

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



**IN THE MATTER OF THE
APPLICATION FOR
APPROVAL OF
CAPITAL EXPENDITURE
(CAPEX) PLAN FOR THE
YEARS 2016-2018**

ERC CASE NO. 2019-043 RC

**NORTHERN NEGROS
OCCIDENTAL ELECTRIC
COOPERATIVE, INC.
(NONECO),**

Applicant.

Promulgated:
SEP 17 2019

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NOTICE OF PUBLIC HEARING

TO ALL INTERESTED PARTIES:

Notice is hereby given that on 06 June 2019, the Northern Negros Occidental Electric Cooperative, Inc. (NONECO) filed an *Application* dated 05 May 2019, seeking for the approval of Capital Expenditure (CAPEX) Plan for the years 2016-2018.

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

1. Applicant NONECO is an electric cooperative duly organized and existing under and by virtue of the laws of the Republic of the Philippines, with principal office address at Barangay Tortosa, Manapla, Negros Occidental. It has an exclusive franchise to distribute electric service in the cities of Victorias, Cadiz, Sagay, Escalante, San Carlos and the municipality of E.B. Magalona, Manapla, Toboso and Calatrava, all in the province of Negros Occidental. It may be served with notices and other processes of this Honorable Commission through its counsel at the address indicated herein.
2. Applicant has been granted a franchise by the National Electrification Commission (NEC) to operate and maintain a

distribution system in the cities of Victorias, Cadiz, Sagay, Escalante, San Carlos and the municipality of E.B. Magalona, Manapla, Toboso and Calatrava,, all in the province of Negros Occidental and is authorized to charge all its customers for their electric consumption at the rates duly approved by the Honorable Commission.

3. Section 43 (f) of the Republic Act No. 9136, otherwise known as the Electric Power Industry Reform Act of 2001 (EPIRA), provides that any significant operating costs or projects investment of distribution utilities (DU) which shall become part of the rate base shall be subject to verification by the Energy Regulatory Commission (ERC) to ensure that the contracting and procurement of the equipment, assets and services have been subjected to transparent and accepted industry procurement and purchasing practices to protect the public interest.
4. On 8 March 2006, the Energy Regulatory Commission (“ERC”) promulgated its Resolution No. 13, Series of 2006, entitled, “*A Resolution Adopting the Guidelines to Govern the Submission, Evaluation and Approval of Electric Distribution Capital Projects.*” The said Rules provided the DUs with a uniform system of filing application for approval of their respective proposed capital projects. Subsequent thereto, on 15 December 2008, the ERC issued Resolution No. 18, Series of 2008 entitled “*A Resolution Adopting the Rules for Approval of Regulated Entities’ Capital Expenditure Projects.*” Finally, on 9 December 2009, the Honorable Commission issued ERC Resolution No. 26, Series of 2009, entitled “*A Resolution Amending the Rules for Approval of Regulated Entities’ Capital Expenditure Projects.*”
5. Pursuant to ERC Resolution 26, Series of 2009 and other pertinent rules and regulations, Applicant NONECO filed its first application for approval of its capital expenditure projects for the years 2011-2015 docketed as ERC Case No. 2011-168 which is still pending approval by the Honorable Commission;
6. This instant Application is being submitted to this Honorable Commission for its consideration and approval of Applicant’s Capital Expenditure (CAPEX) Projects for the years 2016 to 2018 summarized and enumerated below:

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CAPEX PROJECTS FOR 2016-2018

