

Republic of the Philippines
ENERGY REGULATORY COMMISSION
Pasig City



**IN THE MATTER OF THE
APPLICATION FOR
APPROVAL OF CAPITAL
EXPENDITURE PROGRAM
FOR THE YEARS 2015 TO
2018, WITH PRAYER FOR
PROVISIONAL AUTHORITY,**

ERC Case No. 2016-018 RC

**KALINGA APAYAO
ELECTRIC COOPERATIVE,
INC. (KAELCO),**

Applicant,

X-----X

D O C K E T E D
Date: MAY 15 2017
By: [Signature]

ORDER

On 14 March 2016, Applicant Kalinga Apayao Electric Cooperative, Inc. (KAELCO) filed the instant Application for confirmation and authority to implement its Capital Expenditure Program for Years 2015 to 2018.

In its Application, KAELCO alleged, among others, the following:

THE APPLICANT

1. KAELCO 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 offices at Callagdao, Bulanao, Tabuk City, Kalinga;
2. It holds an exclusive franchise from the National Electrification Commission to operate an electric light and power distribution service in the City of Tabuk and the municipalities of Rizal, Pinukpuk, Balbalan, Pasil, Tanudan, Tinglayan and Lubuagan, all in the province of Kalinga, as well as the municipalities of Conner, Calanasan and Kabugao, in the province of Apayao;

LEGAL BASIS FOR THE APPLICATION

3. Pursuant to Republic Act 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, KAELCO seeks approval, confirmation and authority from this Honorable Commission to implement its proposed capital expenditure program for Years 2015 to 2018.

THE PROPOSED PROJECTS

4. The proposed projects are presented below, as follows, to wit:

No.	Proposed Projects	Project Type	Project Duration	Project Cost, PhP
1.	Construction of double circuit and upgrading of 1-Ph to 3-Ph Distribution Line at Dagupan West, Tabuk City, Kalinga.	Capacity	2016	1,234,184.67
2.	Procurement of new Distribution Transformers	Capacity	2015 to 2018	12,654,450.50
3.	Procurement of new kWh Meters and service drop wires	Capacity	2015 to 2018	22,659,160.00
4.	Installation of Automatic Voltage Regulator and capacitors	Power Quality	2016	1,045,000.00
5.	Replacement of Rotten Wood Poles and crossarms into Steel Poles/Crossarms.	Safety	2015 to 2018	11,871,366.10
6.	Installation of Fault Circuit Indicator	Reliability	2016 to 2018	6,000,000.00
7.	Replacement of Defective and Providing Additional Capacity to Overloaded Distribution Transformers	System Loss Reduction	2015	3,800,564.30
8.	Installation of eight (8) units Vacuum Circuit Reclosers with single phase tripping	Safety	2016	7,520,000.00
9.	Relocation of 3-Phase Distribution Line at the Old Pasunglao Bridge at Calanan, Tabuk City	Other Network Project	2016	573,251.51
10.	Replacement of old/defective kWh meters	System Loss Reduction	2015 to 2018	7,634,350.00
11.	Computerization Projects	Non-Network project	2015 to 2016	7,400,000.00
12.	Procurement of Read and Bill gadgets and Line Printers	Non-Network	2016 to 2017	4,680,000.00

No.	Proposed Projects	Project Type	Project Duration	Project Cost, PhP
		project		
13.	Construction of Multi-Purpose Hall; Concreting of the Main Office ground and access road towards motorpool, substation and warehouse; and Improvement of Sub-Offices	Non-Network project	2016	8,050,912.00
14.	Procurement of vehicles and rehabilitation of the Telelec/Terex	Non-Network project	2016 to 2017	20,000,000.00
15.	Procurement of Tools and Testing Equipments	Non-Network project	2015 to 2018	8,238,025.17
16.	Procurement of Line Materials for Buffer Stocks	Non-Network project	2015 to 2018	15,192,528.00
Grand Total				138,553,792.25

CAPITAL EXPENDITURE PLAN

5. KAELCO's Capital Expenditure (CAPEX) Plan for the period 2015-2018 is discussed in detail in its Executive Summary, with technical and financial analysis and supporting data presented in ERC-prescribed templates;

FINANCIAL AND ECONOMIC EVALUATION

6. Financing Plan. KAELCO's proposed projects will be financed partly through its Reinvestment Fund for Sustainable Capital Expenditures (RFSC) and partly through loans from financial institutions. Loan amortizations will be paid out of the cooperative's collections of RFSC. The Table below presents CAPEX plan financiers to be pursued and the corresponding costs to be financed.

