

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



IN THE MATTER OF THE APPLICATION FOR CONFIRMATION AND APPROVAL OF EMERGENCY CAPITAL EXPENDITURE PROJECTS FOR 2018, NAMELY: (1) PURCHASE, INSTALLATION AND COMMISSIONING OF 5 MVA POWER SUBSTATION AND ACCESSORIES FOR CATEEL SUBSTATION AND (2) PURCHASE OF NEW 10 MVA POWER TRANSFORMER FOR LUPON SUBSTATION, WITH APPLICATION FOR AUTHORITY TO SECURE LOAN FROM THE NATIONAL ELECTRIFICATION ADMINISTRATION (NEA)

ERC CASE NO. 2018-104 RC

DAVAO ORIENTAL ELECTRIC COOPERATIVE, INC. (DORECO),

Applicant.

X-----X

DOCKETED
Date: DEC 20 2018
By: [Signature]

ORDER

On 25 October 2018, Davao Oriental Electric Cooperative, Inc. (DORECO) filed an *Application* dated 10 September 2018 for the confirmation and approval of its emergency capital expenditure (CAPEX) projects for 2018, namely: (1) the purchase, installation and commissioning of a 5 MVA power substation and accessories for the Cateel Substation and (2) the purchase of a new 10 MVA power transformer for the Lupon Substation, with application for authority to secure loan from the National Electrification Administration (NEA) (Application).

In the said *Application*, DORECO alleged, among others, the following:

1. It is a non-stock, non-profit electric cooperative, duly organized and existing under and by virtue of the laws of the Republic of the Philippines, with principal office at Madang, National Highway, Mati City, Davao Oriental;
2. It holds an exclusive franchise issued by the National Electrification Commission (NEC) to operate an electric light and power distribution service in the city of Mati and municipalities of Lupon, Banaybanay, San Isidro, Governor Generoso, Tarragona, Manay, Caraga, Baganga, Cateel and Boston, all in the province of Davao Oriental;

LEGAL BASES FOR THE APPLICATION

3. Pursuant to Republic Act No. 9136 (R.A. No. 9136), ERC Resolution 26, Series of 2009 and other laws and rules, and in line with its mandate to provide safe, quality, efficient and reliable electric service to its consumers, DORECO submits the instant application for the Commission's confirmation and approval of its emergency capital expenditure (CAPEX) projects for 2018;
4. On the other hand, the accompanying application for authority to secure loan from the NEA in connection with the funding source for subject projects, is being filed pursuant to Section 20(e) of Commonwealth Act No. 146, otherwise known as the Public Service Act, which requires every public service to secure the approval and authorization of the Commission for issuance of any bonds or other evidence of indebtedness payable in more than one year;

STATEMENT OF THE FACTS

5. Sometime in February 2017, DORECO engaged the services of the Trans Power System Corporation (TPSC) to test the condition of the three (3) units – 833kVA power transformer of its Cateel Substation as part of regular maintenance activity. After a series of tests, the contractor certified that the power transformers are no longer reliable for prolonged period of operation due to deteriorating insulation of the equipment. Thus, there is a need to address the capacity concern of Cateel Substation to ensure stability and efficiency of delivery of power supply to affected consumers as well as the safety of the substation, by upgrading the old

protection system, and likewise to be able to meet the growing demand of the two (2) municipalities being served by the substation;

6. On the other hand, on April 3, 2018, five (5) days after its Lupon Substation underwent annual preventive maintenance, heavy rains with lightning and strong winds hit the area of the municipality of Lupon where the 10 MVA Lupon Substation is situated. At around 9:45 p.m., the power transformer of the Lupon Substation was forcibly shut down due to abnormal sounds emanating from said equipment. Assessment done by its contractor, Transpower, Inc. (TI), showed that the power transformer's primary winding was damaged. The damage was attributed to excessive voltage surge brought about by lightning and thunderstorm. Up to this date, DORECO temporarily transferred some of the affected loads to the San Isidro Substation to minimize the number of affected consumers. However, a rotational curtailment scheme is being implemented so as not to overload San Isidro Substation, which concurrently supplies power to the municipalities of Governor Generoso and San Isidro. Since San Isidro Substation cannot accommodate the entire demand that was being served by Lupon Substation, there is an urgent need to immediately address the capacity concern of the cooperative;
7. Hence, the urgent necessity to implement the projects subject of the instant application;

