

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



**IN THE MATTER OF THE
APPLICATION FOR THE
APPROVAL OF TWO (2)
EMERGENCY CAPITAL
EXPENDITURE PROJECTS,
WITH APPLICATION FOR
AUTHORITY TO SECURE
LOAN FROM THE NATIONAL
ELECTRIFICATION
ADMINISTRATION (NEA)**

ERC CASE NO. 2018-058 RC

**ISABELA II ELECTRIC
COOPERATIVE, INC. (ISELCO
II),**

Applicant.

X-----X

D O C K E T E D

Date: ~~July 27, 2018~~

By: *W*

ORDER

On 20 June 2018, an *Application* dated 2 May 2018 was filed by Applicant Isabela II Electric Cooperative, Inc. (ISELCO II), seeking the Commission's approval of its two (2) emergency capital expenditure projects, with application for authority to secure loan from the National Electrification Administration (NEA).

ISELCO II alleged the following in its *Application*:

1. That herein applicant is the exclusive franchise holder issued by the National Electrification Administration (NEA) to operate an electric light and power services in the following municipalities of the Province of Isabela: Ilagan, **Cabagan**, San Pablo, Sta Maria, **Naguilian**, Gamu, Roxas, Aurora, Mallig, Sto Tomas, Delfin Albano, Tumauini, Quezon, Quirino, San Manuel, Burgos, Benito Soliven, San Mariano, Maconacon, Palanan and Divilacan.

2. That applicant is an electric cooperative duly organized and existing under and by virtue of the laws of the Philippines, with principal office at Barangay Alibagu, Ilagan, Isabela, where it may be served with summons and other legal processes.

LEGAL BASIS FOR THE APPLICATION

3. Article III of ERC Resolution No. 26, Series of 2009¹ as well as other pertinent laws and rules.

PROPOSED EMERGENCY CAPITAL PROJECTS

4. **Summary of Identified Problems:**

4.1. **CABAGAN SUBSTATION-** The 10 MVA power transformer of Cabagan Substation was damaged (burned) due to insulation breakdown of the equipment. The existing substation structures and facilities (gantry structures, grounding system, etc.) of Cabagan Substation are in deteriorated condition.

4.2. The damaged Cabagan Substation was temporarily equipped with power fuse as the main protective equipment of the substation. Pursuant to Section GCR 4.6.1.2 of the Philippine Grid Code (PGC), all substations should be controlled by circuit breakers that are capable of interrupting the maximum short circuit current at the point of connection. Thus, the urgent need for installation of 12/15 MVA power transformer at Cabagan Substation and site rehabilitation.

4.3. **NAGUILIAN SUBSTATION-** The project includes replacing the damaged primary and secondary protection of Naguilian Substation by installing one (1) unit 69kV SF6 Power Circuit Breaker, 15kV indoor switchgear with complete accessories, control protection panel, DC power supply, and two (2) units of 15kV automatic recloser in Naguilian Substation.

4.4. The scope of works include supply and delivery, installation, testing and commissioning of the 69kV SF6 PCB, medium voltage switchgear including its accessories, and automatic recloser, civil and electrical works, testing and commissioning. A copy of the single line diagram is attached hereto and marked as **ANNEX "A"**.

4.5. The Energy Regulatory Commission was duly notified of the above incidents. Copies of said Notices are attached hereto and respectively marked as **ANNEXES "B" and "C"**.

5. Anent the above, ISELCO II arrived at two (2) capital projects to address the identified problems. These projects are the result of the technical and economic evaluation performed on several project ideas that were formulated during the planning process. Below are the two (2) projects being proposed as follows:

¹ Resolution Amending the Rules for the Approval of Regulated Entities' Capital Expenditure Projects.

