

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

IN THE MATTER OF THE
APPLICATION FOR THE APPROVAL
OF THE PROPOSED FIVE (5) YEAR
CAPITAL EXPENDITURE PROJECTS
AND AUTHORITY TO SECURE LOAN
FROM THE NATIONAL
ELECTRIFICATION ADMINISTRATION
(NEA)

ERC CASE NO. 2011-005 RC

CEBU II ELECTRIC COOPERATIVE,
INC. (CEBECO II),

Applicant.

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DOCKETED

Date: JAN 28 2011

By: _____

ORDER

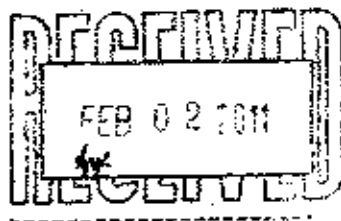
On January 7, 2011, the Cebu II Electric Cooperative, Inc. (CEBECO II) filed an application for the approval of its proposed five (5) year capital expenditure projects and authority to secure loan from the National Electrification Administration (NEA).

In the said application, CEBECO II alleged, among others, the following:

1. It is an electric cooperative created and existing pursuant to the provisions of Presidential Decree No. 269 as amended, with principal office located at Malingin, Bogo, Cebu, Philippines, represented herein by its General Manager, Mr. Peter B. Señeres, duly authorized by virtue of Resolution No. 98, Series of 2010 dated December 4, 2010, of the Board of Directors.

The filing of the instant application is likewise authorized under the aforecited Board Resolution No. 98, Series of 2010;

2. It has been granted by the NEA an authority to operate and distribute electric light and power within the coverage area comprising the City of Danao and the Municipalities of Bogo, Borbon, Carmen, Catmon,



Compostela, DaanBanatyan, Medellin, San Remigio, Sogod, Tabogon, Tabuelan and Tuburan;

The Application and its Purpose

3. The application is filed in compliance with ERC Resolution No. 26, Series of 2009 (A Resolution Amending the Rules for Approval of Regulated Entities' Capital Expenditure Projects)" adopted pursuant to the mandate of Section 43 of Republic Act No. 9136 (R.A. 9136) otherwise known as the Electric Power Industry Reform Act of 2001 (EPIRA) and its implementing Rules and Regulations (IRR), in relation to ERC Resolution No. 13, Series of 2006 entitled "A Resolution Adopting the Guidelines to Govern the Submission, Evaluation and Approval of Electric Distribution Capital Projects" and ERC Resolution No. 18 dated December 15, 2008 entitled "A Resolution Adopting the Rules for Approval of Regulated Entities' Capital Expenditure Projects", which categorically provides that all capital expenditure (CAPEX) projects shall be submitted to and for the approval of the Commission prior to its implementation;
4. The aforementioned Guidelines were adopted and issued by the Commission in the furtherance of the following rationale:
 - To ensure that the projects are timely, appropriate, necessary and cost efficient;
 - To ensure that the proposed capital projects are consistent with the Distribution Development Plan (DDP), the Philippine Grid Code (PGC), the Philippine Distribution Code (PDC) and other relevant government issuances; and
 - To ensure that the procurement of equipment, materials and services are transparent, competitive and compliant with the applicable laws and regulations.

The Projects

5. In accordance with the aforementioned Guidelines, consistent with its DDP and the duly evaluated, verified and approved Integrated Computerized Planning Module (ICPM), it plans to acquire, construct and implement the following five (5) year CAPEX projects with a total approximate cost of Four Hundred Sixty-One Million Seven Hundred Ninety Thousand Nine Hundred Pesos (PhP461,790,900.00):

5.1 Description of the Capital Projects:

5.1.1 Network CAPEX Projects:

Safety Capital Projects:

Project Code	Project Description	Year of Implementation					Total Cost (PHP '000)
		2011	2012	2013	2014	2015	
DSC011	Installation of a Automatic Circuit Recloser	1,391	0	0	0	0	1,391

Capacity Capital Projects:

Project Code	Project Description	Year of Implementation					Total Cost (PHP '000)
		2011	2012	2013	2014	2015	
SSD003	Installation of a 10MVA Power Substation in Carmen	40,326	0	0	0	0	40,326

Power Quality Capital Projects:

Project Code	Project Description	Year of Implementation					Total Cost (PHP '000)
		2011	2012	2013	2014	2015	
DPQ012	Main distribution line development	0	12,113	0	0	0	12,113
DPQ013	Installation of a Automatic Voltage Regulator	4,535	0	0	0	0	4,535

Subtransmission Reliability Projects:

Project Code	Project Description	Year of Implementation					Total Cost (PHP '000)
		2011	2012	2013	2014	2015	
TXD001	69 kV Line Subtransmission Development Project	0	76,214	0	0	0	76,214
TXD002	69 kV Line Subtransmission refurbishment Project	0	9,213	0	0	0	9,213

Distribution Reliability Projects:

Project Code	Project Description	Year of Implementation					Total Cost (PHP '000)
		2011	2012	2013	2014	2015	
DPR004	Automatic Circuit Recloser & Disconnection Switch Installation	1,574	0	0	0	0	1,574
DPR005	Automatic Circuit Recloser & Disconnection Switch Installation	1,528	0	0	0	0	1,528
DPR006	Automatic Circuit Recloser & Disconnection Switch Installation	1,560	0	0	0	0	1,560
DPR007	Automatic Circuit Recloser & Disconnection Switch Installation	787	0	0	0	0	787
DPR008	CONSTRUCTION OF A SECOND CKT, @ 2.3Km FROM DAYHAGON Substation and the installation the of Automatic Circuit Recloser; & Disconnection Switch	0	4,314	0	0	0	4,314
DPR009	Automatic Circuit Recloser & Disconnection Switch Installation	787	0	0	0	0	787
DPR010	Automatic Circuit Recloser & Disconnection Switch Installation	787	0	0	0	0	787

5.1.2 Other Network CAPEX:

Project Code	Project Description	Year of Implementation					Total Cost (PHP '000)
		2011	2012	2013	2014	2015	
NSC	Additional 1Phase distribution lines	1,643	1,753	1,863	1,972	2,082	9,313
DT	Additional Distribution capacity	3,917	4,173	4,429	4,788	5,050	22,357
LV	Additional distribution lines in open secondary & udder built form	9,175	9,787	10,399	11,012	11,625	51,998
NSC	Additional Customer Service Drop line	3,828	4,007	4,183	4,353	4,516	20,884
NSC	Additional KWH metering equipment	11,881	12,399	12,894	13,364	13,876	64,414

Rural Electrification and other projects with funding subsidy

Municipality/City	No. of Projects	LGU Funded
Bogo	10	1,657,701
Borbon	13	5,542,533
Carmen	15	2,084,321
Catmon	8	1,448,019
Compostela	17	2,193,845
Daanbantayan	12	3,430,286
Danao City	30	7,939,157
Medellin	1	73,025
San Remigio	41	7,315,710
Sogod	5	1,676,553
Tabogon	7	2,093,486
Tabuelan	9	4,386,357
Tuburan	14	8,774,847
Grand Total	182	48,615,840

5.1.3 Non-Network CAPEX

Project Code	Project Description	Year of Implementation					Total Cost (PHP '000)
		2011	2012	2013	2014	2015	
NN-01	Vehicles	14,225	14,220	9,892	2,965	9,969	51,270
NN-02	Softwares (GIS AMFM)	3,000	0	0	0	0	3,000
NN-03	Softwares (Systems Loss Segregator)	600	0	0	0	0	600
NN-04	Softwares (SCADA)	0	2,675	0	0	0	2,675
NN-05	Offices	11,500	35,310	8,014	3,675	5,243	63,743
NN-06	Generator Set	1,048	42	0	0	0	1,090
NN-07	Insulation Power Factor Tester	1,800	0	0	0	0	1,800
NN-08	Live Line Tool	0	5,350	0	0	0	5,350
NN-09	Line Tools and Equipment	475	591	315	245	203	1,829
NN-10	Other Softwares (Antivirus, Office, Synergee)	622	135	145	155	166	1,222
NN-11	Trainings and Seminars	800	310	767	98	105	1,880
NN-12	Computers (Laptops, Desktop, Server, UPS)	356	47	309	54	0	766
NN-13	Communications Equipments	461	161	180	368	0	1,169
NN-14	Meter Test Rack	1,300	0	0	0	0	1,300

5.2 Type of the Capital Expenditure Projects in accordance with Section 2.3 of Resolution No. 26, Series of 2009:

- 5.2.1 As described above in Section 5.1.1, the projects are categorized as Network CAPEX which will address safety, capacity, power quality and reliability of the distribution system of the electric cooperative including the sub-transmission;
- 5.2.2 The Other Network CAPEX projects as shown in 5.1.2 are intended in responding to customer requirements in terms of additional distribution transformers, meters and extension of lines due to annual customer growth as forecasted including replacement and rural electrification projects; and
- 5.2.3 Its Non-Network CAPEX projects as categorized and indicated in 5.1.3 will enhance its capability in responding to customer requests and concerns for more better and efficient electric service. Further, its facilities and equipment will be responsive to quality service that the consumers deserve.

