

Republic of the Philippines
ENERGY REGULATORY COMMISSION
Pasig City

**IN THE MATTER OF THE
APPLICATION FOR THE
APPROVAL OF THE
PROPOSED CAPITAL
EXPENDITURE PROJECTS
FOR THE YEARS 2025 – 2027**

ERC CASE NO. 2024-149 RC

**SURIGAO DEL SUR II
ELECTRIC COOPERATIVE,
INC. (SURSECO II),**

Applicant.

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Promulgated:
December 06, 2024

NOTICE OF VIRTUAL HEARING

TO ALL INTERESTED PARTIES:

Notice is hereby given that on 30 October 2024, Surigao del Sur II Electric Cooperative, Inc. (SURSECO II) filed, through the Energy Virtual One-Stop Shop (EVOSS) portal, an *Application*, dated 18 August 2024, seeking the Commission’s approval of its Capital Expenditure (CAPEX) projects for 2025 to 2027.

The pertinent allegations of the *Application* are hereunder quoted as follows:

THE APPLICANT

1. Applicant Surigao del Sur II is an Electric Cooperative created and existing pursuant to the provisions of Presidential Decree No. 269 as amended, with principal office located at Balilahan, Mabua, Tandag City, Surigao del Sur, Philippines, represented herein by its General Manager, Roel E. Abad, duly authorized by virtue of Board Resolution No. 105, Series of 2024 dated 06 June 2024 of the Board of Directors, copy of which is attached hereto as Annex “A” and made an integral part hereof.

The filing of the instant *Application* is likewise authorized under the aforecited Board Resolution;

2. Applicant has been granted by the National Electrification Administration (NEA) an authority to operate and distribute electric light and power in the City of Tandag and the Municipalities of Carrascal, Cantilan, Madrid, Carmen, Lanuza, Cortes, Tago, San Miguel, Bayabas, Cagwait, Marihatag, San Agustin and Lianga, all in the Province of Surigao del Sur.

THE APPLICATION AND ITS PURPOSE

3. This 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 otherwise known as the Electric Power Industry Reform Act of 2001 (EPIRA) and its implementing Rules and Regulations, which categorically provides that all capital expenditure projects (CAPEX) shall be submitted to and for the approval of the Commission prior to its implementation, in relation to ERC Resolution No. 20, Series of 2011 which sets the timelines for the filing of the instant application;
4. The aforecited amended rules was issued by the Honorable Commission 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 Philippines 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.
5. In accordance with the Amended CAPEX Rules, consistent with the Distribution Development Plan and the Philippine Distribution Code, Applicant shall acquire, construct and implement the following capital expenditure projects for the year 2025-2027 with a total approximate cost of Three Hundred Thirty-Seven Million Nine Hundred Ten Thousand Two Hundred Eighty-Six and Thirty-One Centavos (PhP 337,910,286.31).

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Summary of the Proposed Projects with Corresponding Costs
for the Years 2025 - 2027

No.	Asset Category	Title	Type	Year Implemented / Year of Implementation	Project Cost
1	Network	Re-routing and Rehabilitation of Electrical Facilities	Safety	2025-2026	36,519,933.06
2	Network	Replacement of Deteriorated Distribution Poles	Safety	2024-2027	30,298,625.08
3	Non-Network	Lineman Tools and PPE Requirement	Safety	2025-2027	15,141,849.15
4	Non-Network	Motorpool Tools and PPE Requirement	Safety	2025-2027	3,691,234.20
5	Other Network	Distribution Transformer Requirement	Capacity	2025-2027	36,838,702.98
6	Other Network	Connection Requirement for New Costumers	Capacity	2025-2027	35,906,726.46
7	Other Network	ROCA and GEOP Metering Requirement	Capacity	2025-2027	1,479,510.26
8	Other Network	Buffer Stock Requirement for Contingency	Reliability	2025-2027	88,979,221.56
9	Other Network	Kilowatt-hour Meter Replacement	System Loss	2025-2027	33,808,536.40
10	Other Network	SCADA Implementation at Substation Level	Service Efficiency	2025; 2027	10,892,270.36
11	Non-Network	Concreting of Access Road of Cagwait Substation	Service Efficiency	2025	1,812,609.86
12	Non-Network	Special Equipment Requirement	Service Efficiency	2025-2027	9,891,956.58
13	Non-Network	Vehicle Requirement	Service Efficiency	2025-2026	13,101,245.41
14	Non-Network	Communication Equipment Requirement	Service Efficiency	2027	1,651,343.68
15	Non-Network	IT Equipment Requirement	Service Efficiency	2025-2027	9,182,343.30
16	Non-Network	New Office Equipment, Furniture, and Fixtures	Service Efficiency	2025-2027	7,123,238.70
17	Non-Network	Conversion and Renovation of Old IT Room to Company Clinic, Construction of Staff & Guest House - Phase 1 (Main Office) and Construction of Covered Walkway (Main Office)	Service Efficiency	2025-2026	1,590,939.27
TOTAL CAPEX PROJECT COSTS					337,910,286.31