5.1 Proposed Capital Projects

Proposed Projects		Project Type	Project Category
No.	Title		
1	Installation of 12/15 MVA power transformer at Cabagan Substation and site rehabilitation	Safety / Capacity	Substation Project
2	Installation of primary and secondary protective devices for Naguilian Substation	Safety	Primary Distribution Project

5.2 Brief Description / Rationale of the Proposed Projects

Proposed Projects		Project Description / Rationale
No.	Title	
1	Installation of 12/15 MVA power transformer at Cabagan Substation and site rehabilitation	Replacement of the damaged 10 MVA power transformer of Cabagan Substation to a 12/15 MVA capacity transformer. Simultaneous to this project is the complete rehabilitation of Cabagan Substation including the installation of the necessary protective equipment to address the safety concern due to the deteriorated condition of the substation and non-compliance with the requirement of the PGC.
2	Installation of primary and secondary protective devices for Naguilian Substation	Replacement of the damaged protective equipment of Naguilian Substation to maintain the safety level of the system.

5.3 Proposed Project Cost

Proposed Projects		Project Cost (PhP)
No.	Title	
1	Installation of 12/15 MVA power transformer at Cabagan Substation and site rehabilitation	51,700,000.00
2	Installation of primary and secondary protective devices for Naguilian Substation	13,700,287.00

5.4 **Project Schedule**

Proposed Projects		Project Schedule
No.	Title	
1	Installation of 12/15 MVA power transformer at Cabagan Substation and site rehabilitation	Start of Project : February 27, 2018, Completion Date : February 2019
2	Installation of primary and secondary protective devices for Naguilian Substation	Start of Project : July 24, 2017 Date Completed : September 19, 2017

PROJECT FINANCING & INDICATIVE RATE IMPACT

6. The financing of the emergency CAPEX plan will be sourced through the Reinvestment Fund for Sustainable CAPEX (RFSC) of the cooperative and avilment of loan from NEA at 6.25% interest rate per annum for a period of ten (10) years.

7. Anent the above, ISELCO II likewise pleads for the consideration and benevolence of this Honorable Commission to grant the cooperative the Authority to Secure Loan so as to minimize the possible effect on the existing RFSC rate upon project implementation and thereby give the cooperative flexibility in managing its finances.

8. Notwithstanding, ISELCO II shall further look for financial institution that can provide the least financing plan for the benefit of the consumers.

9. To emphasize the need of the avilment of aforesaid loan, Tables on Rate Impact of the Project, indicating possible effects on the existing RFSC rate (PhPo.3693/kwh) of ISELCO II, on project **without** loan as compared to that which is **with loan at 6.5% interest** for payable in ten (10) years, are attached hereto and respectively marked as ANNEXES "D" and "E".

Indicative rate impact of the project without availing any loan

Particulars	2016	2017	2018	2019	2020	TOTAL
Forecasted energy sales, kWh	177,253,525	201,127,329	218,590,236	236,301,274	254,210,200	1,087,482,564.00
Cash balance beginning, Php, excess/(shortfall)	17,355,236.11	(116,800,313.82)	(221,113,012.14)	(223,249,152.11)	(155,298,901.14)	17,355,236.11
CASH INFLOWS						
current year collection @PhPo.3696/kWh	65,512,902.84	74,336,660.80	80,790,951.23	87,336,950.87	93,956,089.92	401,933,555.65
50% of income on leased properties	393,989.86	393,989.86	393,989.86	393,989.86	393,989.86	1,969,949.30
loan proceeds from financial	-	-	-	-	-	-

