

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



IN THE MATTER OF THE APPLICATION FOR CONFIRMATION OF CAPITAL EXPENDITURE PROJECTS FOR 2015 TO 2016 AND APPROVAL OF CAPITAL EXPENDITURE PROJECTS FOR 2017 TO 2018, WITH PRAYER FOR PROVISIONAL AUTHORITY,

ERC CASE NO. 2017-030 RC

OLONGAPO ELECTRIC DISTRIBUTION COMPANY, INC. (OEDC),
Applicant.

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D O C K E T E D
Date: NOV 06 2017
By: [Signature]

NOTICE OF PUBLIC HEARING

TO ALL INTERESTED PARTIES:

Notice is hereby given that on 19 April 2017, Olongapo Electric Distribution Company (OEDC) filed an *Application* dated 07 April 2017 (Application) for the confirmation of capital expenditure projects for 2015 to 2016 and approval of capital expenditure projects for 2017 to 2018, with prayer for provisional authority.

In its *Application*, OEDC alleged the following:

1. Applicant is a corporation duly organized and existing under Philippine law, with principal office address at 1170 Rizal Avenue East Tapinac Olongapo City, and is franchised under Republic Act No. 10373 to construct, own, operate and maintain an electric distribution system in the City of Olongapo and its suburbs.
2. OEDC belongs to the Second Entry Group for the Performance Based Regulation ("PBR"). In anticipation of

the finalization of the rules that will govern the regulatory reset for the Fourth Regulatory Period for Second Entry Group (1 April 2017 to 31 March 2021) or pending the regulatory reset process, OEDC is filing this application for the capital expenditure projects implemented in 2015 to 2016 and those for implementation in 2017 to 2018.

3. Pursuant to existing ERC Guidelines particularly Resolution No. 18, Series of 2008, entitled "*Resolution Adopting the Rules for Approval of Regulated Entities' Capital Expenditure Projects*", as amended by Resolution No. 26, Series of 2009 and in relation with Section 43 (f) of Republic Act No. 9136, applicant is filing this Application.
4. The undertaking of the capital expenditure projects for OEDC's network and non-network assets are driven by these factors:

4.1 Load Growth

Over the next ten years, OEDC expects that the total peak demand of the electricity consumers will increase from the present peak demand of about 32.9 MW to 43.5 MW at the rate of annual growth of 1.56% using Energy Utilization Index (EUI) forecasting methodology. Because of this expected load growth, OEDC has to upgrade its substation transformer and distribution system, and put up line extensions. Incidental to this load growth, OEDC has to acquire transportation equipment, office furniture and equipment and other necessary facilities.

4.2 Compliance with Regulatory/Governmental Requirement

This application includes capital expenditure projects that are undertaken in compliance with certain regulatory and governmental requirement such as installation of power quality analyzer and installation of numbering system for poles, line phasing, transformers and other equipment.

4.3 Reliability Improvement

Some of these capital expenditure projects aim to enhance the reliability, efficiency and power quality of OEDC's distribution system. These include construction of substations' 69kV supply tie line, alternate 69kV connection point; and installation of reclosers, disconnecting switches and circuit breakers.

4.4 Communication and Information Technology

Along with the improvements of OEDC's distribution system due to consistent load growth,

OEDC also has to undertake enhancement in its communication and information systems equipment. Part of OEDC's capital expenditure program is the acquisition and development of enterprise financials and asset management system, customer information management system, payment and servicing queuing system and human resource management system in order to improve its processes and to provide quality customer service.

4.5 Renewal/Refurbishment

Other capital expenditure projects are undertaken to improve the existing assets well-maintained, to ensure safety and productivity of the employees and to improve system performance for better customer service. Included are leasehold improvement and replacement of existing non-network assets such as transportation equipment, tools and equipment, office equipment and computer hardware.

5. The major capital expenditure project is shown in the table below:

Major CAPEX Program for 2017 to 2018

Project Code	Major CAPEX Project	Estimated Cost	Annex
	Substation Project : Upgrading		A
AM-01	Development of New 12/15MVA Kale Substation, Installation of 69kV Lines Switching Station and Retirement of Existing 10MVA Kale Substation	PHP 89,007,577	
	Sub Total (Major CAPEX Project)	PHP 89,007,577	

6. The residual capital expenditure projects are presented in the table below:

Residual CAPEX Program for 2015 to 2016

Project Code	Residual CAPEX Projects	Estimate Cost	Annex
	Network		
	Regulatory Compliance	PHP 2,738,735	B
AR-01	Installation of Fixed-Type Power Quality Analyzer at 13.8 kV Substation Feeders and Portable Power Quality Analyzer	PHP 2,738,735	
	Reliability Improvement	PHP 13,125,633	C
AR-02	CBMU and Mercurio Substation 69	PHP 8,886,153	