Justification of the CAPEX Projects

No.	Title	Project Type	Rationale
1	Re-routing and Rehabilitation of Electrical Facilities	Safety	The proposed project aims to relocate facilities into the road right-of-way to ensure that SURSECO II's linemen have swift access during emergencies, maintenance, and distribution line upgrades, thereby enhancing overall safety.
2	Replacement of Deteriorated Distribution Poles	Safety	The project is intended to replace old, deteriorated and improvised poles to meet the safety requirements of the distribution network.

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3	Lineman Tools and PPE Requirement	Safety	The project will equip SURSECO II's linemen with the appropriate tools and equipment to ensure safety and improve efficiency.
4	Motor pool Tools and PPE Requirement	Safety	The procurement of motorpool tools and PPEs will enhance operational efficiency and ensure a safe working area.
5	Distribution Transformer Requirement	Capacity	This project will address the forecasted growth of power demand within the franchise area of SURSECO II and maintain an inventory to immediately replace any defective and busted distribution transformers.
6	Connection Requirement for New Customers	Capacity	The project involves the procurement and installation of additional kWh-meters and service drop wire to accommodate the connection requirements of new customers.
7	RCOA and GEOP Metering Requirement	Capacity	The project involves the procurement and installation of kWh-meters to qualified contestable customers with existing electronic meters.
8	Buffer Stock Requirement for Contingency	Reliability	In compliance with NEA Memorandum No. 2015-023 to ensure availability of vital materials and equipment for immediate restoration/rehabilitation of distribution lines damaged by disasters and calamities.
9	Kilowatt-hour Meter Replacement	System Loss	The project aims to replace defective and/or damaged kilowatt-hour meters to ensure accurate readings of electricity consumption.
10	SCADA Implementation at Substation Level	Service Efficiency	This project aims to install SCADA System at the substation level to further improve service efficiency.

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11	Concreting of Access Road to Cagwait Substation	Service Efficiency	The project intends to construct a durable concrete road to enable easy access of heavy equipment, tools and personnel to Cagwait Substation.
12	Special Equipment Requirement	Service Efficiency	The acquisition of laboratory equipment will facilitate and ensure accurate testing, calibration, and maintenance of critical electrical components.
13	Vehicle Requirement	Service Efficiency	The proposed project is intended to replace SURSECO II's ageing and antiquated fleet of vehicles and provide sufficient equipment to properly maintain its vehicles.
14	Communication Equipment Requirement	Service Efficiency	SURSECO II intends to acquire new handheld and base radios for its field personnel to improve service efficiency.
15	IT Equipment Requirement	Service Efficiency	The project includes the acquisition and installation of IT Infrastructure and Equipment to further enhance the delivery of services to the member-consumers.
16	New Office Equipment, Furniture, and Fixtures	Service Efficiency	The replacement of old and deteriorated office equipment, furniture and fixture will provide a more conducive work environment for its personnel and a convenient facility to the benefit of its member-consumers.
17	Conversion and Renovation of Old IT Room to Company Clinic, Construction of Staff & Guest House - Phase 1 (Main Office) and Construction of Covered Walkway (Main Office)	Service Efficiency	This project involves the construction of SURSECO II Medical Clinic in order to comply with the Occupational Safety and Health Standards particularly Rule 1963.01 (d).

