

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



**IN THE MATTER OF THE
APPLICATION FOR
APPROVAL OF
CAPITAL EXPENDITURE
PROGRAM FOR YEARS 2016
TO 2019, WITH
APPLICATION FOR
AUTHORITY TO SECURE
LOAN FROM THE
NATIONAL
ELECTRIFICATION
ADMINISTRATION AND
MOTION FOR
PROVISIONAL AUTHORITY,**

ERC CASE NO. 2017-102 RC

**SOUTH COTABATO I
ELECTRIC COOPERATIVE,
INC. (SOCOTECO-I),
Applicant.**

X-----X

D O C K E T E D
Date: MAY 31 2018
By: [Signature]

ORDER

On 27 October 2017, South Cotabato I Electric Cooperative, Inc. (SOCOTECO-I) filed an *Application* dated 14 August 2017 (Application) seeking the Commission's approval of its Capital Expenditure (CAPEX) program for years 2016 to 2019, with application for authority to secure loan from the National Electrification Administration (NEA) and motion for provisional authority.

SOCOTECO-I alleged the following in its *Application*:

THE APPLICANT

1. SOCOTECO-I 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 Brgy. Morales, City of Koronadal, South Cotabato;

2. It holds an exclusive franchise issued by the National Electrification Commission to operate an electric light and power distribution service in the City of Koronadal and certain municipalities of the Province of South Cotabato, namely: Tampakan, Tantangan, Banga, Surallah, T'Boli, Lake Sebu, Sto. Niño and Norala, as well as the Municipality of Lutayan, in the Province of Sultan Kudarat.

LEGAL BASES FOR THE APPLICATION

3. The instant application is being filed for the Honorable Commission's consideration and approval of SOCOTECO-I's proposed Capital Expenditure (CAPEX) Projects for Years 2016 to 2019 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;
4. On the other hand, the accompanying application for authority to secure loan from the National Electrification Administration (NEA) in connection with the funding source for the proposed 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.

THE PROPOSED PROJECTS

5. SOCOTECO-I's proposed CAPEX Projects subject of the instant application are summarized hereunder, as follows:

PROPOSED NETWORK RELATED PROJECTS					
Project	Project Type	Project Category	Project Title	Project Cost (PhP)	Year of Implementation
N-01	Power Quality	Subtransmission Development	Construction of Double Circuit 69kV Sub-Transmission Line	98,569,125	2017
N-02	Safety	Subtransmission and Primary Distribution Development	Relocation of Subtransmission and Distribution Lines	32,543,681	2017-2018
N-03			Refurbishment of Sub-transmission and Distribution Line	19,420,827	2017-2019
N-04	Capacity	Primary Distribution Project-Contingency Project	Installation of 1MVA, 13.2/34.5kV Substation	6,282,114	2016
N-05	Reliability Improvement	Primary Distribution Project	Interconnection of Feeder 12 and Feeder 41	3,081,166	2018
N-06	Capacity	Primary and Secondary Line Distribution Project	Distribution Line Expansion	3,875,037	2018

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N-07	Reliability Improvement	Reliability Improvement Projects	Installation of 69kV Load Break Switch	1,076,061	2018
N-08			Installation of Phase II-SCADA Facilities	24,909,567	2018
N-09	Capacity	Other Network Requirements - Distribution Transformers	Distribution Transformer Expansion Requirement	116,551,863	2017-2019
N-10	Capacity	Other Network Requirements - Metering Equipment	kWh-Meter Expansion Requirement	124,257,177	2017-2019
N-11	System Loss Reduction		Replacement of Defective Metering Facilities	22,530,410	2017-2019
N-12			Relocation of kWh-meters	10,106,820	2017-2019
N-13			Installation of Metering Totalizer	3,500,000	2018
N-14	Reliability Improvement		Buffer Stock	75,074,956	2017-2019
Total				541,778,804	
PROPOSED NON-NETWORK RELATED PROJECTS					
Project	Project Type	Project Category	Project Title	Project Cost (PhP)	Year of Implementation
NN-01	Non-Network Projects	Property/ Equipment/ Others	Structures and Improvements	36,603,632	2017-2018
NN-02			Backup Power Supply	2,000,000	2017
NN-03			Air Conditioning Units	1,032,150	2017
NN-04			Transportation Equipment	62,350,000	2017-2018
NN-05			Extension of Warehouse Facility	500,000	2017
NN-06			Purchase of Forklift Vehicle	1,000,000	2017
NN-07			Purchase of Motorpool Equipment	2,650,000	2017-2018
NN-08			Information System Equipment	48,570,100	2017-2019
NN-09			Purchase of Drive by Inspection System (DIS)	3,300,000	2017
NN-10			Automatic Integrated Transformer Test Bench and Portable Dielectric Oil Tester	3,541,856	2017
NN-11			Purchase of Portable Electricity Meter Test Equipment	2,800,000	2017
NN-12			Information Education Campaign (IEC) Equipment	4,470,000	2017-2018
Total				168,817,738	
GRAND TOTAL				710,596,542	

THE CAPITAL EXPENDITURE PLAN

6. The proposed projects together with justifications are discussed in detail in the cooperative's Capital Expenditure Plan for Years 2016 to 2019 together with supporting data presented in ERC-specified templates.