PROJECT DESCRIPTION

8. The projects subject of the instant *Application* are described in the table below, as follows:

Project Type	Project Category	Project Title	Project Cost (PhP)
Reliability	Substation Project	Purchase, Installation and Commissioning of 5 MVA Power Substation and Accessories for Cateel Substation	28,826,756.70
		Purchase of New 10 MVA Power Transformer for Lupon Substation	12,550,000.00
Total			41,376,756.70

PROJECT SCHEDULE

9. The schedules of implementation of subject projects are as follows:

	Project Title	Start	Completion
1	Purchase, Installation and Commissioning of 5 MVA Power Substation and Accessories for Cateel Substation	4 th Quarter of 2018	2 nd Quarter of 2019
2	Purchase of New 10 MVA Power Transformer for Lupon Substation	June 15, 2018	July 1, 2018

PROJECT FINANCING

10. The funding for the projects are being sourced through a loan from the NEA. Accruing amortizations shall be paid out of the cooperative's internally - generated Reinvestment Fund for Sustainable Capital Expenditures (RFSC);

JUSTIFICATIONS AND BENEFITS TO BE DELIVERED BY THE PROJECTS

11. The 5 MVA power substation and accessories for Cateel Substation will address the reliability problem on the existing three (3) units 833 kVA (2.5 MVA) power transformers in Cateel Substation;
12. The new 10 MVA power transformer for Lupon Substation will replace the damaged 10 MVA power transformer of said substation;
13. In general, the implementation of the projects will provide a safe, adequate, reliable and efficient electric service to its consumers.

APPLICATION FOR AUTHORITY TO SECURE LOAN FROM NEA

14. As shown above, the projects are being financed through a loan from NEA considering that the cooperative's RFSC is not readily available to finance the immediate implementation of the projects. In view thereof, it now applies for authority from the Commission to secure said loan from NEA.

INDICATIVE RATE IMPACT OF THE PROJECTS

15. The implementation of subject projects will have a reasonable impact on the RFSC rate of the cooperative as follows, *to wit*:

		2018	2019	2020	2021	2022	TOTAL
Forecasted Energy Sales, kWh		121,572,662	130,531,229	138,171,790	146,034,994	154,047,332	690,358,007
Cash Balance beginning, Php excess/(shortfall)		4,148,165.43	12,632,540.76	22,567,192.51	33,604,120.71	45,705,649.41	118,657,668.82
CASH INFLOWS							
	Current Year Collection @ Php 0.3534/ kWh @ 95%	40,421,517.66	41,561,468.40	42,663,744.85	43,728,345.36	44,755,271.58	213,130,347.85
	Loan Proceeds from financial Institutions, Php	41,376,756.70					41,376,756.70
	Government Subsidy (if any), Php						
	50% income on leased properties	160,810.00	160,810.00	160,810.00	160,810.00	160,810.00	804,050.00
	Total Cash Inflows, Php	81,959,084.36	41,722,278.40	42,824,554.85	43,889,155.36	44,916,081.58	255,311,154.55
Available Cash for disbursement		86,107,249.79	54,354,819.16	65,391,747.36	77,493,276.07	90,621,730.99	373,968,823.37
CASH OUTFLOWS							
	CAPEX Requirement - Emergency	41,376,756.70					41,376,756.70
	CAPEX Requirement - Regular	180,310,580.40	281,664,231.50	196,717,593.75			658,692,405.65
	Old debt (Old amortization)	25,009,311.00	25,009,311.00	25,009,311.00	25,009,311.00	25,009,311.00	125,046,555.00
	New Amortization (Emergency CAPEX), Php	6,778,315.65	6,778,315.65	6,778,315.65	6,778,315.65	6,778,315.65	33,891,578.25
	New Amortization (Regular CAPEX), Php	24,109,040.43	61,769,916.08	88,072,712.12	88,072,712.12	88,072,712.12	350,097,092.88
	ERC Permit Fee, Php	310,325.68					310,325.68
	Total Cash Outflows, Php	277,894,329.86	375,221,774.23	316,577,932.52	119,860,338.77	119,860,338.77	1,209,414,714.15
Cash Balance Ending, Php, excess/(shortfall)		-191,787,080.07	-320,866,955.07	-251,186,185.16	-42,367,062.70	-29,238,607.78	-835,445,890.78
Excess/(Shortfall) on RFSC, Php/kWh		-1.5776	-2.4582	-1.8179	-0.2901	-0.1898	-1.2102

