

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



IN THE MATTER OF THE
APPLICATION FOR
APPROVAL/REVIEW OF ELECTRIC
CAPITAL PROJECTS WITHIN THE
FRANCHISE AREA FOR CALENDAR
YEARS 2002, 2003, 2004, 2005 AND
2006

ERC CASE NO. 2007-102 RC

AKLAN ELECTRIC COOPERATIVE,
INC. (AKELCO),

Applicant.

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DOCKETED
Date: JAN 21 2009
By: *[Signature]*

DECISION

Before this Commission for resolution is the application filed on April 4, 2007 by Aklan Electric Cooperative, Inc. (AKELCO) for approval/review of its electric capital projects for calendar years 2002, 2003, 2004, 2005 and 2006.

Having found said application sufficient in form and in substance with the required fees having been paid, an Order and a Notice of Public Hearing, both dated April 18, 2007, were issued setting the case for initial hearing on May 18, 2007.

In the same Order, AKELCO was directed to cause the publication of the Notice of Public Hearing, at its own expense, twice (2x) for two (2x) successive

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weeks in two (2) newspapers of general circulation in the Philippines, with the date of last publication to be made not later than ten (10) days before the scheduled date of initial hearing. It was 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.

The Office of the Solicitor General (OSG), the Commission on Audit (COA) and the Committees on Energy of both Houses of Congress were furnished with copies of the Order and the Notice of Public Hearing and were requested to have their respective duly authorized representatives present at the initial hearing.

Likewise, the Offices of the Mayors of the Municipalities within AKELCO's franchise area were furnished copies of the Order and the Notice of Public Hearing for the appropriate posting thereof on their respective bulletin boards.

On May 2, 2007, AKELCO filed a "*Motion for Postponement*" while on May 9, 2007, it filed a "*Manifestation (Re: Withdrawal of Motion for Postponement)*."

On May 10, 2007, the Commission issued an Order taking note of the said motion and manifestation.

On May 16, 2007, AKELCO filed a "*Manifestation*" stating that through inadvertence, it failed to cause the publication of the Notice of Public Hearing in a second newspaper of general circulation.



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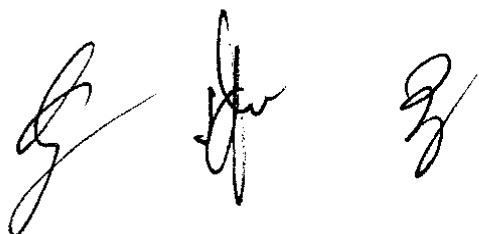
On July 4, 2007, the Commission issued another Order and Notice of Public Hearing resetting the initial hearing of the case to August 24, 2007.

On August 21, 2007, AKELCO filed its "*Pre-Trial Brief*."

On August 24, 2007, Aklan Sangguniang Panlalawigan Members Ramon Gelito and Rodson Mayor filed their "*Motion for Leave to Intervene*" while AKELCO filed its "*Compliance*" with the Commission's jurisdictional requirements.

During the initial hearing of this case on the same date, the following entered their appearances: 1) Atty. Wigberto Tañada, Jr. for AKELCO; 2) Mr. Rodson Mayor; and 3) Atty. Lee Manares for the Provincial Government of Aklan.

In the said hearing, the Commission provisionally allowed Atty. Manares to intervene in the proceedings subject to the condition that a Resolution from the Sangguniang Panlalawigan, authorizing him to intervene, would be submitted within fifteen (15) days from said date of hearing together with his pre-trial brief. Mr. Mayor was, likewise, directed to submit his pre-trial brief within the same period. Thereafter, AKELCO presented its proofs of compliance with the Commission's posting and publication of notice requirements which were duly marked as exhibits "A" to "JJ", inclusive and proceeded with the expository presentation of its application.





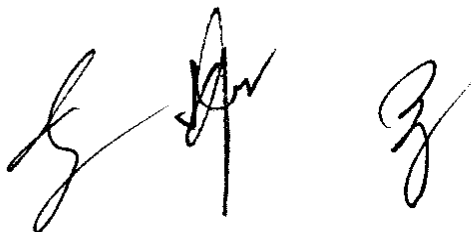
On September 17, 2007, the Commission issued an Order setting the case for continuation of hearing on October 25 to 26, 2007.