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institutions, PhP						
government subsidy (if any), PhP	-	-	-	-	-	-
Total Cash Inflows, PhP	65,906,892.70	74,730,650.66	81,184,941.09	87,730,940.73	94,350,079.78	403,903,504.95
Available cash for disbursement	83,262,128.81	(42,069,663.16)	(139,928,071.06)	(135,518,211.38)	(60,948,821.36)	421,258,741.06
CASH OUTFLOWS						
CAPEX requirement	177,348,517.82	152,550,260.37	51,700,000.00	-	-	381,598,778.19
old debt (previous CAPEX), PhP	22,713,924.81	26,493,088.61	31,130,578.90	19,780,689.76	4,907,630.53	105,025,912.61
new amortization (new CAPEX), PhP	-	-	-	-	-	-
ERC Permit Fee, PhP	-	-	490,502.15	-	-	490,502.15
Total Cash Outflows, PhP	200,062,442.63	179,043,348.98	83,321,081.05	19,780,689.76	4,907,630.53	487,115,192.95
Cash balance ending, PhP, excess/(shortfall)	(116,800,313.82)	(221,113,012.14)	(223,249,152.11)	(155,298,901.14)	(65,856,451.89)	(65,856,451.89)
Excess/(shortfall) on RFSC, PhP/kWh	(0.6589)	(1.0994)	(1.0213)	(0.6572)	(0.2591)	(0.0606)

Indicative rate impact of the project with availment of loan at 6.5% for 10 years

Particulars	2016	2017	2018	2019	2020	TOTAL
Forecasted energy sales, kWh	177,253,525	201,127,329	218,590,236	236,301,274	254,210,200	1,087,482,564.00
Cash balance beginning, PhP, excess/(shortfall)	17,355,236.11	36,563,811.62	40,186,274.31	38,143,191.46	54,486,499.55	17,355,236.11
CASH INFLOWS						
current year collection @PhP0.3696/kWh	65,512,902.84	74,336,660.80	80,790,951.23	87,336,950.87	93,956,089.92	401,933,555.65
50% of income on leased properties	393,989.86	393,989.86	393,989.86	393,989.86	393,989.86	1,969,949.30
loan proceeds from financial institutions, PhP	177,348,517.82	152,550,260.37	51,700,000.00	-	-	381,598,778.19
government subsidy (if any), PhP	-	-	-	-	-	-
Total Cash Inflows, PhP	243,255,410.52	227,280,911.03	132,884,941.09	87,730,940.73	94,350,079.78	785,502,283.14
Available cash for disbursement	260,610,646.63	263,844,722.64	173,071,215.39	125,874,132.19	148,836,579.33	802,857,519.25
CASH OUTFLOWS						
CAPEX requirement	177,348,517.82	152,550,260.37	51,700,000.00	-	-	381,598,778.19
old debt (previous CAPEX), PhP	22,713,924.81	26,493,088.61	31,130,578.90	19,780,689.76	4,907,630.53	105,025,912.61
new amortization (new CAPEX), PhP	23,984,392.38	44,615,099.36	51,606,942.88	51,606,942.88	51,606,942.88	223,420,320.38
ERC Permit Fee, PhP	-	-	490,502.15	-	-	490,502.15
Total Cash Outflows, PhP	224,046,835.01	223,658,448.34	134,928,023.93	71,387,632.64	56,514,573.41	710,535,513.34
Cash balance ending, PhP, excess/(shortfall)	36,563,811.62	40,186,274.31	38,143,191.46	54,486,499.55	92,322,005.92	92,322,005.92
Excess/(shortfall) on RFSC, PhP/kWh	0.2063	0.1998	0.1745	0.2306	0.3632	0.0849

10. Lastly, evidences² that will substantiate the allegations and data are likewise attached hereto and respectively marked as ANNEXES.

PRAYER

WHEREFORE, premises considered, it is most respectfully prayed of this Honorable Commission that after due notice and hearing, the Isabela II Electric Cooperative, Inc.'s (ISELCO II's) proposed emergency capital projects, installation of 12/15 MVA power transformer at Cabagan Substation and site rehabilitation including the replacement of the damaged primary and secondary protection of Naguilian Substation, be confirmed and approved,

Further, ISELCO II prays that the Honorable Commission grant the cooperative the Authority to Secure Loan from the National Electrification Administration (NEA).