SUBMISSION OF DOCUMENTARY AND PRE-FILING REQUIREMENTS

16. Finally, in compliance with the documentary as well as pre-filing requirements under ERC Resolution 26, Series of 2009 and the ERC Rules of Practice and Procedure, respectively, the following documents are being submitted herewith to form integral parts hereof, *to wit*:

Annex Markings	Nature of Document
"A"	Executive Summary of the Emergency CAPEX Projects
"B"	Supporting documents for the application for authority to secure loan from NEA
"C" and series	Proof of furnishing of copies of the Application to the Sangguniang Panlungsod of Mati City and Sangguniang Panlalawigan of Davao Oriental
"D" and series	Proof of publication of the Application in a newspaper of general circulation in DORECO's franchise area or where it principally operates.

PRAYER

17. It prayed that the Commission after due notice and hearing, DORECO's emergency CAPEX projects for 2018 be confirmed and approved accordingly. Other reliefs, just and equitable in the premises are likewise prayed for.

Finding the said *Application* to be sufficient in form and substance, with the required fees having been paid, the same is hereby set for determination of compliance with the jurisdictional requirements, expository presentation, pre-trial conference, and presentation of evidence on **17 January 2019 (Thursday) at nine o'clock in the morning (9:00 A.M.), at DORECO's Principal Office at Madang, National Highway, Mati City, Davao Oriental.**

Accordingly, DORECO is hereby directed to:

- 1) Cause the publication of the attached Notice of Public Hearing in two (2) newspapers of nationwide circulation in the Philippines at its own expense, twice (2x) within two (2) successive weeks, the dates of publication not being less than seven (7) days apart and the date of the last publication to be made not later than ten (10) days before the date of the scheduled initial hearing;
- 2) Furnish with copies of this Order and the attached Notice of Public Hearing the Offices of the Provincial Governor, the City and/or Municipal Mayors, and the Local Government Unit (LGU) legislative bodies within the affected franchise area for the appropriate posting thereof on their respective bulletin boards;
- 3) Inform of the filing of the *Application*, its reasons therefor, and of the scheduled hearing thereon, the consumers within the affected franchise area, by any other means available and appropriate;
- 4) Furnish with copies of this Order and the attached Notice of Public Hearing, 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; and

- 5) Furnish with copies of the *Application* and its attachments all those making requests therefor, subject to reimbursement of reasonable photocopying costs.

On the date of the initial hearing, DORECO must submit to the Commission its written compliance with the aforementioned jurisdictional requirements attaching therewith, methodically arranged and duly marked the following:

- 1) The evidence of publication of the attached Notice of Public Hearing consisting of affidavits of the Editors or Business Managers of the newspapers where the said Notice of Public Hearing were published, and the complete issues of the said newspapers;
- 2) The evidence of actual posting of this Order and the attached 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;
- 3) The evidence of other means employed by DORECO to inform of the filing of the *Application*, its reasons therefore, and of the scheduled hearing thereon, the consumers within the affected franchise area;
- 4) The evidence of receipt of copies of this Order and the attached Notice of Public Hearing by the OSG, COA, and the Committees on Energy of both Houses of Congress;
- 5) The evidence of receipt of copies of the *Application* and its attachments by all those making requests therefor, if any; and
- 6) Such other proofs of compliance with the requirements of the Commission.