6. With the prevailing situation in the electric power industry vis-à-vis the consumers' demand, Applicant deems it appropriate to embark on asset development and expansion in order to meet the member-consumers' growing demands;
7. The procurement of the aforementioned projects are of great necessity in the schedules herein provided, otherwise service decline is eminent, to the prejudice of the consumers;
8. That the afore-enumerated capital projects will be implemented on staggered basis, and, if a Force Majeure or Fortuitous event, as the case may be occurs causing delay in the implementation, the Applicant shall inform the ERC of such condition and seek the latter's confirmation of the delayed implementation of the particular CAPEX;

RELATED AND INDISPENSABLE DOCUMENTS

9. Consistent with the requirement of the filing of applications for approval of capital projects, Applicant attached and made an integral part of this Application the detailed justifications, related and indispensable documents chronologically arranged, as follows:

ANNEX	DOCUMENT
"B"	CAPEX Executive Summary
"B-1"	Per Project supporting documents
"B-2"	CAPEX Forecasts
"B-3"	Performance Assessment
"B-4"	Rate Impact Analysis
"B-5"	Gantt Chart
"C"	Audited Financial Statements for the year 2023
"D"	Basis of Cost Estimates
"E"	2022-2024 RFSC Utilization Report
"F"	Distribution Development Plan (DDP)

BOARD APPROVAL
OF THE PROPOSED PROJECTS

10. Finding the capital expenditure projects reasonable, appropriate, necessary, and ultimately redound to the benefit of the members-consumers by way of efficient, continuous and reliable service, the Board of Directors of the Applicant passed Board Resolution No. 104, Series of 2024 approving the proposed CAPEX projects, copy of which is attached hereto as Annex "G";
11. In compliance with Resolution No. 26, Series of 2009, information on the proposed capital projects had been widely disseminated through posting in the conspicuous places of the City of Tandag and the Municipalities of Carrascal, Cantilan, Madrid, Carmen, Lanuza, Cortes, Tago, San Miguel, Bayabas, Cagwait, Marihatag, San Agustin and Lianga, all in the Province of Surigao del Sur, as certified to by Leonor T.

Montenegro, an employee of the Applicant tasked to undertake such dissemination, copy of the affidavit of posting is attached hereto as Annex “H”. The Notices posted in the areas aforementioned specifically contained the following:

- a. the implemented and proposed projects;
- b. the reasons for the said projects;
- c. the source of fund for the said projects;
- d. indicative rate impact of the said projects;

SOURCES OF FUNDS FOR THE PROJECTS

12. SURSECO II’s Capital Expenditure Projects Plan is envisioned to have the least rate impact and that brings the most value to its consumers.
13. In the implementation of the proposed projects, the Applicant shall source the funds through a loan with the National Electrification Administration (NEA) and/or other Private Financing Institution that will provide the least interest rate to the benefit of the member-consumers.

Financing Plan

Proposed Projects		Project Cost (PhP)	Source of Fund
No.	Title	Total	
1	Re-routing and Rehabilitation of Electrical Facilities	36,519,933.06	NEA
2	Replacement of Deteriorated Distribution Poles	30,298,625.08	RFSC
3	Distribution Transformer Requirement	36,838,702.98	RFSC
4	Connection Requirement for New Costumers	35,906,726.46	General Fund
5	RCOA and GEOP Metering Requirement	1,479,510.26	NEA
6	Buffer Stock Requirement for Contingency	88,979,221.56	General Fund
7	Kilowatt-hour Meter Replacement	33,808,536.40	NEA
8	SCADA Implementation at Substation Level	10,892,270.36	NEA
Total Network CAPEX Projects		274,723,526.16	
9	Special Equipment Requirement	9,891,956.58	NEA
10	Lineman Tools and PPE Requirement	15,141,849.15	NEA
11	Motorpool Tools and PPE Requirement	3,691,234.20	NEA
12	Concreting of Access Road of Cagwait Substation	1,812,609.86	NEA
13	Vehicle Requirement	13,101,245.41	NEA
14	Communication Equipment Requirement	1,651,343.68	NEA
15	IT Equipment Requirement	9,182,343.30	NEA
16	New Office Equipment, Furniture, and Fixtures	7,123,238.70	NEA
17	Conversion and Renovation of Old IT Room to Company Clinic	1,590,939.27	RFSC
Total Non-network CAPEX Projects		63,186,760.15	
Total CAPEX Project Cost (PhP)		337,910,286.31	

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14. The implementation of the CAPEX shall bring forth an indicative rate impact as follows:

Indicative Rate Impact <i>with</i> Loan					
	2024	2025	2026	2027	Total
Forecasted / Actual Energy Sales, kWh	116,469,905.36	123,515,761.50	30,621,446.70	137,788,293.90	508,395,407.46
RFSC Rate, PhP/KWh	0.4004	0.4004	0.4004	0.4004	
Fund Beginning balance, PhP, excess/(shortfall)	83,220,550.00	84,772,189.75	60,632,505.98	35,935,522.60	83,220,550.00
FUND INFLOWS					
Forecasted / Actual RFSC Collection, PhP	46,168,204.61	48,961,153.80	51,777,818.99	54,618,728.55	201,525,905.94
Loan proceeds from financial institutions for the subject application, PhP		70,711,556.35	46,361,366.18	27,223,148.43	144,296,070.96
Loan proceeds from financial institutions for previous approved CAPEX application/s, PhP	244,223,600.58				244,223,600.58
Borrowed funds from General Fund (PhP)		38,777,900.06	41,545,609.67	44,562,438.30	124,885,948.03
Total Fund Inflows, PhP	290,391,805.19	158,450,610.21	139,684,794.84	126,404,315.28	714,931,525.51
Available Fund for Disbursement, PhP	373,612,355.19	243,222,799.96	200,317,300.82	162,339,837.88	798,152,075.51
FUND OUTFLOWS					
CAPEX payment for the subject case, PhP - total cost incurred / total cost to be incurred)		131,418,866.32	110,038,846.55	96,452,573.45	337,910,286.32
CAPEX payment for previous pending application/s, PhP - approved total cost incurred)	274,038,147.58				274,038,147.58
Annual loan amortization payment for the subject case, PhP		9,607,434.78	15,906,458.95	19,605,212.54	45,119,106.27
Annual loan amortization for previous approved application/s, PhP ERC Case No. 2012-004 RC	11,339,185.41	7,395,479.41	4,429,019.41	4,325,014.41	27,488,698.65
Annual loan amortization for previous pending application/s, PhP ERC Case No. 2022-026 RC	3,462,832.44	33,182,161.96	33,182,161.96	33,182,161.96	103,009,318.32
Other fees relative to CAPEX application, PhP		710.00			710.00
Projected ERC permit fees for the subject case, PhP - from subject Application		985,641.50	825,291.35	723,394.30	2,534,327.15
Replenishment of the General Fund (PhP)					-
Total Fund Outflows, PhP	288,840,165.43	182,590,293.97	164,381,778.22	154,288,356.66	790,100,594.28
Fund Ending Balance, PhP, excess/(shortfall)	84,772,189.75	60,632,505.98	35,935,522.60	8,051,481.22	8,051,481.22

15. The current RFSC rate of SURSECO II is PHP 0.4004 per kWh. While Applicant has internally generated funds, yet not enough to sustain the implementation of the proposed CAPEX projects, Applicant finds no other recourse except to secure a loan through NEA's lending program, designed to assist the electric cooperatives and/or other Private Financing Institution, which can offer the least interest rates.
16. As shown on the table above, the RFSC collection is sufficient for the payment of the loan amortizations, thus, SURSECO II shall no longer collect additional RFSC rate to finance the CAPEX Projects to the benefit of the member-consumers.

**COMPLIANCE
WITH PRE-FILING REQUIREMENTS**

17. In compliance with Section 2, Rule 6 of the ERC Rules of Practice and Procedure, copies of this Application together with all its annexes and accompanying documents had been furnished by Applicant the Office of the Mayor and the

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Legislative Body of the City of Tandag, where Applicant principally operates and the Office of the Governor and the Legislative Body of the Province of Surigao del Sur. Likewise, the Application was published in a newspaper of general circulation within the franchise area of the Applicant.

18. As proof of compliance of the service of the copies of the Application together with all its annexes are the Certifications issued by the Authorized Representatives of the Local Government Units and/or the Affidavit of Service executed by an employee of the Applicant and the first page of the Application bearing the receiving stamp of the aforementioned Offices as Annexes "I", "J", "K" and "L", respectively. Likewise attached hereto as Annexes "M" and "N" are the Affidavit of Publication and the newspaper issue containing the published Application;
19. Moreover, 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.