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	kV Tie Line Construction		
AR-03	Installation of Automatic Circuit Reclosers (ACR) and Disconnecting Switches (DS)	PHP 4,239,480	
	Load Growth	PHP 28,910,105	D
AR-04	Line Extension and Expansion Projects	PHP 16,882,705	
AR-05	Service Materials for New Connections and Reconnections	PHP 12,027,400	
	Renewal /Refurbishment	PHP 43,613,715	E
AR-06	Line Revision and Maintenance Projects	PHP 31,958,115	
AR-07	Service Materials for Connection Maintenance and Repair	PHP 11,655,600	
	Non- Network		
	Communication Plant and Equipment	PHP 7,664,829	F
BR-01	Telephone and Radio Communication Equipment	PHP 342,158	
BR-02	Structured Cabling for CAP Annex Building	PHP 460,839	
BR-03	Improvement of Two-Way VHF Radio Communication Coverage	PHP 622,150	
BR-04	Installation of ICT Infrastructure for New Admin Office (GAN Building)	PHP 5,602,004	
BR-05	Local Area Network Cabling for New Warehouse Office	PHP 58,759	
BR-06	Acquisition and Development of OEDC Email, Website and Online Payment Facility	PHP 578,919	
	Information Systems Equipment: Hardware	PHP 2,839,917	G
BR-07	Replacement of Desktops, Laptops, Printers and Peripherals	PHP 980,825	
BR-08	Acquisition of Desktops, Laptops, Printers and Peripherals	PHP 809,092	
BR-09	Acquisition of Firewall Network Appliance	PHP 397,321	
BR-10	Replacement of Domain Controller Server	PHP 652,679	
	Information Systems Equipment: Software	PHP 13,155,354	H
BR-11	Customer Information Management System (CIMS) Enhancement and Upgrade (ECMS)	PHP 12,878,537	
BR-12	Acquisition of Operating System and Office Productivity Software for Computers	PHP 81,857	
BR-13	Acquisition of Microsoft Visual Studio Professional Software	PHP 55,804	
BR-14	Acquisition of Microsoft SQL Server 2014	PHP 139,156	

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	Structures and Improvements	PHP 5,441,200	I
BR-15	Leasehold Improvements	PHP 5,441,200	
	Office Furniture and Equipment	PHP 6,217,700	J
BR-16	Replacement of Office Furniture and Equipment	PHP 102,300	
BR-17	Acquisition of Office Furniture and Equipment	PHP 3,394,200	
BR-18	Replacement of Meter Reading Devices – Bill On Site	PHP 2,721,200	
	Transportation Equipment	PHP 2,804,100	K
BR-19	Replacement of Vehicles	PHP 995,400	
BR-20	Acquisition of Transportation Equipment	PHP 1,808,700	
	Tools, Shop and Garage Equipment	PHP 3,826,176	L
BR-21	Establishment of Meter Testing Laboratory	PHP 2,579,016	
BR-22	Acquisition of Tools, Shop and Garage Equipment	PHP 715,600	
BR-23	Acquisition of Thermal Scanner	PHP 531,560	
	Sub Total (Residual CAPEX Projects 2015-2016)	PHP 130,337,464	

Residual CAPEX Program for 2017 to 2018

Project Code	Residual CAPEX Projects	Estimated Cost	Annex
	Network		
	Regulatory Compliance	PHP 1,497,008	M
AR-08	Installation of Site and Equipment Identification Project	PHP 1,497,008	
	Reliability Improvement	PHP 1,420,700	N
AR-09	Second Connection Point at NGCP Compound	PHP 1,420,700	
	Load Growth	PHP 13,983,521	O
AR-10	Baloy Line Extension Project	PHP 3,556,200	
AR-11	Provision for Line Extension and Expansion Projects	PHP 5,585,021	
AR-12	Provision of Service Materials for New Connections and Reconnections	PHP 4,842,300	
	Renewal /Refurbishment	PHP 13,293,150	P
AR-13	Provision for Line Revision and Maintenance Projects	PHP 11,543,101	
AR-14	Provision for Service Materials for Connection Maintenance and Repair	PHP 1,750,049	
	Non- Network		

