

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



IN THE MATTER OF THE  
APPLICATION FOR APPROVAL OF  
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. 2008-100 MC

ROMBLON ELECTRIC COOPERATIVE,  
INC. (ROMELCO),

Applicant.

x-----x

D O C K E T E D  
Date: MAR 03 2009  
By: [Signature]

**DECISION**

Before this Commission for resolution is the application filed on November 3, 2008 by Romblon Electric Cooperative, Inc. (ROMELCO) for the approval of its capital projects and authority to secure loans from the National Electrification Administration (NEA) in accordance with the provisions of Republic Act No. 9136 (R.A. 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.

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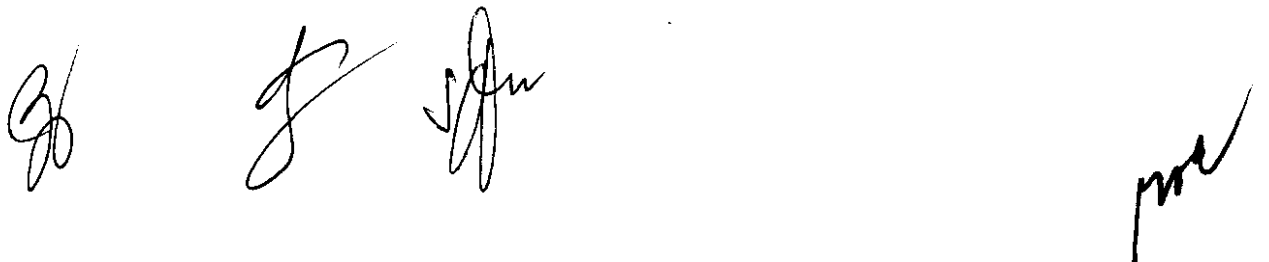
In the same Order, ROMELCO was directed to cause the publication of the Notice of Public Hearing, at its own expense, once (1x) in a newspaper of general circulation in the Philippines, not later than ten (10) days before the scheduled date of initial hearing. It was also directed to inform the consumers, 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 City/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 25, 2009, ROMELCO filed its "*Pre-Trial Brief*".

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



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At the said hearing, the Commission found that ROMELCO failed to comply with its posting and 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.

During 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:

### Major Electric Capital Projects

#### 1. Expansion and Extension of Primary Lines

##### a. Project Description:

- The expansion/extension of primary lines includes the construction of new lateral lines, installation of service drop wires and kilowatthour (kWh) billing meters

##### b. Rationale of the Project:

- To extend electric services to existing and potential consumers

##### c. Project Cost:

**PhP556,000.00**

#### 2. Rehabilitation and Upgrading of Distribution Lines

##### a. Project Description:

- Rehabilitation and upgrading of distribution lines, conversion of lines from single phase to three (3) phase circuits, re-conductoring, replacement of meters and meter clustering and acquisition and installation of additional distribution transformers

b. Rationale of the Project:

- To reduce primary line losses and voltage drop and improve feeder load balancing

c. Project Cost: **PhP30,455,000.00**

**3. Installation of Service Drop Wires and Kilowatthour (kWh) Meters (Add-on Projects)**

a. Project Description:

- Installation of service drop wires and kilowatthour (kWh) meters

b. Rationale of the Project:

- To extend electric services to existing and potential consumers

c. Project Cost: **PhP18,965,000.00**

**4. Procurement of Logistical Support Equipment**

a. Project Description:

- Procurement of necessary tools, vehicles and communication equipment

b. Rationale of the Project:

- To improve process and analysis of technical data and mobility
- To promote reliability and efficiency

c. Project Cost: **PhP14,434,000.00**



## Major Non-Electrical Projects

### 5. Construction of Main and Sub-Offices

a. Project Description:

- Construction of Main and Sub-Offices in the Islands of Romblon and Sibuyan, respectively

b. Rationale of the Project:

- To promote better customer service

c. Project Cost:

**PhP9,600,000.00**

Thus, the total cost of the proposed projects is PhP74,010,000.00.

## 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 specifications of lines and drawings.

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, namely: Alad, Logbon and Cobrador, and some areas that are inaccessible to electric distribution lines and being served by Solar Home Systems (SHS).