Justification of the Capital Projects

- 6. With the prevailing situation in the electric power industry vis-à-vis the consumers' demand, it deems it appropriate to embark on asset development and expansion under the following justifications:
 - 6.1 Network projects are needed to be implemented in order to address the changes in the power industry and growing demands of the consumers. The need for a more reliable power service and system's reliability necessitates projects like interconnecting the subtransmission lines and installing reclosers and switches on the distribution system which will shorten outages or eliminate maintenance downtime. Installation of Automatic Voltage Regulators (AVR) and upgrading distribution lines to accommodate the load growth will improve voltages and lower line losses, in compliance with the PGC and PDC Standards;
 - 6.2 Other Network CAPEX such as kwhr meters, service drop wires and additional distribution transformers are necessary to serve additional loads; and
 - 6.3 The increasing demand for better services compels it to improve its operation more particularly on fast and accurate reading of meters, functional and comfortable collection/action centers, speedy response to consumer request and complaints, safe and reliable subtransmission and distribution system, which demands can only be addressed by it with the proposed non-network CAPEX project;
- 7. The procurement of the aforementioned projects are of great necessity in the schedules herein provided. The known and perceived adverse effects for the non-procurement of the projects are the following:
 - 7.1 Deterioration of the quality of service. Substations, transformers and distribution lines will be overloaded, resulting to deterioration

power quality. Thus, it will be difficult for the it to lessen power interruptions and shorten its duration;

7.2 Non-implementation of other network CAPEX generally aimed to serve the new consumers will affect such future connections for lack of new meters, service drop wires and distribution transformers to support imminent increase load growth; and

7.3 Non-network CAPEX projects are essential in the operation of its offices for collection and vehicle's maintenance and operation;

8. If a Force Majeure or Fortuitous event, as the case may be, occurs, which affects the implementation of the project, it shall seek the Commission's confirmation of the implementation of the capital projects arising from such event;

Related and Indispensable Documents

9. Consistent with the requirement of the filing of applications for approval of capital projects, it attached and made an integral part of this application the related and indispensable documents thereof.

Board Approval of the Proposed Projects

10. Finding the proposed CAPEX projects reasonable, appropriate, necessary and beneficial to the consumers, it being envisioned to further their interests and there being no adverse effects on its implementation, but rather results to service decline if not achieved and implemented on the periods it is projected to occur, its Board of Directors passed Resolution No. 97, Series of 2010 dated December 4, 2010 approving the proposed Projects;
11. Likewise attached herewith is the Sworn Statement of its General Manager, Mr. Peter B. Señeres, duly authorized for the purpose, showing the fact that an application for approval from the concerned agencies having interest in the proposed project such as the Department of Environment and Natural Resources (DENR), the Department of Energy (DOE), the NEA, and the Province of Cebu, will be filed by it with said entities before implementation of said Capital Projects and will furnish the Commission within five (5) days from date of filing;
12. Information on the proposed capital projects had been widely disseminated through posting in the conspicuous places of the City of Danao and the Municipalities of Bogo, Borbon, Carmen, Catmon, Compostela, DaanBantayan, Medellin, San Remigio, Sogod, Tabogon, Tabuelan, and Tuburan as certified to by the Office of the Mayor of the aforementioned localities and as certified to by Mr. Bryan G. Raza. The Notices posted in the areas aforementioned specifically contained the following:
- a. The proposed projects;
 - b. The reasons for proposing said projects;
 - c. The source of fund for the said projects; and
 - d. The indicative rate impact of the said projects.

Sources of Fund for the Projects

13. In the implementation of the proposed projects, it shall partly utilize its internally generated funds out of the Members' Contribution for Capital Expenditure Projects (MCC), and part of the fund shall be sourced through loans from the NEA;

Application for Loan Authority

14. As far as the funds sourced from loans with the NEA is concerned, a loan authority to secure such loan from the NEA is likewise applied herewith. Attached is the amortization schedule for the repayment of the loan as well as the interest rate proposed by said government agency and other related documents required in the securing of the said loan authority. Copy of the loan agreement shall be submitted to the Commission when said loans are actually entered into with NEA;

Compliance with Pre-Filing Requirements:

15. In compliance with Section 2, Rule 6 of the ERC Rules of Practice and Procedures, it had furnished copies of this application together with all its annexes and accompanying documents the Legislative Body of the Municipality of Bogu, where it principally operates and the Legislative Body of the Province of Cebu, considering that the Municipality of Bogu where it principally operates is a component thereof. Likewise, the application was published in The Freeman, a newspaper of general circulation within its franchise area;
16. As proof of compliance of the service of the copies of the application together with all its annexes and accompanying documents, and its publication in the newspaper of general circulation within its franchise area, are the certifications issued by the Secretaries of the Local Government Units concerned. Likewise, attached hereto are the Affidavit of Publication executed by the Editor-in-Chief of The Freeman, and a copy of the said newspaper pages 28 and 29, December 31, 2010 issue, containing the published application;
17. Prior to the filing of this application, a pre-filing conference with the concerned staff of the Commission was conducted pursuant to Section 4 of Rule 6, and for purposes of determining completeness of the supporting documents attached to the application;
18. It prays that after due notice and hearing, the CAPEX projects subject of this application be approved, declared just, reasonable, and equitable pursuant to the provisions of ERC Resolution No. 26, Series of 2009, in relation to Resolution No. 13, Series of 2006 and Resolution No. 18, Series of 2008 and other related laws, rules and regulations; and
19. It further prays that it be allowed to include in its rate, when necessary and appropriate, the cost of the projects when actually undertaken and achieved for the purpose of recovering the cost thereby incurred.

Finding the said application to be sufficient in form and in substance with the required fees having been paid, the same is hereby set for jurisdictional

hearing, expository presentation, pre-trial conference and evidentiary hearing on **March 24, 2011 (Thursday) at eight-thirty in the morning (8:30 A.M.) at the CEBECO II Multi-Purpose Hall, Main Office, Malingin, Bogo, Cebu.**

CEBECO II is hereby directed to cause the publication of the attached Notice of Public Hearing, at its own expense, twice (2x) for two (2) successive weeks in two (2) newspapers of general circulation in the Philippines, with the date of the last publication to be made not later than ten (10) days before the date of the scheduled initial hearing. It is also directed to inform the consumers within its franchise area, by any other means available and appropriate, of the filing of the instant application, its reasons therefor, and of the scheduled hearing thereon.

Let copies of the application, this Order and the attached Notice of Public Hearing be furnished 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.

Likewise, let copies of this Order and the attached Notice of Public Hearing be furnished the Offices of the Mayors of the Cities/Municipalities within CEBECO II's franchise area for the appropriate posting thereof on their respective bulletin boards.

CEBECO II is hereby directed to furnish all those making requests therefor with copies of the application and its attachments, subject to reimbursement of reasonable photocopying costs.

On the date of the initial hearing, CEBECO II must submit to the Commission its written Compliance with the jurisdictional requirements attaching therewith, methodically arranged and duly marked, the evidences on the actual posting and publication of the Notice of Public Hearing consisting of certifications issued to that effect, signed by the afore-mentioned Mayors or their duly authorized representatives, bearing the seals of their offices, and the affidavits of the Editors or Business Managers of the newspapers where the said Notice of Public Hearing were published together with the complete issues of the said newspapers, and such other proofs of compliance with the requirements of the Commission.

CEBECO II 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 CEBECO II 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.

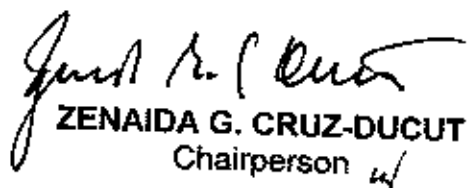
As part of the pre-trial conference, CEBECO II must also be prepared to make an expository presentation of its application, aided by whatever

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 of the same.

SO ORDERED.

Pasig City, January 24, 2011.

FOR AND BY AUTHORITY
OF THE COMMISSION:


ZENAIDA G. CRUZ-DUCUT
Chairperson

Copy Furnished:

1. **Atty. Alan C. Gaviola**
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2. **Mr. Peter B. Sefteres**
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3. **Office of the Solicitor General (OSG)**
134 Amorsolo Street, Legaspi Village,
City of Makati 1229
4. **Commission on Audit (COA)**
Commonwealth Avenue,
Quezon City 1121
5. **Senate Committee on Energy**
GSIS Building, Roxas Boulevard,
Pasay City 1300
6. **House of Representatives Committee on Energy**
Batasan Hills, Quezon City 1126
7. **The Office of the Governor**
Cebu
8. **The Office of the City Mayor**
City of Danao, Cebu
9. **The Office of the Municipal Mayor**
Bogo, Cebu
10. **The Office of the Municipal Mayor**
Medellin, Cebu
11. **The Office of the Municipal Mayor**
Daanbantayan, Cebu
12. **The Office of the Municipal Mayor**
San Remigio, Cebu
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16. **The Office of the Municipal Mayor**
Tabuelan, Cebu
17. **The Office of the Municipal Mayor**
Tuburan, Cebu
18. **The Office of the Municipal Mayor**
Catmon, Cebu
19. **The Office of the Municipal Mayor**
Carmen, Cebu
20. **The Office of the Municipal Mayor**
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21. **Mr. Edgardo G. Lacson**
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