

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



IN THE MATTER OF THE APPLICATION FOR APPROVAL OF EMERGENCY CAPITAL PROJECTS AND AUTHORITY TO SECURE LOANS FROM THE NATIONAL ELECTRIFICATION ADMINISTRATION (NEA) IN ACCORDANCE WITH THE PROVISIONS OF R.A. 9136 AND THE GUIDELINES TO GOVERN THE SUBMISSION, EVALUATION AND APPROVAL OF ELECTRIC CAPITAL PROJECTS, WITH PRAYER FOR PROVISIONAL AUTHORITY

ERC CASE NO. 2008-099 MC

ROMBLON ELECTRIC COOPERATIVE, INC. (ROMELCO),  
Applicant.

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DOCKETED  
Date: MAR 03 2008  
By: [Signature]

**DECISION**

Before the Commission for resolution is the application filed on November 3, 2008 by Romblon Electric Cooperative, Inc. (ROMELCO) for approval of its emergency capital projects and authority to secure loans from the National Electrification Administration (NEA) in accordance with the provisions of Republic Act No. (R.A. No. 9136) and the "Guidelines to Govern the Submission, Evaluation and Approval of Electric Capital Projects," with prayer for provisional authority.

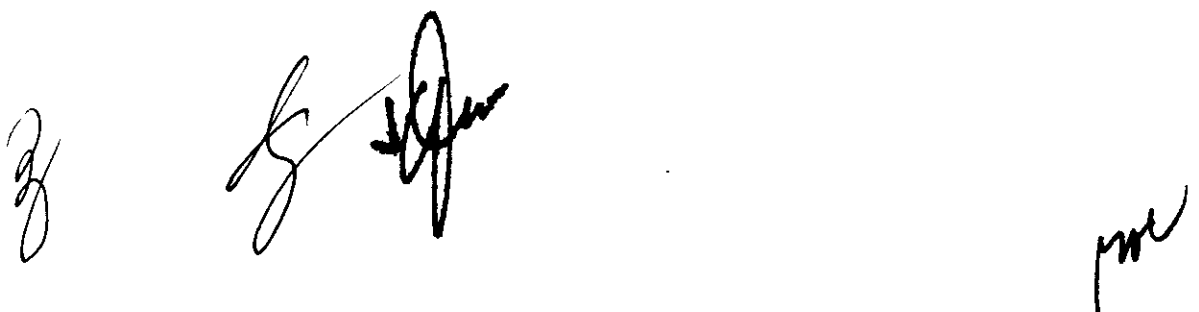
Having found said application sufficient in form and in substance with the required fees having been paid, an Order and a Notice of Public Hearing, both dated January 26, 2009, were issued setting the case for initial hearing on February 25, 2009.

In the same Order, ROMELCO was directed to cause the publication of the Notice of Public Hearing, at its own expense, once (1x) in a newspaper of general circulation in the Philippines, 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 ROMELCO's franchise area were furnished with copies of the Order and Notice of Public Hearing for the appropriate posting thereof on their respective bulletin boards.

On February 24, 2009, ROMELCO filed its "*Pre Hearing Brief*".

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During the February 25, 2009 initial hearing of this case, only ROMELCO appeared. No intervenor/oppositor appeared nor was there any intervention/opposition registered.

At the said hearing, the Commission found that ROMELCO failed to comply with its publication of notice requirements. Thus, the said hearing was cancelled and reset to a later date.

On March 10 to 12, 2009, the Commission conducted an ocular inspection on ROMELCO's assets subject of the instant application.

At the April 16, 2009 hearing, only ROMELCO appeared and presented its proofs of compliance with the Commission's posting and publication of notice requirements which were duly marked as Exhibits "A" to "E-3", inclusive. Thereafter, it conducted an expository presentation of its application.

At the termination of the expository presentation, ROMELCO presented the following witnesses: 1) Ms. Betty Corong, its Finance Manager, who testified, among others, on the financial aspect of the application; and 2) Mr. Basilio Diaz, Jr., its Technical Manager, who testified, among others, on the technical aspect of the application.

In the course of their direct examinations, various documents were presented and duly marked as exhibits. The direct examinations having been terminated, the Commission propounded clarificatory questions on the said witnesses.