**PROPOSED FINANCIERS AND
CORRESPONDING DESIRED BORROWINGS**

Source of Funds	Project Costs to be Financed (PhP)	Annual Project Cost (PhP)			
		2015	2016	2017	2018
Internal Financing (RFSC)	8,853,007	8,853,007			
Land Bank of the Phils. (LBP)	64,850,392	7,517,638	30,060,293	16,041,225	11,231,235
Dev't Bank of the Phils. (DBP)	64,850,392	7,517,638	30,060,293	16,041,225	11,231,235

7. Cash Flow. KAELCO's cash flow shows that it can viably pursue and implement the proposed CAPEX Plan and will determine the sufficiency of its RFSC Rate. The Table below presents the Projected Annual Cash Flow, to wit:

SUMMARY OF ANNUAL CASH FLOW COST OF CAPEX PLAN

	Total(PhP)	FINANCIAL REQUIREMENTS (PhP)			
		2015	2016	2017	2018
LBP	64,850,392	7,517,638	30,060,293	16,041,225	11,231,235
DBP	64,850,392	7,517,638	30,060,293	16,041,225	11,231,235
Internal Financing (RFSC)	8,853,007	8,853,007			
CAPEX Permit Fee	1,385,537	1,385,537			
Total CAPEX Plan Cost to	139,939,328	25,273,820	60,120,586	32,082,450	22,462,470

8. Further, KAELCO also considered in the whole capital expenditure structure previous indebtedness incurred in financing past capital expenditure projects outstanding as of 2014, such that including the amortization of said indebtedness will have the cash flow as shown in the Table below, as follows:

SUMMARY OF CASH FLOW COST OF CAPEX PLAN INCLUDING AMORTIZATION OF PAST INDEBTEDNESS

	2015 (PhP)	2016 (PhP)	2017 (PhP)	2018 (PhP)	TOTAL fPhP)
Revenue from RFSC	14,568,771	16,152,704	17,854,772	19,660,600	68,236,847
CAPEX Plan Internal Financing (RFSC)	8,853,008				8,853,008
CAPEX Plan Amortization	2,569,934	11,376,786	15,436,035	17,740,329	47,123,084
CAPEX Permit Fee	1,385,538				1,385,538
Sub-Total CAPEX Plan Cost	12,808,480	11,376,786	15,436,035	17,740,329	57,361,630
Previous Loan Amortization	5,288,724	5,288,724	5,288,724	5,288,724	21,154,896
Total CAPEX Plan Cost	18,097,204	16,665,510	20,724,759	23,029,053	78,516,526
Net Cash Flow	(3,528,433)	(512,806)	(2,869,987)	(3,368,453)	(10,279,679)

9. Rate Impact Analysis. The CAPEX Plan was envisioned to bring the most value to consumers at the most reasonable and justifiable electricity rates, such that implementation of the proposed projects

will have a reasonable rate impact of PhP0.0802, per kWh, as shown in the Table below, to wit:

**EXCERPTS FROM CASH FLOW ANALYSIS
 SHOWING THE RATE IMPACT IN TERMS OF
 RATE PER KWH**

	2015 (PhP)	2016 (PhP)	2017 (PhP)	2018 (PhP)	TOTAL (PhP)
kWh Sales Forecast	27,364,333	30,339,413	33,536,386	36,928,250	128,168,382
Current RFSC Rate per kWh	0.5324	0.5324	0.5324	0.5324	0.5324
Annual Revenue Cash Flow from RFSC Rate	14,568,771	16,152,704	17,854,772	19,660,600	68,236,847
CAPEX Plan Cost Cash Flow	18,097,204	16,665,510	20,724,759	23,029,053	78,516,526
Indicative Additional Revenue Requirement	3,528,433	512,806	2,869,987	3,368,453	10,279,679
Current RFSC Rate per kWh	0.5324	0.5324	0.5324	0.5324	0.5324
CAPEX Plan Cost Cash Flow Indicative Rate per kWh	0.6613	0.5493	0.6180	0.6236	0.6126
Adjusted RFSC Rate per kWh	0.1289	0.0169	0.0856	0.0912	0.0802

**ALLEGATIONS IN SUPPORT OF THE PRAYER
 FOR PROVISIONAL AUTHORITY**

10. Applicant repleads the foregoing allegations as may be material herein;
11. As shown in the table of proposed projects, some of the projects may require implementation while the instant application is pending evaluation of the Honorable Commission;
12. Further, unforeseen situations or occurrences may arise which might necessitate the immediate implementation of any of the proposed projects;
13. In view thereof, applicant respectfully moves for issuance of a provisional authority while the case is pending, to implement said projects as may be deemed necessary and urgent under prevailing circumstances, to enable the cooperative to deliver a safe, more reliable and efficient electric service to its consumers.

**DOCUMENTARY AND PRE-FILING
REQUIREMENTS**

14. Finally, in compliance with the documentary as well as pre-filing requirements for the instant application, applicant is likewise submitting herewith the following documents, to wit:

<i>Annex A</i>	Executive Summary of Capital Expenditure Plan for 2015 - 2018, presented in ERG-prescribed templates
<i>Annexes B to B-1</i>	Affidavit of Posting with Notice to Consumers
<i>Annex C</i>	Affidavit of Undertaking that the corresponding application for approval of concerned agencies shall be filed, when required
<i>Annex D</i>	Judicial Affidavit in Support of the Prayer for Provisional Authority
<i>Annexes E to E-1</i>	Proof of furnishing of copies of the Application to the Sangguniang Panlungsod of Tabuk City and Sangguniang Panlalawigan of Kalinga
<i>Annexes F and series</i>	Publication of the Application in a newspaper of general circulation within KAELCO's franchise area or where it principally operates, with Affidavit of Publication

PAYER

WHEREFORE, premises considered, KAELCO respectfully prays of this Honorable Commission that:

1. During the pendency of the *instant* application, a provisional authority be issued permitting KAELCO to implement the proposed projects as any of these becomes urgently necessary under prevailing circumstances;
2. After due notice and hearing, the cooperative's Capital Expenditure Program for 2015 to 2018 be granted accordingly.