PRAYER

WHEREFORE, foregoing considered, Applicant respectfully prays that the Honorable Commission after due hearing and evaluation of the Application, an Order be issued:

1. Approving the proposed capital expenditures projects for the year 2025 to 2027; and
2. Declaring that the CAPEX Projects for 2025 to 2027 are just, reasonable, and equitable pursuant to the provisions of ERC Resolution No. 26, Series of 2009, and other related laws, rules and regulations.

Other reliefs just and equitable are likewise prayed for.

The Commission hereby sets the instant *Application* for determination of compliance with the jurisdictional requirements, expository presentation, Pre-Trial Conference, and presentation of evidence on **08 January 2025 (Wednesday) at nine o'clock in the morning (9:00 A.M.)**, through **MS Teams Application** as the online platform for the conduct thereof, pursuant to Resolution No. 09, Series of 2020¹ and Resolution No. 01, Series of 2021² (ERC Revised Rules of Practice and Procedure).

¹ A Resolution Adopting the Guidelines Governing Electronic Applications, Filings and Virtual Hearings Before the Energy Regulatory Commission.

² A Resolution Adopting the Revised Rules of Practice and Procedure of the Energy Regulatory Commission.

Accordingly, SURSECO II is hereby directed to host the virtual hearing at **SURSECO II's principal office located at Balilahan, Mabua, Tandag City, Surigao del Sur**, as the designated venue for the conduct thereof, and ensure that the same is open to the public. Moreover, SURSECO II shall guarantee that, during the conduct of the expository presentation, the participation of the public shall not be impaired.

Any interested stakeholder may submit its comments and/or clarifications at **least one (1) calendar day** prior to the scheduled virtual hearing, via electronic mail (e-mail) at doCKET@erc.ph, and copy furnish the Legal Service through legal@erc.ph. The Commission shall give priority to the stakeholders who have duly submitted their respective comments and/or clarifications, to discuss the same and propound questions during the course of the expository presentation.

Moreover, all persons who have an interest in the subject matter of the instant case may become a party by filing with the Commission via e-mail at doCKET@erc.ph, and copy furnishing the Legal Service through legal@erc.ph, a verified Petition to Intervene at **least five (5) calendar days** prior to the date of the virtual hearing. The verified Petition to Intervene must follow the requirements under Rule 9 of the ERC Revised Rules of Practice and Procedure, indicate therein the docket number and title of the case, and state the following:

- 1) The petitioner's name, mailing address, and e-mail 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.

Likewise, all other persons who may want their views known to the Commission with respect to the subject matter of the case may file through e-mail at doCKET@erc.ph, and copy furnish the Legal Service through legal@erc.ph, their Opposition or Comment thereon at **least five (5) calendar days** prior to the virtual hearing. Rule 9 of the ERC Revised Rules of Practice and Procedure shall govern. No particular form of Opposition or Comment is required, but the document, letter, or writing should contain the following:

- 1) The name, mailing address, and e-mail address of such person;
- 2) A concise statement of the Opposition or Comment; and
- 3) The grounds relied upon.

All interested parties filing their Petition to Intervene, Opposition or Comment are required to submit the hard copies thereof through personal service, registered mail or ordinary mail/private courier, **within five (5) working days** from the date that the same were electronically submitted, as reflected in the acknowledgment receipt e-mail sent by the Commission.

Any of the person mentioned in the preceding paragraphs may access the copy of the *Application* on the Commission's official website at www.erc.gov.ph.

Finally, all interested persons may be allowed to join the scheduled virtual hearing by providing the Commission, thru legal.virtualhearings@erc.ph, their respective e-mail addresses and indicating therein the case number of the instant *Application*. The Commission will send the access link/s to the aforementioned hearing platform within five (5) working days prior to the scheduled hearing.

WITNESS, the Honorable Chairperson and CEO **MONALISA C. DIMALANTA**, and Honorable Commissioners **ALEXIS M. LUMBATAN**, **CATHERINE P. MACEDA**, **FLORESINDA G. BALDO-DIGAL**, and **MARKO ROMEO L. FUENTES**, Energy Regulatory Commission, this 6th day of December 2024 in Pasig City.

FOR AND BY AUTHORITY
OF THE COMMISSION:


KRISHA MARIE T. BUELA
Director III, Legal Service