On October 22, 2007, AKELCO filed a "*Motion for a General Declaration of Default.*" Then, on October 23, 2007, it filed a "*Compliance*" attaching therewith both hard and soft copies of its power point presented during the expository phase of the hearing.

During the October 25, 2007 hearing, only AKELCO appeared. Intervenor Mr. Mayor and Atty. Manares failed to appear. In the said hearing, the Commission resolved to consider Mr. Mayor and Atty. Manares as oppositors in view of their failure to submit the required petitions in intervention. Thereafter, the Commission conducted a pre-trial conference.

During the October 26, 2007 hearing, again, only AKELCO appeared. At the said hearing, AKELCO presented its lone witness, Engr. Eugene Regatalio, its Manager of the Construction Division, who testified, among others, on the following matters: a) the major electrical capital projects undertaken from 2002 to 2006; b) the necessity and importance of the projects; and c) the fact that the projects were contracted and the equipment/assets were procured in accordance with accepted industry practices.

On November 12, 2007, AKELCO filed its "*Compliance.*"



On July 18, 2008, the Commission issued an Order directing AKELCO to submit its formal offer of evidence within ten (10) days from receipt thereof. Relative thereto, on September 9, 2008, AKELCO filed its "*Motion for Final Extension.*"

On November 27, 2008, AKELCO filed its "*Motion with Formal Offer of Evidence*" which is hereby admitted for being relevant and material in the final resolution of the case.

DISCUSSION

AKELCO sought the Commission's approval of the following projects:

1. Construction of 10 MVA Substation in 2002

a. Project Description:

- Construction of a 10 MVA Substation in Caticlan, Aklan.

b. Rationale of the project:

- To address substation overloading and the increase in demand

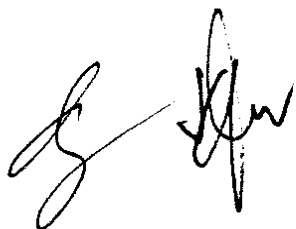
c. Project Cost:

PhP4,813,952.11

2. Construction of 10 MVA Substation in 2003

a. Project Description:

- Construction of 10 MVA Substation located in Andagao, Aklan



b. Rationale of the project:

- To address substation overloading and the increase in demand

c. Project Cost:

PhP17,950,000.00

3. Construction of Distribution Line Projects at Various Locations

a. Project Description:

- Extension of distribution lines, reconductoring and conversion from single phase line to three phase line from years 2002 to 2006

b. Rationale of the project:

- To reduce distribution system losses and improve voltage variation in various locations

c. Project Cost:

PhP55,560,702.55

4. Construction of a New Submarine Cable

a. Project Description:

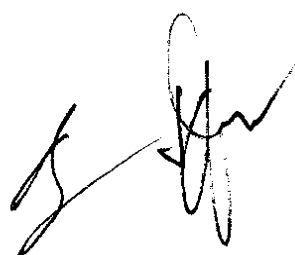
- Construction of a 13.2 kV submarine cable in 2005 from Caticlan to Boracay Island

b. Rationale of the project:

- To replace the existing dilapidated cable installed in 1989

c. Project Cost:

PhP35,000,000.00



Thus, the total project cost is as follows:

| DESCRIPTION | COST (PhP) |
|---|-----------------------|
| Construction of 10 MVA Substation in 2002 | 4,813,952.11 |
| Construction of 10 MVA Substation in 2003 | 17,950,000.00 |
| Construction of Distribution Line Projects at Various Locations from 2002 to 2006 | 55,560,702.55 |
| Construction of a New Submarine Cable | 35,000,000.00 |
| TOTAL PROJECT COST | 113,324,654.66 |

TECHNICAL ANALYSES

Construction of 10 MVA Caticlan Substation (2002 Project)

The 15 MVA Nabas Substation consisted of two (2) transformer banks rated at 10 MVA and 5 MVA. The said substation is approximately more than twenty-two (22) kilometers from Caticlan. Given the distance, AKELCO finds it necessary to transfer the 10 MVA power transformer from Nabas Substation to Caticlan while retaining the 5 MVA transformer in Nabas. As shown in the following table by way of an illustration, the peak demand of the 10 MVA transformer bank that provided power in the Municipality of Caticlan and Boracay Island reached to as close as 6,000 kilowatt (kW) for the year 2000.