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

Finding the said *Application* to be 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 **13 September 2018 at one o'clock in the afternoon (1:00 P.M.), at ISELCO II's principal office at Brgy. Alibagu, Ilagan, Isabela.**

Accordingly, ISELCO II 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 Governor and Municipal Mayors, and the Local Government Unit (LGU) legislative bodies within the affected franchise area 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

² ANNEXES "F" to " "

within the affected franchise 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 affidavits of the Editors or Business Managers of the newspapers where the said Notice of Public Hearing was published, and the complete issues 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 Governor, Mayors, and LGU legislative bodies or their duly authorized representatives, bearing the seals of their offices;
- 3) The evidence of other 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 comply with the above requirements 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.

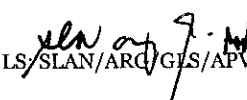
ISELCO II must also be prepared to make an expository presentation of the instant *Application*, aided by whatever communication medium that it may deem appropriate for the purpose, in order to put in plain words and explain, for the benefit of the consumers and other concerned parties, what the *Application* is all about and the reasons and justifications being cited in support thereof.

SO ORDERED.

Pasig City, 18 July 2018.

FOR AND BY AUTHORITY
OF THE COMMISSION:


AGNES VST DEVANADERA
Chairperson and CEO Y


LS/SLAN/ARC/GIS/APV

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Copy furnished:

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2. **Isabela II Electric Cooperative, inc. (ISELCO II)**
Applicant
Brgy. Alibagu, Ilagan, Isabela
3. **Office of the Solicitor General (OSG)**
134 Amorsolo Street, Legaspi Village, Makati City
4. **Commission on Audit (COA)**
Commonwealth Avenue, Quezon City
5. **Senate Committee on Energy**
GSIS Building, Roxas Boulevard, Pasay City
6. **House of Representatives Committee on Energy**
Batasan Hills, Quezon City
7. **Philippine Chamber of Commerce and Industry (PCCI)**
3rd Floor, Chamber and Industry Plaza
1030 Campus Avenue corner Park Avenue
McKinley Town Center, Fort Bonifacio, Taguig City
8. **Office of the Governor**
Province of Isabela
9. **Office of the LGU Legislative Body**
Province of Isabela
10. **Office of the Mayor**
Ilagan, Isabela
11. **Office of the LGU legislative body**
Ilagan, Isabela
12. **Office of the Mayor**
Cabagan, Isabela
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15. **Office of LGU legislative body**
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16. **Office of the Mayor**
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17. **Office of the LGU legislative body**
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18. **Office of the Mayor**
Naguilian, Isabela
19. **Office of the LGU legislative body**
Naguilain, Isabela
20. **Office of the Mayor**
Gamau, Isabela
21. **Office of the LGU legislative body**
Gamau, Isabela

22. **Office of the Mayor**
Roxas, Isabela
23. **Office of the LGU legislative body**
Roxas, Isabela
24. **Office of the Mayor**
Aurora, Isabela
25. **Office of the LGU legislative body**
Aurora, Isabela
26. **Office of the Mayor**
Mallig, Isabela
27. **Office of the LGU legislative body**
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28. **Office of the Mayor**
Sto. Tomas, Isabela
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30. **Office of the Mayor**
Delfin Albano, Isabela
31. **Office of the LGU legislative body**
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32. **Office of the Mayor**
Tumaini, Isabela
33. **Office of the LGU legislative body**
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Quezon, Isabela
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40. **Office of the Mayor**
Burgos, Isabela
41. **Office of the LGU legislative body**
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42. **Office of the Mayor**
Benito Soliven, Isabela
43. **Office of the LGU legislative body**
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44. **Office of the Mayor**
San Mariano, Isabela

45. **Office of the LGU legislative body**
San Mariano, Isabela
46. **Office of the Mayor**
Maconacon, Isabela
47. **Office of the LGU legislative body**
Maconacon, Isabela
48. **Office of the Mayor**
Palanan, Isabela
49. **Office of the LGU legislative body**
Palanan, Isabela
50. **Office of the Mayor**
Divilacan, Isabela
51. **Office of the LGU legislative body**
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52. **Regulatory Operations Service (ROS)**
[Standards and Compliance Monitoring Division (SCMD)]
17th Floor, Pacific Center Building, San Miguel Avenue, Pasig City