FINANCIAL AND ECONOMIC EVALUATION

7. **Financing Plan.** SOCOTECO-I's proposed projects will be

financed partly with funds to be acquired through loans from the National Electrification Administration (NEA) and partly with its Reinvestment Fund for Sustainable Capital Expenditure (RFSC). Presented in the Table below are the CAPEX plan financiers to be pursued and the corresponding costs to be financed with moderate cost inflation factor of 3.5% to 5%, to wit:

Source of Funds	Annual Project Cost (PhP)				
	2016	2017	2018	2019	Total
RFSC		54,651,146	64,740,410	32,186,590	151,578,146
NEA Loan		360,168,905	125,999,907	66,567,470	552,736,282
General Fund	6,282,114				6,282,114
Total	6,282,114	414,820,051	190,740,317	98,754,060	710,596,542

8. **Cash Flow.** SOCOTECO-I's cash flow shows that it can viably pursue and implement the 3-year CAPEX Plan without necessarily resulting in significant increase in its electricity rates. The Table below presents its Annual CAPEX Budget, to wit:

Source of Funds	Annual Amortization/Financial Requirements (PhP)				
	2016	2017	2018	2019	Total
RFSC		54,651,146	64,740,410	32,186,590	151,578,146
NEA Loan		360,168,905	125,999,907	66,567,470	552,736,282
General Fund	6,282,114				6,282,114
Sub-Total	6,282,114	414,820,051	190,740,317	98,754,060	710,596,542
CAPEX Permit Fee	47,116	3,111,150	1,430,552	740,655	5,329,474
Total CAPEX Plan Cost to Customers	6,329,230	417,931,201	192,170,869	99,494,715	715,926,016

9. Further, the whole capital expenditure structure of SOCOTECO-I also considered previous indebtedness incurred in financing past capital projects outstanding as of December 31, 2016, such that including the amortization of the said indebtedness will have the cash flow shown in the Table below, as follows:

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

Particulars	2017	2018	2019	TOTAL
Revenue from RFSC	129,115,631	139,825,726	151,376,794	420,318,151
CAPEX Plan Internal Financing/RFSC	60,933,260	64,740,410	32,186,590	157,860,260
CAPEX Plan Amortization	31,553,240	86,657,319	97,425,984	215,636,544
CAPEX Permit Fee	9,312,065	1,482,098	779,299	11,573,463
Sub-Total CAPEX Plan Cost	101,798,566	152,879,827	130,391,874	385,070,266
Previous Loan Amortization	36,885,426	34,569,434	34,005,362	105,460,222
Total CAPEX Plan Cost	138,683,991	187,449,261	164,397,236	490,530,489

Net Cash Flow	-9,568,360	-47,623,535	-13,020,442	-70,212,337
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10. **Rate Impact.** The CAPEX Plan is envisioned to have the least rate impact focusing on a capital expenditure plan that will bring the most value to SOCOTECO-I's customers at the most reasonable and justifiable electricity rate or at the least cost of service. Presented in the Table below is the annual rate impact on the RFSC of the CAPEX Plan, to wit:

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

	2017	2018	2019	TOTAL
Forecasted energy sales, kWh	241,789,571	261,845,929	283,477,143	787,112,643
Cash balance beginning, PhP, excess/(shortfall)	60,609,035	51,040,675	3,417,139	60,609,035
CASH INFLOWS				
Current Year Collection @PhPo.5340/kWh	129,115,631	139,825,726	151,376,794	420,318,151
Loan Proceeds from Financial Institutions, PhP	360,168,905	125,999,907	66,567,470	552,736,282
Total Cash Inflows, PhP	489,284,536	265,825,633	217,944,264	973,054,433
Available Cash for Disbursement	549,893,571	316,866,308	221,361,403	1,033,663,468
CASH OUTFLOWS				
CAPEX requirement	414,820,051	190,740,317	98,754,060	704,314,428
General Fund Replenishment, (CAPEX 2016), PhP	6,282,114			6,282,114
Old Debt (old amortization)	36,885,426	34,569,434	34,005,362	105,460,222
New Amortization (new CAPEX), PhP	31,553,240	86,657,319	97,425,984	215,636,544
Guarantee Fee, PhP	64,448	51,546	38,644	154,637
ERC Permit Fee (previous CAPEX), PhP	6,089,351			6,089,351
ERC Permit Fee, PhP	3,158,266	1,430,552	740,655	5,329,474
Total Cash Outflows, PhP	498,852,896	313,449,168	230,964,706	1,043,266,771
Cash balance ending, PhP, excess/(shortfall)	51,040,675	3,417,139	(9,603,302)	(9,603,302)
Excess/(shortfall) on RFSC, PhP/kWh	0.2111	0.0131	(0.0339)	(0.0122)

There is no rate impact shown for 2016 since the 2016 Project (Installation of 1MVA, 13.2/34.5kV Substation) is initially funded with the cooperative's General Fund, to be replenished with its RFSC in the succeeding year, 2017.