The sixty-percent (60%) loading of the substation is still ideal. However, AKELCO's customers from far flung areas, including Boracay Island, experience unreliable and inefficient electric service. The long 13.2 kV line from Nabas

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Substation to Caticlan has contributed significantly to high systems loss and low voltage quality to the load end-users of Boracay Island.

| ACTUAL | | | FORECAST | | |
|--------|-------------|-----------|----------|-------------|-----------|
| Year | Demand (kW) | % Loading | Year | Demand (kW) | % Loading |
| 1997 | 3,706 | 37.06% | 2003 | 8,079 | 80.79% |
| 1998 | 3,885 | 38.85% | 2004 | 9,363 | 93.63% |
| 1999 | 5,676 | 56.76% | 2005 | 10,548 | - |
| 2000 | 5,998 | 59.98% | 2006 | 11,506 | - |
| 2001 | 5,727 | 57.27% | 2007 | 12,109 | - |
| 2002 | 6,152 | 61.52% | 2008 | 12,231 | - |

Construction of 10 MVA Andagao Substation (2003 Project)

The existing 10 MVA substation in Andagao, Aklan serves the towns of Banga, Balete, Madalag, Libacao, New Washington and Kalibo. As shown in the following table, the peak demand of said substation has reached 9.99 Megawatt (MW) or 99.9% loading in the year 1999 and 94.05% loading in the year 2002. These loading percentages are considered critical loading¹ pursuant to the Philippine Grid Code (PGC).

Peak demands of 9.99 MW and 9.4 MW are way above the 90% critical line loading. Hence, an additional power transformer is necessary to solve the existing overloading and meet the increasing projected demand, with the optimal size of 10 MVA.

¹ Critical loading refers to the condition where the loading of transmission lines or substation equipment, like power transformer, is between 90% and 100% of the continuous rating

| ACTUAL | | | FORECAST | | |
|--------|-------------|-----------|----------|-------------|-----------|
| Year | Demand (kW) | % Loading | Year | Demand (kW) | % Loading |
| 1997 | 9,405 | 94.05% | 2003 | 9,841 | 98.41% |
| 1998 | 9,566 | 95.66% | 2004 | 11,303 | - |
| 1999 | 9,994 | 99.94% | 2005 | 12,864 | - |
| 2000 | 9,339 | 93.39% | 2006 | 14,062 | - |
| 2001 | 9,286 | 92.86% | 2007 | 14,143 | - |
| 2002 | 9,405 | 94.05% | 2008 | 14,449 | - |

Distribution Line Projects at Various Locations (2002 to 2006)

Rehabilitation and/or upgrading of distribution lines have addressed the increasing requirements of overloaded lines. The conductors, poles and equipment were replaced with the most suitable materials after planning and evaluation.

Line conversion from single-phase to three-phase and reconductoring have significantly reduced systems losses due to the reduction of copper loss along the lines. The load current in a single-phase set-up will be carried by three-wire three-phase lines thereby reducing the *ampacity* in one conductor.

Extension of primary lines to replace existing secondary lines and service drops are the remedies suited for power supply problems in developing barangays and sitios. Distribution transformers are installed in load centers where a primary line exists.

An upgraded conductor results to line loss reduction. Long service drops and open secondary lines are replaced with single-phase primary lines with

larger conductors. Installation of distribution transformers on new primary lines has contributed to an additional core loss (no-load loss). However, the net effect would be lesser line losses.


Construction of Submarine Cable (2005 Project)

The old submarine cable commissioned in 1988 had undergone two (2) major repairs. Hence, the necessity to put up another cable with same voltage level at 13.2 kV but of higher capacity at 20 MW will suffice to address future demands in Boracay Island.