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	Communication Plant and Equipment	PHP 2,600,000	Q
BR-24	Refurbishment of CAP Office Structured Cabling	PHP 2,600,000	
	Information Systems Equipment: Hardware	PHP 2,618,808	R
BR-25	Provision for Replacement of Desktops, Laptops, Printers and Peripherals	PHP 1,443,750	
BR-26	Provision for Desktop, Laptops, Printers and Peripherals	PHP 996,375	
BR-27	Provision for Communication and IT Equipment	PHP 161,183	
BR-28	Replacement of Broadband Stick	PHP 17,500	
	Information Systems Equipment: Software	PHP 13,242,521	S
BR-29	Acquisition and Development of Enterprise Financials and Asset Management System (EFAMS)	PHP 11,075,982	
BR-30	Acquisition and Development of Payment and Servicing Queuing System	PHP 493,286	
BR-31	Acquisition and Development of Human Resource Management and Payroll System	PHP 1,673,253	
	Lands and Land Rights	PHP 15,000,000	T
BR-32	Provision for the Acquisition of Lot/Building for Office	PHP 15,000,000	
	Structures and Improvements	PHP 50,000	U
BR-33	Construction of Differential Billing Evidence Room	PHP 50,000	
	Office Furniture and Equipment	PHP 545,000	V
BR-34	Provision for Replacement of Office Furniture and Equipment	PHP 203,100	
BR-35	Provision for Office Furniture and Equipment	PHP 341,900	
	Transportation Equipment	PHP 4,702,500	W
BR-36	Provision for Replacement of Vehicles and Motorcycles	PHP 3,830,000	
BR-37	Purchase of Spare Service Vehicle	PHP 872,500	
	Tools, Shop and Garage Equipment	PHP 197,500	X
BR-38	Provision for Tools, Shop and Garage Equipment	PHP 197,500	
	Sub Total (Residual CAPEX projects 2017-2018)	PHP 69,150,708	
	Total (Residual CAPEX Projects)	PHP 199,488,172	
	GRAND TOTAL (Major and Residual CAPEX Projects)	PHP 288,495,749	

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7. Shown below is a simulation of the estimated rate impact of the proposed major and residual capital expenditure projects:

	Major Capex	Residual Capex
Total Project Cost, Peso	89,007,577	199,488,172
Add: Working Capital (11.9% of CAPEX)	10,635,690.24	23,837,233.52
Total Asset Base subject to Return	99,643,267	223,325,406
Return on Rate Base/WACC	12%	12%
Annual Revenue Requirement, ARR		
1. OPEX (14.3% of CAPEX)	12,718,737	28,505,861.08
2. Return on Capital	11,957,192	26,799,049
3. Depreciation	5,562,974	12,468,010.75
Total ARR	30,238,903	67,772,920
Energy Sales, kWh	184,505,909	184,505,909
Rate Impact, P/kWh	0.1639	0.3673

Compliance of Pre-Filing Requirements

8. Applicant manifests that it has complied with the pre-filing requirements in accordance with the Implementing Rules and Regulations of the EPIRA and Rule 6 of ERC Rules of Practice and Procedure. Below are the documents as proof of the compliance:

Document	Annex
Acknowledgement of Receipt from the City Council of Olongapo	Y
Affidavit of Publication of the Newspaper Editor	Z
Copy of newspaper where copy of the Application was published	AA

ALLEGATIONS IN SUPPORT OF PRAYER FOR PROVISIONAL AUTHORITY

9. As stated above, due to the continuous growth in the demand of electricity, OEDC needs to implement these projects in order for the distribution system facilities to work efficiently and reliably and to provide better quality of customer services.
10. The construction of the above capital projects takes time and also require long lead time for the ordering of electrical equipment, materials and other electrical hardware as well as finding electrical contractors who can implement the projects.
11. In view thereof, OEDC needs a provisional authority so it can commence the implementation of the project, and enable it to complete the project in a timely manner.

PRAYER

WHEREFORE, it is most respectfully prayed of this Honorable Commission that after due proceedings the implementation of the above capital expenditure projects be approved. Furthermore, an Order granting provisional authority be also issued.

Other just and equitable reliefs are also prayed for.

Applicant likewise prays for such other and further relief as may be deemed just and equitable in the premises.

The Commission has set the *Application* for determination of compliance with jurisdictional requirements, expository presentation, Pre-Trial Conference, and presentation of evidence on **29 November 2017 (Wednesday) at ten o'clock in the morning (10:00 A.M.) at the OEDC's Main Office at 1170 Rizal Avenue, East Tapinac, Olongapo City.**

All persons who have 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 Rules of Practice and Procedure, indicating therein the docket number and title of the case and stating the following:

- i. The petitioner's name and address;
- ii. 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
- iii. 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 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;

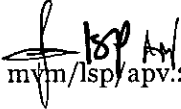
- 2) A concise statement of the Opposition or Comment;
and
- 3) The grounds relied upon.

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 Officer-in-Charge (OIC) Chairman and CEO **ALFREDO J. NON**, and Commissioners **GLORIA VICTORIA C. YAP-TARUC** and **GERONIMO D. STA. ANA**, Energy Regulatory Commission, this 26th day of September 2017 in Pasig City.

FOR AND BY AUTHORITY
OF THE COMMISSION:


JOSEFINA PATRICIA A. MAGPALE-ASIRIT
Oversight Commissioner for Legal


LS: mvm/lsp/apv.2017-030 rc OEDC