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

11. Applicant respectfully repleads herein the foregoing allegations;
12. As shown in the Table on Paragraph 5 above, some of the proposed projects have schedules of commissioning which are expected to happen while the instant application is pending;

13. Furthermore, unforeseen situations or occurrences may arise which might necessitate the immediate implementation of any of the proposed CAPEX projects;
14. In view thereof, applicant respectfully moves for a provisional authority while the instant application is pending, to implement any of the proposed projects as may become necessary and urgent under prevailing circumstances, as well as obtain loan from the NEA to finance the same, to enable the cooperative to deliver a safe, more reliable and efficient electric service to its consumers.

**SUBMISSION OF DOCUMENTARY AND
PRE-FILING REQUIREMENTS**

15. Finally, in compliance with the documentary as well as pre-filing requirements for the instant application, applicant is submitting herewith the following documents which are being made integral parts hereof, to wit:

Annex Markings	Nature of Document
A	Capital Expenditure Plan for Years 2016 to 2019
B to B-1	Affidavit of Posting of Notice to Consumers and the Notice to Consumers
C	Affidavit of Undertaking that the corresponding application for approval of concerned agencies shall be filed, when required
D	Supporting documents for the application for authority to secure loan from NEA
E	Judicial Affidavit in Support of the Motion for Provisional Authority
F and series	Proof of furnishing of copies of the Application to the Sangguniang Panlungsod of Koronadal City and Sangguniang Panlalawigan of South Cotabato
G and series	Publication of the Application in a newspaper of general circulation within SOCOTECO-I's franchise area or where it principally operates, with Affidavit of Publication

PRAYER

WHEREFORE, premises considered, it is respectfully prayed of this Honorable Commission that:

1. Upon initial review of the instant application and pending evaluation hereof, SOCOTECO-I be provisionally permitted to implement any of the proposed projects as may be deemed necessary and urgent under prevailing circumstances, and to secure loan from the National Electrification Administration to finance the same; and
2. After due notice and hearing, the cooperative's proposed Capital Expenditure Projects for Years 2016 to 2019 as

well as availment of loan from the National Electrification Administration to partly finance the same, be approved accordingly.

Other reliefs, just and equitable in the premises are likewise prayed for.

Finding the said *Application* sufficient in 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 **20 June 2018 (Wednesday) at ten o'clock in the morning (10:00 A.M.), at SOCOTECO I's principal office at Brgy. Morales, City of Koronadal, South Cotabato.**

Accordingly, SOCOTECO-I 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 Governors, the City and Municipal Mayors, and the Local Government Unit (LGU) legislative bodies within the affected areas 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 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 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 the affidavits of the Editor or Business Manager of the newspapers where the said Notice of Public Hearing was published, and the complete issue 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 the means employed by Applicant 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 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 *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 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 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 the said date of cancellation.

Applicant 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, 23 May 2018.

FOR AND BY AUTHORITY
OF THE COMMISSION:

JOSEFINA PATRICIA A. MAGPALE-ASIRIT
Oversight Commissioner for Legal


LS: KJP/ESP/APV

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COPY FURNISHED:

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3. Commission on Audit
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4. Senate Committee on Energy
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Metro Manila
5. House Committee on Energy
Batasan Hills, Quezon City, Metro Manila
6. Office of the Provincial Governor
Province of South Cotabato
7. Office of the Sangguniang Panlalawigan
Province of South Cotabato
8. Office of the City Mayor
Koronadal City, South Cotabato
9. Office of the Sangguniang Panlungsod
Koronadal City, South Cotabato
10. Office of the Municipal Mayor
Tampakan, South Cotabato
11. Office of the Sangguniang Bayan
Tampakan, South Cotabato
12. Office of the Municipal Mayor
Tantangan, South Cotabato
13. Office of the Sangguniang Bayan
Tantangan, South Cotabato
14. Office of the Municipal Mayor
Banga, South Cotabato
15. Office of the Sangguniang Bayan
Banga, South Cotabato
16. Office of the Municipal Mayor
Surallah, South Cotabato
17. Office of the Sangguniang Bayan
Surallah, South Cotabato
18. Office of the Municipal Mayor
T'Boli, South Cotabato
19. Office of the Sangguniang Bayan
T'Boli, South Cotabato

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20. Office of the Municipal Mayor
Lake Sebu, South Cotabato
21. Office of the Sangguniang Bayan
Lake Sebu, South Cotabato
22. Office of the Municipal Mayor
Sto. Niño, South Cotabato
23. Office of the Sangguniang Bayan
Sto. Niño, South Cotabato
24. Office of the Municipal Mayor
Norala, South Cotabato
25. Office of the Sangguniang Bayan
Norala, South Cotabato
26. Office of the Provincial Governor
Province of Sultan Kudarat
27. Office of the Sangguniang Panlalawigan
Province of Sultan Kudarat
28. Office of the Municipal Mayor
Lutayan, Sultan Kudarat
29. Office of the Sangguniang Bayan
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