DORECO and all interested parties are also required 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:

- 1) A summary of admitted facts and proposed stipulation of facts;
- 2) The issues to be tried or resolved;

- 3) The documents or exhibits to be presented, stating the purposes and proposed markings therefore; and
- 4) The number and names of the witnesses, with their written testimonies in a Judicial Affidavit form attached to the Pre-trial Brief.

Failure of DORECO to comply with the above requirements 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 the said date of cancellation.

DORECO must also be prepared to make an expository presentation of the instant *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, 12 December 2018.

FOR AND BY AUTHORITY
OF THE COMMISSION:


JOSEFINA PATRICIA A. MAGPALE-ASIRIT
Oversight Commissioner for Legal


LS: SLAN/MCC/BSA/GHO

Copy Furnished:

1. Atty. Jeremiah D. Francisco
DECHAVEZ LERIOS-AMBOY EVANGELISTA
Counsel for DORECO
Unit 2008 Tycoon Center, Pearl Drive
Ortigas Center, Pasig City
2. Davao Oriental Electric Cooperative, Inc. (DORECO)
Madang, Mati City, Davao Oriental
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

ERC CASE NO. 2018-104 RC
ORDER/12 DECEMBER 2018
PAGE 9 OF 10

6. House Committee on Energy
Batasan Hills, Quezon City, Metro Manila
7. Office of the President
Philippine Chamber of Commerce and Industry (PCCI)
3rd Floor, Chamber and Industry Plaza (CIP)
1030 Campus Avenue corner Park Avenue
McKinley Town Center, Fort Bonifacio, Taguig City
8. Office of the Governor
Province of Davao Oriental
9. Office of the Sangguniang Panlalawigan
Davao Oriental
10. Office of the City Mayor
Mati City, Davao Oriental
11. Office of the Sangguniang Panglungsod
Mati City, Davao Oriental
12. Office of the Municipal Mayor
Baganga, Davao Oriental
13. Office of the Sangguniang Bayan
Baganga, Davao Oriental
14. Office of the Municipal Mayor
Banaybanay, Davao Oriental
15. Office of the Sangguniang Bayan
Banaybanay, Davao Oriental
16. Office of the Municipal Mayor
Boston, Davao Oriental
17. Office of the Sangguniang Bayan
Boston, Davao Oriental
18. Office of the Municipal Mayor
Caraga, Davao Oriental
19. Office of the Sangguniang Bayan
Caraga, Davao Oriental
20. Office of the Municipal Mayor
Cateel, Davao Oriental
21. Office of the Sangguniang Bayan
Cateel, Davao Oriental
22. Office of the Municipal Mayor
Governor Generoso, Davao Oriental
23. Office of the Sangguniang Bayan
Governor Generoso, Davao Oriental
24. Office of the Municipal Mayor
Lupon, Davao Oriental
25. Office of the Sangguniang Bayan
Lupon, Davao Oriental
26. Office of the Municipal Mayor
Manay, Davao Oriental
27. Office of the Sangguniang Bayan
Manay, Davao Oriental
28. Office of the Municipal Mayor
San Isidro, Davao Oriental
29. Office of the Sangguniang Bayan
San Isidro, Davao Oriental

30. Office of the Municipal Mayor
Tarragona, Davao Oriental
31. Office of the Sangguniang Bayan
Tarragona, Davao Oriental
32. Regulatory Operations Services (ROS)
Standards and Compliance Monitoring Division (SCMD)
17th Floor, Pacific Center Building, San Miguel Avenue
Ortigas Center, Pasig City