On December 4, 2009, ROMELCO filed its "Offer of Evidence" which is hereby admitted for being relevant and material in the final resolution of the case.

## DISCUSSION

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

### Rehabilitation and Restoration of Damaged Distribution Lines

a. Project Description:

- Rehabilitation and restoration of damaged distribution lines

b. Rationale of the Project:

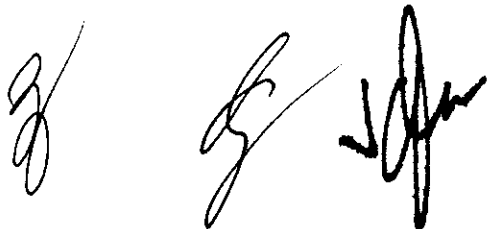
- To provide adequate, safe, efficient and reliable electric service

c. Project Cost:

PhP6,656,726.77

### CLASSIFICATION OF THE PROJECT

Pursuant to the Commission's *Guidelines to Govern the Submission, Evaluation and Approval of Electric Capital Projects Capital Expenditure Guidelines*, if a *force majeure* or fortuitous event, as the case may be, occurs, the affected Regulated Entity shall seek the Commission's confirmation of the implementation of capital expenditure projects arising from such event. As defined in the said Guidelines, *force majeure* refers to typhoon, storm, tropical depression, flood, drought, volcanic eruption, earthquake, tidal wave or landslide.



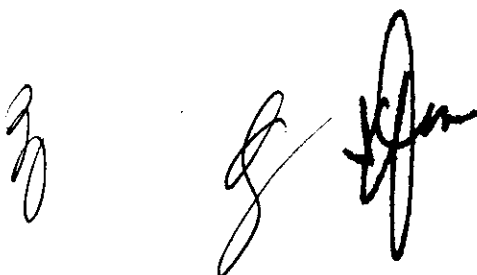
Based on the submission made by ROMELCO, the Commission classified the proposed projects as confirmation of capital expenditures arising from *force majeure*.

ROMELCO commenced the restoration and rehabilitation of its distribution lines on June 22, 2008, a day after Typhoon *Frank* struck Romblon Island. Its restoration projects were completed within a period of six (6) weeks.

#### TECHNICAL ANALYSIS

The power supply of ROMELCO in the Island of Romblon is fed through a substation owned by the National Power Corporation (NPC) located in the Municipality of Romblon. This substation is the tapping point of distribution through a 13.2 kV/7.62 kV multi-grounded distribution line feeders of ROMELCO. The feeders were designed and constructed based on the NEA's standard and specifications of lines.

With respect to ROMELCO's power supply in the Island of Sibuyan, the power is fed through another substation owned by NPC located in the Municipality of San Fernando. This substation is the tapping point of distribution through a 13.2 kV/7.62 kV multi-grounded distribution lines feeders of ROMELCO. Said feeders were constructed in accordance with the NEA's standards.



There are three (3) isolated island barangays within ROMELCO's franchise area, namely: Alad, Logbon and Cobrador, and some areas that are inaccessible to electric distribution lines and being served by Solar Home Systems (SHS).

ROMELCO completed its emergency electric capital projects with reference to the Philippine Distribution Code (PDC) and the Philippine Grid Code (PGC).

#### **AUTHORITY TO SECURE LOAN**

ROMELCO secured a calamity loan from NEA to finance its emergency capital projects.

On November 10, 2008, it was granted the amount of PhP7,155,982.00. The loan includes a capitalized interest amounting to PhP499,255.00, nine percent (9%) interest per annum for seven (7) years and ten (10) months grace period to be paid in twenty-nine (29) equal quarterly amortization at PhP338,627.00. Shown below is the amortization schedule:



No. of Amortization	Amortization (PhP)	Interest (PhP)	Principal (PhP)	Outstanding Principal (PhP)
				7,155,982
1	338,627	161,010	177,617	6,978,365
2	338,627	157,013	181,614	6,796,751
3	338,627	152,927	185,700	6,611,051
4	338,627	148,749	189,878	6,421,173
5	338,627	144,476	194,151	6,227,022
6	338,627	140,108	198,519	6,028,503
7	338,627	135,641	202,986	5,825,518
8	338,627	131,074	207,553	5,617,965
9	338,627	126,404	212,223	5,405,742
10	338,627	121,629	216,998	5,188,745
11	338,627	116,747	221,880	4,966,865
12	338,627	111,754	226,872	4,739,992
13	338,627	106,650	231,977	4,508,015
14	338,627	101,430	237,197	4,270,818
15	338,627	96,093	242,533	4,028,285
16	338,627	90,636	247,990	3,780,294
17	338,627	85,057	253,570	3,526,724
18	338,627	79,351	259,276	3,267,449
19	338,627	73,518	265,109	3,002,339
20	338,627	67,553	271,074	2,731,265
21	338,627	61,453	277,173	2,454,092
22	338,627	55,217	283,410	2,170,682
23	338,627	48,840	289,787	1,880,895
24	338,627	42,320	296,307	1,584,588
25	338,627	35,653	302,974	1,281,615
26	338,627	28,836	309,791	971,824
27	338,627	21,866	316,761	655,063
28	338,627	14,739	323,888	331,175
29	338,627	7,451	331,175	0
<b>TOTAL</b>	<b>9,820,180</b>	<b>2,664,198</b>	<b>7,155,982</b>	<b>-</b>

ROMELCO's internal generated funds and Reinvestment Fund shall be used to pay its monthly amortization to NEA.

An analysis of ROMELCO's financial condition for the past three (3) years 2006 to 2008 disclosed the following:

FINANCIAL INDICATORS	HISTORICAL (Php)					
	2002	2003	2004	2005	2006	2007
<b>Total Assets</b>	70,230	72,646	73,853	76,417	111,538	142,961
<b>Total Liabilities</b>	25,215	23,894	26,507	18,423	56,681	85,951
<b>Member's Equity</b>	45,016	48,753	47,346	57,994	54,858	57,010
<b>Quick Assets</b>	5,848	8,012	7,800	7,725	10,858	22,760
<b>Total Current Assets</b>	12,265	12,614	12,862	11,272	14,464	23,203
<b>Total Current Liabilities</b>	7,025	5,076	4,993	8,502	14,713	32,768
<b>Operating Revenue</b>	60,378	41,747	39,520	47,410	52,327	60,378
<b>Average Collection Period</b>	30.78	33.40	43.90	42.29	48.42	47.87
<b>EBIT</b>	1,738	4,107	1,893	1,229	2,768	3,810

FINANCIAL RATIOS	HISTORICAL					
	2002	2003	2004	2005	2006	2007
<b>I. Leverage Ratios</b>						
(a) Debt Ratio	0.36	0.33	0.36	0.24	0.51	0.60
(b) Debt/Equity	0.56	0.49	0.56	0.32	1.03	1.51
<b>II. Liquidity Ratios</b>						
(a) Current Ratio	1.75	2.48	2.58	1.33	0.98	0.71
(b) Quick Ratio	0.83	1.58	1.56	0.91	0.74	0.69
<b>III. Efficiency Ratios</b>						
(a) Sales to Asset	2.47	5.75	2.58	1.64	2.95	2.99
(b) ACP	31.00	33.00	44.00	42.00	48.00	48.00
<b>IV. Profitability Ratios</b>						
(a) Net Profit Margin	(5.28)	(0.47)	(7.35)	(7.91)	(4.84)	(2.29)
(b) Return on Assets	(2.58)	(0.28)	(3.97)	(4.99)	(2.70)	(1.09)

Based on the foregoing table, ROMELCO's debt to equity ratio has significantly improved starting 2006 with more than one (1) ratio. A ratio of 1.03:1 and 1.51:1 could be construed as an indication of an electric cooperative towards (non-financial leverage) a better financial leverage in terms of loan or other borrowings.

ROMELCO's liquidity significantly went down in year 2007 by forty-seven percent (47%) from 2005 current ratio and by fifty-five percent (55%) from 2004 quick ratio. Its liquidity ratio slightly increased in year 2008.

Moreover, ROMELCO's net profit margin and return on asset showed negative values for six (6) succeeding years, which may be attributed to its significant losses in profit and under-recoveries of operating expenses.

Despite the foregoing financial indicators, NEA found it necessary to approve the loan for ROMELCO's emergency projects amounting to PhP7,155,982.00.