At present, ROMELCO's distribution system could no longer satisfy the prescribed minimum standards of quality and reliability of service to its consumers. The unreliability of its distribution system is due to the following:

- a) System loss and voltage drop are attributed to the undersized and overloaded conductors and billing meters;
- b) Around 3800 kWh meters were found to be defective due to terminal block with grounded body or high internal loss; and
- c) Fifty (50) distribution transformers with capacities ranging from 10 kVA to 25 kVA were identified to be under-loaded, overloaded, reconditioned, which contributed to the system loss.

#### **Expansion and Extension of Primary Lines**

With the approval of the proposed projects, ROMELCO will be able to accommodate its load growth and achieve its total barangay electrification program.



**Rehabilitation and Upgrading of Distribution Lines**

ROMELCO's proposed projects shall improve the voltage level within the acceptable range and the reliability of its distribution system.

Shown below is the five (5) year forecasted system loss analyses reflecting the reduction of technical loss in ROMELCO's distribution system particularly on the conversion and upgrading of lines in Romblon and Sibuyan Islands:

**A. Romblon Island**

YEAR	Energy Loss (kWh)		System Loss Reduction (Romblon)		
	Before Conversion	After Conversion	(in kWh)	(in %)	(in Peso)
2009	85,476.05	32,053.52	53,422.53	0.705%	460,502.24
2010	95,007.79	33,532.16	61,475.63	0.741%	529,919.94
2011	112,309.97	41,377.36	70,932.61	0.771%	611,439.10
2012	126,733.01	44,356.55	82,376.46	0.798%	710,085.07
2013	150,725.96	54,809.44	95,916.52	0.821%	826,800.39
<b>TOTAL</b>	<b>570,252.78</b>	<b>206,129.03</b>	<b>364,123.75</b>	<b>0.382%</b>	<b>3,138,746.74</b>

**B. Sibuyan Island**

YEAR	Energy Loss (kWh)		System Loss Reduction (Sibuyan)		
	Before Conversion	After Conversion	(in kWh)	(in %)	(in Peso)
2009	263,877.06	217,520.28	46,356.78	0.867%	399,595.46
2010	312,940.71	260,783.93	52,156.79	0.870%	449,591.49
2011	375,389.25	316,734.68	58,654.57	0.867%	505,602.40
2012	454,342.29	388,256.14	66,086.15	0.861%	569,662.63
2013	548,768.39	474,728.21	74,040.18	0.851%	638,226.34
<b>TOTAL</b>	<b>1,955,317.71</b>	<b>1,658,023.24</b>	<b>297,294.47</b>	<b>0.438%</b>	<b>2,562,678.32</b>

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Based on the foregoing, the average system loss reduction in Romblon Island is 72,824 kWh, or equivalent to PhP627,749 per year while in Sibuyan Island the average system loss reduction is 59,459 kWh, or equivalent to PhP512,536 per year.

Moreover, these projects will result in the following:

- a) Improvement of the Transformer Load Management (TLM);
- b) The distribution transformers would be able to withstand the load which reduces technical system loss; and
- c) The distribution transformers' capacity will be optimized thus, resulting to lower proportionate core loss.

ROMELCO conducted the analyses of its distribution transformer loading condition and its criterion used is based on the study provided by NEA, to wit:

CONDITION	RANGE	AVERAGE
Critical	110% UP	
Overloaded	80-110%	95
Loaded	60-79%	69.5
Tolerable	40%-59%	49.5
Underloaded	39%-20%	29.5

CAPACITY	OVERLOADED				
	(%)	(kVA)	(pf)	(kW)	(kVAR)
10 kVA	95.00%	9.5	0.85	8.08	5.00
15 kVA	95.00%	14.25	0.85	12.11	7.51
25 kVA	95.00%	23.75	0.85	20.19	12.51

CAPACITY	UNDERLOADED				
	(%)	(kVA)	(pf)	(kW)	(kVAR)
10 kVA	29.50%	2.95	0.85	2.51	1.55
15 kVA	29.50%	4.43	0.85	3.76	2.33
25 kVA	29.50%	7.38	0.85	6.27	3.89

