceeds from financial institutions, PhP (Capex 2017-2019) | -           | -            | 60,266,643  | 54,322,321   | 28,949,439   | 143,538,404   |
| Total Cash Inflows, PhP  | 79,802,699  | 342,312,646  | 154,578,576 | 95,205,217   | 64,718,152   | 736,617,291   |

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|  |              |             |              |              |              |              |
|--|--------------|-------------|--------------|--------------|--------------|--------------|
| Available cash for disbursement, PhP             | 85,278,112   | 308,409,366 | 162,232,897  | 76,955,257   | 16,923,891   | 742,092,704  |
| <b>CASH OUTFLOWS</b>                             |              |             |              |              |              |              |
| CAPEX Requirement, PhP (2011 to 2013)            | 96,216,523   | 46,903,784  | 52,095,003   | 7,000,000    | -            | 202,215,309  |
| CAPEX Requirement, PhP (2014 to 2016)            | -            | 196,042,558 | 10,197,914   |              |              | 206,240,471  |
| CAPEX Requirement, PhP (2017 to 2019)            |              |             | 60,266,643   | 54,322,321   | 28,949,439   | 143,538,404  |
| Previous Loan Amortization with NEA, PhP         | 21,443,883   | 2,749,684   |              |              |              | 24,193,567   |
| Previous Loan Amortization with PNB, PhP         | -            | 26,116,748  | 12,759,150   | 10,686,928   | 7,204,356    | 56,767,182   |
| New Loan Amortization with PNB, 2011-2013        | -            | 6,442,615   | 14,040,741   | 14,586,774   | 14,049,977   | 49,120,106   |
| New Loan Amortization with PNB, 2014-2016        | -            | 20,907,465  | 21,692,298   | 20,989,828   | 20,288,504   | 83,878,095   |
| Sheet1   |              |             | 8,979,108    | 16,756,250   | 20,475,721   | 46,211,078   |
| ERC Permit Fees, PhP (Capex 2011-2013)           | 1,520,986    |             |              |              |              | 1,520,986    |
| ERC Permit Fees, PhP (Capex 2014-2016)           | -            | 1,592,194   |              |              |              | 1,592,194    |
| ERC Permit Fees, PhP (Capex 2017-2019)           | -            | -           | 452,000      | 407,417      | 217,121      | 1,076,538    |
| Total Cash Outflows, PhP                         | 119,181,392  | 300,755,046 | 180,482,857  | 124,749,518  | 91,185,118   | 816,353,931  |
| Cash balance ending, PhP, excess/(shortfall)     | (33,903,280) | 7,654,320   | (18,249,961) | (47,794,261) | (74,261,227) | (74,261,227) |
| Rate Impact on RFSC, PhP/KWh, excess/(shortfall) | (0.1221)     | 0.0232      | (0.1438)     | (0.3557)     | (0.5233)     | (0.0734)     |

**COMPLIANCE WITH PRE-FILING REQUIREMENTS**

14. In compliance with Section 2, Rule 6 of the ERC Rules of Practice and Procedure, copies of Application together with all its annexes and accompanying documents had been furnished by CEBECO III the Legislative Body of the City of Toledo, where CEBECO III principally operates and the Legislative Body of the Province of Cebu. Likewise the Application was published in The Freeman, a newspaper of general circulation within the franchise area of the CEBECO III;
15. As proof of such compliances is the Affidavit of Service executed by Kareen T. Pagdalian, an employee of CEBECO III, and the first page of the Application bearing the stamp "RECEIVED", attached to the Application as **Annex "E", "F" and "G"**, and the Affidavit of Publication executed by the Editor, and original copy of the issue showing the published application, copies of which are attached to the Application as **Annexes "H" and "I"**, respectively;
16. Moreover, prior to the filing of the 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;



17. CEBECO III respectfully prays:
- a. That after due notice and hearing, the proposed capital projects/expenditures subject of the application be APPROVED, declared just, reasonable, and equitable pursuant to the provisions of ERC Resolution No. 26, Series of 2009, and other related laws, rules and regulations; and
  - b. That CEBECO III be allowed/authorized to recover from the members-consumers its expenditures/costs incurred in the implementation of the Capital Expenditure Projects.

The Commission has set the Application for jurisdictional hearing, expository presentation, Pre-trial Conference and evidentiary hearing on **12 January 2017 (Thursday) at ten o'clock in the morning (10:00 A.M.) at the CEBECO III's Main Office, Luray II, Toledo City, Cebu.**

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 wish to have a copy of the Application may request from the applicant that they be furnished with the same, prior to the date of the initial hearing. The applicant is hereby directed to furnish all those making such request with copies of the Application and its attachments, subject to the reimbursement of reasonable photocopying costs. Any such person may likewise

examine the Application and other pertinent records filed with the Commission during the standard office hours.

**WITNESS**, the Honorable Chairman, **JOSE VICENTE B. SALAZAR**, and the Honorable Commissioners, **ALFREDO J. NON**, **GLORIA VICTORIA C. YAP-TARUC**, **JOSEFINA PATRICIA A. MAGPALE-ASIRIT**, and **GERONIMO D. STA. ANA**, **Energy Regulatory Commission**, this 15<sup>th</sup> day of September, 2016 at Pasig City.

  
**ATTY. NATHAN J. MARASIGAN**  
*Chief of Staff*  
Office of the Chairman and CEO