PROJECT NO.	PROJECT TYPE	PROJECT CODE	PROJECT TITLE	YEAR IMPLEMENTATION, PHP			TOTAL
				2016	2017	2018	
1	SAFETY	SAFETY 01	Replacement of Poles and Deteriorated Structures	29,444,399.00	27,541,500.00	34,159,342.85	91,145,241.85
2	CAPACITY	SS-01	Upgrading of Escalante Substation			27,540,207.35	27,540,207.35
3		ONC -01	Add-ons kwhr meter and service drop	25,004,550.00	18,225,420.00	19,846,110.00	63,076,080.00
4		ONC -02	Distribution Transformer Requirements for New Consumer	15,107,900.00	16,032,250.00	16,214,750.00	47,354,900.00
5	POWER QUALITY	PQY-01	Power Quality Improvement in Buluangan Feeder			15,249,618.57	15,249,618.57
6	RURAL ELECTRIFICATION	SUBSIDY-01	Rural Electrification Program (Rural Electrification)		50,723,397.12	28,658,682.08	79,382,079.20
7	RELIABILITY	ONC -04	Buffer Stock			22,943,913.96	22,943,913.96
8	SYSTEM LOSS	ONC -03	Replacement of defective kWhr meters	3,105,155.63	3,361,921.72	3,639,919.87	10,106,997.22
9	OTHER NON-NETWORK CAPEX	ONNC-01	Rehabilitation and Construction of Proposed Building of NONECO			85,239,906.00	85,239,906.00
10		ONNC-02	Acquisition of Geographical Information System (GIS)			3,318,420.00	3,318,420.00
11		ONNC-03	Acquisition of Maintenance Service Vehicles	1,268,960.00	13,764,966.00	14,321,429.00	29,355,355.00
12		ONNC-04	Acquisition of Hotline Maintenance Tools and Line Man Tools	2,474,129.00	2,501,243.00	31,027,840.04	36,003,212.04
13		ONNC-05	Information Technology/Computerization	3,211,913.00	1,110,273.00	19,000,000.00	23,322,186.00
TOTAL COST OF CAPEX				79,617,006.63	133,260,970.84	321,160,139.72	534,038,117.19

7. NONECO's projects for the period 2016-2018 together with justifications are discussed in detail in its Capital Expenditure (CAPEX) Plan for the years 2016-2018 together with supporting data presented in ERC-specified templates, attached hereto as **Annex "B"**
8. **Financing Plan.** NONECO's capital projects will be financed through the Reinvestment Fund for Sustainable Capital Expenditures (RFSC) Rate approved by the Honorable Commission under the RSEC-WR, as well as from funds to be acquired through loans from the National Electrification

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Administration (NEA). The table below summarizes NONECO's financing plan and the corresponding costs to be financed:

SOURCE OF FUND:	TOTAL	2016	2017	2018
Reinvestment for Sustainable CAPEX	66,283,457	35,130,441	31,153,016	-
National Electrification Administration	359,017,226	43,217,606	37,619,592	278,180,029
Subsidy	79,382,079		50,723,397	28,658,682
Others (REFC)	29,355,355	1,268,960	13,764,966	14,321,429
TOTAL	534,038,117	79,617,007	133,260,971	321,160,140

9. **Indicative Rate Impact.** The CAPEX Plan is envisioned to have the least rate impact without compromising the implementation of the much needed projects that will strengthen the distribution system of Applicant thereby improving the services being provided in terms of reliability. However, Applicant main source of funds is the Reinvestment Fund for Sustainable Capital Expenditures (RFSC) which is set at a rate of 0.2904 Php/kwh to finance the projects. Based on the initial rate impact computation, there will be an indicative rate impact of about 0.0802 Php/kwh in order for Applicant to finance all its capex projects while maintaining its viability. The Table below presents the annual rate impact from RFSC of the CAPEX Plan:

INDICATIVE RATE IMPACT			
	2016	2017	2018
Actual (2016-2017)/Forecasted (2018) energy sales, kWh	183,398,375	196,269,911	209,442,169
Cash balance beginning, Php, excess/(shortfall)			
CASH INFLOWS			
current year collection @ Php0.2904/kWh	52,995,034	56,424,038	60,340,880
50% of income on leased properties	505,278	1,277,772	961,170
Loan proceeds from financial institutions (multi-year CAPEX), Php	45,401,743	61,527,136	296,914,609
Government Subsidy			
Total Cash Inflows, Php	98,902,055	119,228,945	358,216,658
Available cash for disbursement	98,902,055	119,228,945	358,216,658
CASH OUTFLOWS			
CAPEX requirement (multi-year capex)	79,617,007	82,537,574	292,501,458
new amortization (multi-year CAPEX), Php	6,088,064	6,452,091	37,203,753
amortization of approved CAPEX, Php	32,909,549	36,937,262	45,436,731
amortization of old debts	162,380	162,380	162,380
ERC Permit Fee, Php (Approval Fee)	597,128	619,032	2,193,761
Total Cash Outflows, Php	119,374,126	126,708,338	377,498,082
Cash balance ending, Php, excess/(shortfall)	(20,472,071)	(7,479,393)	(19,281,424)
Excess/(shortfall) on RFSC, Php/kWh	(0.1116)	(0.0581)	(0.0921)
Total Shortfall / Total Energy Sales			(0.0802)

9. With the indicative increase of about 0.0802 Php/kwh, Applicant would be able to fully implement on time its CAPEX projects without delay while maintaining viability of its operation. The table below shows the how the additional revenue from the increase RFSC would be able to fully cover or fund the projects until 2018.

	PROJECTED				
	Rate / kWh	2016	2017	2018	TOTAL
Net Cash Flow based on Existing RFSC Rate	0.2904	(20,472,071)	(7,479,393)	(19,281,424)	(47,232,888)
	0.0802	14,708,550	15,740,847	16,783,492	47,232,888
Cash Balance end based on new RFSC Rate	0.3706	(5,763,522)	8,261,454	(2,497,932)	0

10. Notably, the projects under this application were already implemented. Nevertheless, each project underwent careful technical and economic evaluation prior to its implementation. The CAPEX Plan for 2016-2018 was designed in compliance with the parameters set by the pertinent rules of this Honorable Commission and supported as well by technical and economic evaluation for its justifications.

PRAYER

WHEREFORE, premises considered, it is most respectfully prayed of this Honorable Commission that after due notice and hearing on the merits, a DECISION be rendered approving and/or confirming NONECO's Capital Expenditure Program for the period 2016-2018.

NONECO prays for such other reliefs which are just, legal and equitable under the premises.

Having found the said *Petition* sufficient in form and in substance, the Commission issued an *Order and Notice of Public of Hearing* both dated 01 August 2019, setting the case for hearing on 29 August 2019.

On 27 August 2019, NONECO filed a *Motion to Re-Schedule Hearing* (Motion) due to the lack of material time to fully comply with the jurisdictional requirements as directed by the Commission.

Finding the said *Motion* in order, the same is hereby GRANTED.

ACCORDINGLY, the instant *Application* is hereby set anew for determination of compliance with the jurisdictional requirements, expository presentation, pre-trial conference, and presentation of evidence on **07 November 2019 (Thursday) at ten o'clock in the morning (10:00 A.M.) at NONECO's Main Office at Barangay Tortosa, Manapla, Negros Occidental.**

All persons who have an interest in the subject matter of the instant case may become a party by filing with the Commission a verified *Petition to Intervene* at least five (5) days prior to the initial hearing and subject to the requirements under Rule 9 of the 2006 ERC Rules of Practice and Procedure, indicating therein the docket number and title of the case and stating the following:

- 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 case may file their Opposition or Comment thereon at any stage of the proceeding before Applicant rests its case, subject to the requirements under Rule 9 of the 2006 ERC 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 and address of such person;
- 2) A concise statement of the opposition or comment; and
- 3) The grounds relied upon.

All such persons who wish to have a copy of the *Application* may request from Applicant that they be furnished with the same, prior to the date of the initial hearing. 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 Commissioners **ALEXIS M. LUMBATAN**, **CATHERINE P. MACEDA** and **PAUL M. CERVANTES** Energy Regulatory Commission, this 12th day of September 2019 in Pasig City.


JOSEFINA PATRICIA A. MAGPALE ASIRIT
Oversight Commissioner for Legal Service 

LS:  / BSA / GLO