CAPACITY	TOLERABLE (RECONDITION & AGING)				
	(%)	(kVA)	(pf)	(kW)	(kVAR)
10 KVA	49.50%	4.95	0.85	4.21	2.61
15 KVA	49.50%	7.42	0.85	6.31	3.91
25 KVA	49.50%	12.37	0.85	10.52	6.52
37.5 KVA	49.50%	18.56	0.85	15.78	9.78

### Construction of Main and Sub-Offices

According to ROMELCO, the construction of its main and sub-offices would improve its customer service reliability and efficiency in terms of accessibility and immediate response to power interruptions.

### Authority to Secure Loan

ROMELCO proposed to source its total project cost of PhP74.01 Million from NEA through a fifteen (15) year loan term with an interest rate of nine percent (9%) annually, subject to the present lending policies on loan approval and releases. Its amortization payments shall be sourced from its accumulated Reinvestment Fund or internally generated funds.



The funding for the annual requirement is expected to be ahead of the periodic implementation of the projects. ROMELCO proposes a staggered scheme on NEA's loan approval and releases. The first three (3) year projects would be initially subject to loan approval, releases and amortization. A similar scheme will also be followed for the next two (2) year project. Shown below is the proposed amortization:

**Proposed Amortization for the 1<sup>st</sup> Year**

No. of Amortization	Amortization (PhP)	Interest (PhP)	Principal (PhP)	Outstanding Principal Balance (PhP)
				28,421,000
1	3,525,878	2,557,890	967,988	27,453,012
2	3,525,878	2,470,771	1,055,106	26,397,906
3	3,525,878	2,375,812	1,150,066	25,247,840
4	3,525,878	2,272,306	1,253,572	23,994,268
5	3,525,878	2,159,484	1,366,393	22,627,875
6	3,525,878	2,036,509	1,489,369	21,138,506
7	3,525,878	1,902,466	1,623,412	19,515,094
8	3,525,878	1,756,358	1,769,519	17,745,575
9	3,525,878	1,597,102	1,928,776	15,816,799
10	3,525,878	1,423,512	2,102,366	13,714,434
11	3,525,878	1,234,299	2,291,578	11,422,855
12	3,525,878	1,028,057	2,497,821	8,925,035
13	3,525,878	803,253	2,722,624	6,202,411
14	3,525,878	558,217	2,967,661	3,234,750
15	3,525,878	291,128	3,234,750	0
<b>TOTAL</b>	<b>52,888,163</b>	<b>24,467,163</b>	<b>28,421,000</b>	-

Note: The proposed scheme of amortization for the next 4-year period is similar to the 1<sup>st</sup> year.

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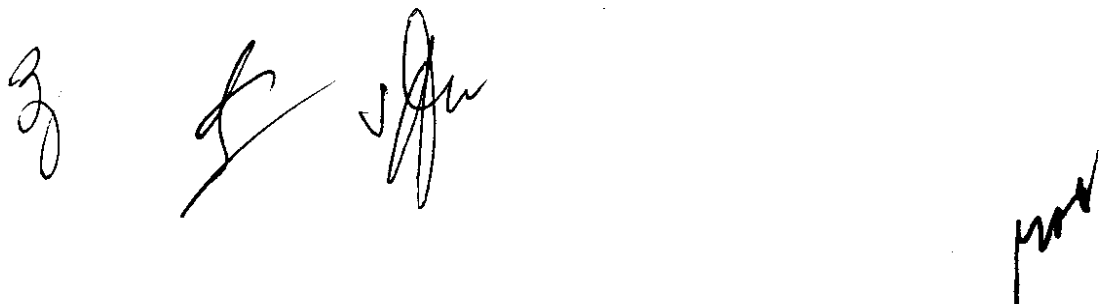
## **COST ANALYSIS**

ROMELCO's ten (10) year Long Term Investment Plan (LTDP) includes a five (5) year Medium Term Investment Plan (MTIP), which was updated in 2007 during the annual planning work shop conducted by NEA. Among those updated are costs of capital projects for implementation within the next five (5) years and its 2008 to 2012 business operation for purposes of appropriate funding. The project costs were duly evaluated and updated to sustain peso devaluation, price inflation of commodities, and for other financial and physical contingencies.