Finding the said Application sufficient in substance with the required fees having been paid, the same is hereby set for initial hearing for determination of compliance with the jurisdictional requirements, expository presentation, Pre-trial Conference, and presentation of evidence on **28 June 2017 (Wednesday) at ten o'clock in the Morning (10:00 A.M.)**, at KAELCO's principal office at **Bulanao - Paracelis Road, Tabuk, Kalinga**.

Accordingly, Applicant KAELCO 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 their own expense, twice (2x) for 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 Governors, the City and 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, Applicant KAELCO must submit to the Commission their 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 was

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 Governors, Mayors, and LGU legislative bodies or their duly authorized representatives, bearing the seals of their offices;
- 3) The evidence of other means employed by Applicants to inform of the filing of the Joint 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 Office of the Solicitor General (OSG), the Commission on Audit (COA), and the Committees on Energy of both Houses of Congress;
- 5) The evidence of receipt of copies of the Joint 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.

Applicant 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 Applicant to submit the required Pre-trial Brief and judicial Affidavits of its 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.

Applicant must also be prepared to make an expository presentation of its 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, 10 May 2017.

FOR AND BY AUTHORITY
OF THE COMMISSION:



ALFREDO J. NON
Officer-in-Charge, *5/10/17*
Energy Regulatory Commission



KTB/RAC/APV

Copy furnished:

1. **De Chavez & Evangelista Law Offices**
Counsel for Applicant KAELCO
Units 1609-1610, Tycoon Centre
Pearl Drive, Ortigas Center, Pasig City 1605
2. **Office of the Solicitor General (OSG)**
134 Amorsolo Street, Legaspi Village
Makati City, Metro Manila
3. **Commission on Audit (COA)**
Commonwealth Avenue
Quezon City, Metro Manila
4. **Senate Committee on Energy**
GSIS Bldg. Roxas Blvd., Pasay City
Metro Manila
5. **House Committee on Energy**
Batasan Hills, Quezon City, Metro Manila
6. **Philippine Chamber of Commerce and Industry (PCCI)**
Campus Avenue corner Park Avenue,
McKinley Town Center, Fort Bonifacio, Taguig City
7. **Office of the City Mayor**
City of Tabuk, Kalinga
8. **Sangguniang Panlungsod**
City of Tabuk, Kalinga
9. **Office of the Municipal Mayor**
Municipality of Rizal, Kalinga
10. **Sangguniang Bayan ng Rizal**
Municipality of Rizal, Kalinga
11. **Office of the Municipal Mayor**
Municipality of Pinukpuk, Kalinga
12. **Sangguniang Bayan ng Pinukpuk**
Municipality of Pinukpuk, Kalinga
13. **Office of the Municipal Mayor**
Municipality of Balbalan, Kalinga
14. **Sangguniang Bayan ng Balbalan**
Municipality of Balbalan, Kalinga
15. **Office of the Municipal Mayor**
Municipality of Pasil, Kalinga
16. **Sangguniang Bayan ng Pasil**
Municipality of Pasil, Kalinga

17. **Office of the Municipal Mayor**
Municipality of Tanudan, Kalinga
18. **Sangguniang Bayan ng Tanudan**
Municipality of Tanudan, Kalinga
19. **Office of the Municipal Mayor**
Municipality of Tinglayan, Kalinga
20. **Sangguniang Bayan ng Tinglayan**
Municipality of Tinglayan, Kalinga
21. **Office of the Municipal Mayor**
Municipality of Lubuagan, Kalinga
22. **Sangguniang Bayan ng Lubuagan**
Municipality of Lubuagan, Kalinga
23. **Office of the Governor**
Province of Kalinga
24. **Sangguniang Panlalawigan ng Kalinga**
Province of Kalinga
25. **Office of the Municipal Mayor**
Municipality of Conner, Apayao
26. **Sangguniang Bayan ng Conner**
Municipality of Conner, Apayao
27. **Office of the Municipal Mayor**
Municipality of Calanasan, Apayao
28. **Sangguniang Bayan ng Calanasan**
Municipality of Calanasan, Apayao
29. **Office of the Municipal Mayor**
Municipality of Kabugao, Apayao
30. **Sangguniang Bayan ng Kabugao**
Municipality of Kabugao, Apayao
31. **Office of the Governor**
Province of Apayao
32. **Sangguniang Panlalawigan ng Apayao**
Province of Apayao