Further analysis showed that the implementation of the project will result to reliable power supply because the old submarine cable is limited to a delivering capacity of 8 MW due to deterioration and damaged cables, resulting to frequent outages and longer sustained interruption.

COST ANALYSIS

The capital investment incurred for the projects funded through the reinvestment fund and loans from the National Electrification Administration (NEA) and Global Business Power Corporation (GBPC), among others, was about PhP113 Million, as shown hereunder:

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| Project | Actual Cost (PhP) | Source of Fund |
|--|--------------------|-------------------|
| 1) Construction of 10 MVA Substation in 2002 | 4,813,952 | NEA Loan |
| 2) Construction of 10 MVA Substation in 2003 | 17,950,000 | NEA Loan |
| 3) Distribution line projects: | | |
| 2002 | 6,531,225 | Reinvestment Fund |
| 2003 | 9,663,232 | Reinvestment Fund |
| 2004 | 7,432,808 | Reinvestment Fund |
| 2005 | 19,112,436 | Reinvestment Fund |
| 2006 | 12,821,001 | Other Loan |
| Sub-Total (PhP) | 49,554,683 | |
| 4) Construction of 13.2 kV Submarine Cable in 2005 | 35,000,000 | GBPC |
| TOTAL (PhP) | 113,324,655 | |

Based on AKELCO's Financial and Statistical Report as of December 31, 2006, its annual 5% Reinvestment Fund (RF) was PhP32,389,207.00. This means that the 5% RF is more than enough to finance the project.

A perusal of the evidence presented herein showed that the completion of the aforesaid projects redounded to the benefit of AKELCO's consumers in terms of continuous, reliable and efficient power supply as mandated by Republic Act

No. 9136, or the *Electric Power Industry Reform Act of 2001* (Section 2. Declaration of Policy – (b) “to ensure the quality, reliability, security and affordability of the supply of electric power”).

WHEREFORE, the foregoing premises considered, the application for the approval/review of electric capital projects for calendar years 2002, 2003, 2004, 2005 and 2006 filed by Aklan Electric Cooperative, Inc. (AKELCO) is hereby **APPROVED**.

Relative thereto, AKELCO is hereby directed to pay the permit fee in the amount of Eight Hundred Forty-Nine Thousand Nine Hundred Thirty-Five Pesos (PhP849,935.00) within ten (10) days from receipt hereof, computed as follows:

$$\begin{array}{r} \text{PhP113,324,654.66} \\ \hline \text{PhP100.00} \end{array} \times \text{PhP0.75} = \text{PhP849,935.00}$$


SO ORDERED.

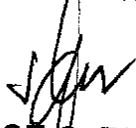
Pasig City, January 12, 2009.


ZENAIDA G. CRUZ-DUCUT
Chairperson


RAUF A. TAN
Commissioner


ALEJANDRO Z. BARIN
Commissioner


MARIA TERESA R. CASTAÑEDA
Commissioner


JOSE C. REYES
Commissioner

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5. **Boracay Chamber of Commerce**
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Balete, Aklan
13. **The Municipal Mayor**
Banga, Aklan
14. **The Municipal Mayor**
Batan, Aklan

15. **The Municipal Mayor**
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16. **The Municipal Mayor**
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Kalibo, Aklan
18. **The Municipal Mayor**
Lezo, Aklan
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Libacao, Aklan
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Libertad, Aklan
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Madalag, Aklan
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Makato, Aklan
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Malay, Aklan
25. **The Municipal Mayor**
Malinao, Aklan
26. **The Municipal Mayor**
Nabas, Aklan
27. **The Municipal Mayor**
New Washington, Aklan
28. **The Municipal Mayor**
Numancia, Aklan
29. **The Municipal Mayor**
Pandan, Aklan
30. **The Municipal Mayor**
Antique, Aklan
31. **The Municipal Mayor**
Tangalan, Aklan
32. **Hon. Rodson Mayor**
Oppositor
Altavas, Aklan