### **COST ANALYSIS**

The proposed cost of emergency capital projects is not included in the ROMELCO's five (5) Year Medium Term Investment Plan (MTIP) on account of emergency purchase process.

Due to exigency of the projects, alternative procedure to public and competitive bidding was observed to procure the necessary line materials and logistical equipment. The project cost incurred for electrical materials amounted to PhP6,270,279.97, communication equipment and accessories amounted to PhP158,446.80 and for the purchase of logistical equipment (four [4] units of Honda motorcycle) PhP228,000.00.

The costs of equipment were found within the NEA's price index while the costs of the said vehicles are within the prevailing market retail price.

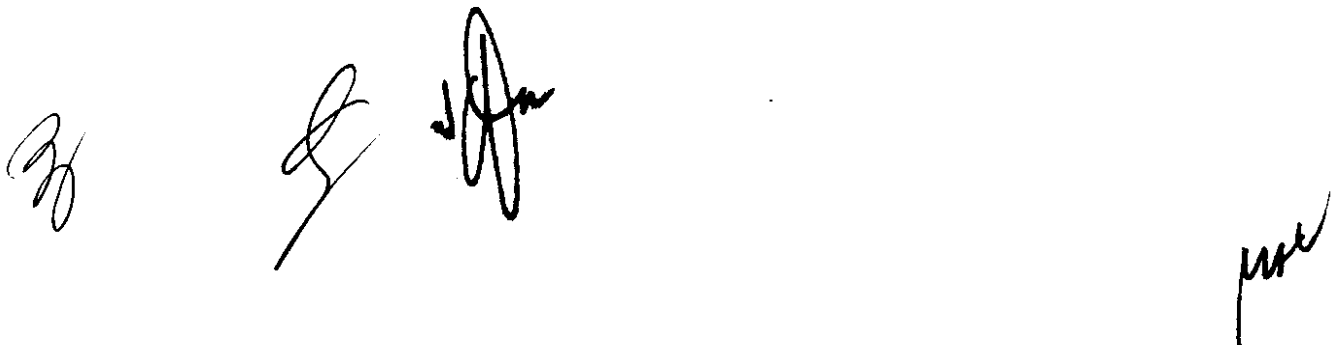
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The Commission noted that the present cash flow of ROMELCO can sustain the cost of the aforesaid emergency capital projects. ROMELCO's Average Selling Rate per kWh appeared to be relatively stable during the months from April 2008 to August 2008 after the completion of its emergency capital projects.

A perusal of the evidence presented herein showed that the rehabilitation and restoration of ROMELCO's distribution facilities redounded to the benefit of its 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 approval of emergency capital projects and authority to secure loans from the National Electrification Administration (NEA) in accordance with the provisions of R.A. 9136 and the *“Guidelines to Govern the Submission, Evaluation, and Approval of Electric Capital Projects”*, with prayer for provisional authority, filed by Romblon Electric Cooperative, Inc. (ROMELCO) is hereby **APPROVED**.

Relative thereto, ROMELCO is hereby directed to pay, within fifteen (15) days from receipt hereof, a permit fee in the amount of **Forty-Nine Thousand Nine Hundred Twenty-Five Pesos (PhP49,925.00)**, computed as follows:

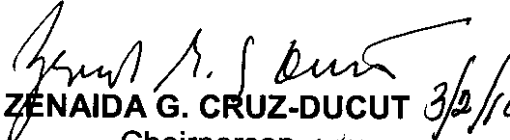


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$$\frac{\text{PhP}6,656,726.77}{\text{PhP}100.00} \times \text{PhP}0.75 = \text{PhP}49,925.00$$

SO ORDERED.


Pasig City, February 15, 2010.

  
ZENNAIDA G. CRUZ-DUCUT 3/2/10  
Chairperson *quatu*

  
RAUF A. TAN  
Commissioner

  
ALEJANDRO Z. BARIN  
Commissioner

  
MARIA TERESA A. R. CASTAÑEDA  
Commissioner

  
JOSE C. REYES  
Commissioner

**Copy furnished:**

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7. **Office of the City Mayor**  
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Municipality of San Fernando  
Province of Romblon
9. **Office of the Municipal Mayor**  
Municipality of Magdiwang  
Province of Romblon
10. **Office of the Municipal Mayor**  
Municipality of Cajidiocan  
Province of Romblon