As a summary, ROMELCO's total cost of capital projects amounts to PhP74.01 Million, where PhP64.41 Million is for allocated electric capital projects and PhP9.6 Million for non-electric capital projects.

With reference to electric capital projects, the bill of materials, labor and contingency are consistent with NEA standards on specific Construction Assembly Units for Electric Distribution System. The estimated costs of non-electric capital projects were determined based on prevailing market price resulting from competitive public biddings.

The capital investment for the projects to be incurred by ROMELCO shall be funded through its Reinvestment Fund and loans obtained from NEA.

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Shown below are the costs of estimate of the projects based on NEA 2008

Price index:

CAPITAL PROJECTS (PhP '000)	2008	2009	2010	2011	2012	Total
<b>ELECTRIC CAPITAL PROJECTS:</b>						
1. EXPANSION						
1.1 Sitios on grid	502					502
1.2 Connections	46	2	2	2	2	54
Sub-Total	548	2	2	2	2	556
2. Rehab/Upgrading of Lines	11,954	5,868	4,427	4,205	4,001	30,455
3. ADD-ONS	2,959	3,522	3,902	4,262	4,320	18,965
4. LOGISTICAL SUPPORT	3,360	2,396	2,398	2,327	3,953	14,434
<b>TOTAL (Electric Capital Projects)</b>	<b>18,821</b>	<b>11,789</b>	<b>10,729</b>	<b>10,796</b>	<b>12,276</b>	<b>64,410</b>
<b>NON-ELECTRIC CAPITAL PROJECTS:</b>						
1. OTHERS - Construction of HQ Romblon, and sub-offices in Sibuyan	9,600					9,600
<b>TOTAL FUNDING / FINANCING REQUIREMENT</b>	<b>28,421</b>	<b>11,788</b>	<b>10,729</b>	<b>10,796</b>	<b>12,276</b>	<b>74,010</b>

For the year 2008, ROMELCO has an accumulated Reinvestment Fund of PhP2,695,714.00 which is not sufficient to finance the annual amortization of the projects.

A perusal of the evidence presented herein showed that the completion and acquisition of the aforesaid projects will redound to the benefit of ROMELCO'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 approval of 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 a permit fee in the amount of **Five Hundred Fifty-Five Thousand Seventy Five Pesos (PhP555,075.00)**, computed as follows:

$$\frac{\text{PhP74,010,000.00}}{\text{PhP100.00}} \times \text{PhP0.75} = \text{PhP555,075.00}$$

The permit fee shall be paid in staggered manner since the proposed projects will be implemented over a period of five (5) years, broken down as follows:

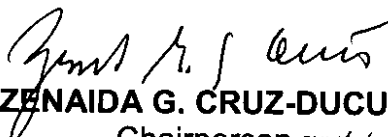
Year	Total Project Cost (PhP)	Permit Fees (PhP)	Due Date
2009	28,421,000.00	213,157.00	March 15, 2010
2010	11,788,000.00	88,410.00	March 15, 2011
2011	10,729,000.00	80,468.00	March 15, 2012
2012	10,796,000.00	80,970.00	March 15, 2013
2013	12,276,000.00	92,070.00	March 15, 2014
<b>TOTAL</b>	<b>74,010,000.00</b>	<b>555,075.00</b>	-

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Further, ROMELCO is hereby directed to conduct a competitive bidding in the procurement and implementation of its capital projects for 2009 to 2013.

**SO ORDERED.**

Pasig City, February 15, 2010.

  
**ZENAIDA G. CRUZ-DUCUT**  
Chairperson *gmd*

  
**RAUF A. TAN**  
Commissioner

  
**ALEJANDRO Z. BARIN**  
Commissioner

  
**MARIA TERESA A. R. CASTAÑEDA**  
Commissioner

  
**JOSE C. REYES**  
Commissioner

**Copy furnished:**

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Province of Romblon
9. **Office of the Municipal Mayor**  
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10. **Office of the Municipal Mayor**  
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