

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



IN THE MATTER OF THE
APPLICATION FOR THE
APPROVAL OF MAJOR CAPITAL
PROJECT – RE: UPGRADING OF
THE POLANCO SUBSTATION
FROM 10 MVA TO 20 MVA, WITH
PRAYER FOR PROVISIONAL
AUTHORITY

ERC CASE NO. 2008-110 MC

ZAMBOANGA DEL NORTE
ELECTRIC COOPERATIVE, INC.
(ZANECO),

Applicant.

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D O C K E T E D
Date: MAY 27 2009
By: [Signature]

D E C I S I O N

Before this Commission for resolution is the application filed on December 10, 2008 by Zamboanga Del Norte Electric Cooperative, Inc. (ZANECO) for approval of its major capital projects – re: upgrading of the Polanco Substation from 10 MVA to 20 MVA, 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 12, 2009, were issued setting the case for initial hearing on March 10, 2009.

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In the same Order, ZANECO 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 and Cities within ZANECO's franchise area were furnished copies of the Order and Notice of Public Hearing for the appropriate posting thereof on their respective bulletin boards.

On February 4 to 6, 2009, the Commission conducted an ocular inspection on ZANECO's assets subject of the instant application.

On March 4, 2009, ZANECO filed its "*Pre-trial Brief*."

During the March 10, 2009 initial hearing of this case, only ZANECO appeared. No intervenor/oppositor appeared nor was there any intervention/opposition registered.

At the said hearing, ZANECO presented its proofs of compliance with the Commission's posting and publication of notice requirements which were duly marked as Exhibits "A" to "FF-8" inclusive. Thereafter, it conducted an expository presentation of its application.

At the termination of the expository presentation, ZANECO presented the following witnesses: 1) Engr. Archimedes Reyes, its Technical Consultant, who testified on the technical description of the project, the adverse effect of its non-implementation on the power distribution system, the benefits derived should the project be implemented, the options and alternatives being considered in lieu of the proposed project, the technical and comparative analysis which were conducted, and the cost estimate, schedule of implementation and impact on rates; 2) Mr. Adelmo P. Laput, its General Manager, who testified on his authority granted by the Board of Directors in filing the application, the necessity of the project, the fact that the proposed project was approved by the ZANECO Board of Directors, the fact that a technical consultant was hired to conduct a feasibility study, the fact that the Members of the Board reviewed the project, and considered other options and alternatives and, that it procured materials, equipment and services from qualified bidders; and 3) Ms. Leonora I. Timtim, its Finance Manager, who testified on the financing requirement for the proposed major capital project, the sufficiency of its Reinvestment Fund (RF) in the payment of loans and other sources, and the historical and forecasted utilization of its five percent (5%) RF. The direct examinations on the said witnesses having been terminated, the Commission propounded clarificatory questions.



On March 20, 2009, ZANECO filed its "Formal Offer of Exhibits" which is hereby admitted for being relevant and material to the final resolution of the case.

DISCUSSION

ZANECO sought the Commission's approval of the following project:

1. Uprating of the Polanco Substation

a. Project Description:

- Uprating of the Polanco Substation by replacing the existing 10 MVA power transformer by a 20 MVA power transformer and transfer the substituted 10 MVA transformer to Dapitan Substation

b. Rationale of the Project:

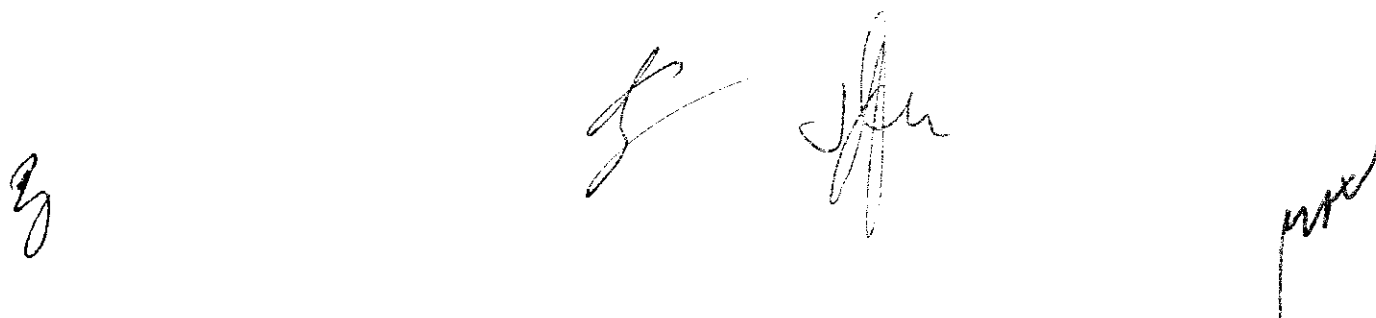
- To relieve the overloaded condition of the Polanco Substation and accommodate additional load of 3000 kW for LEE Plaza and the anticipated growing demand of commercial and residential consumers in Dipolog City and the Municipality of Polanco

c. Project Cost:

PhP39,450,000.00

TECHNICAL ANALYSIS

The table below indicates the historical demand of the Polanco Substation:

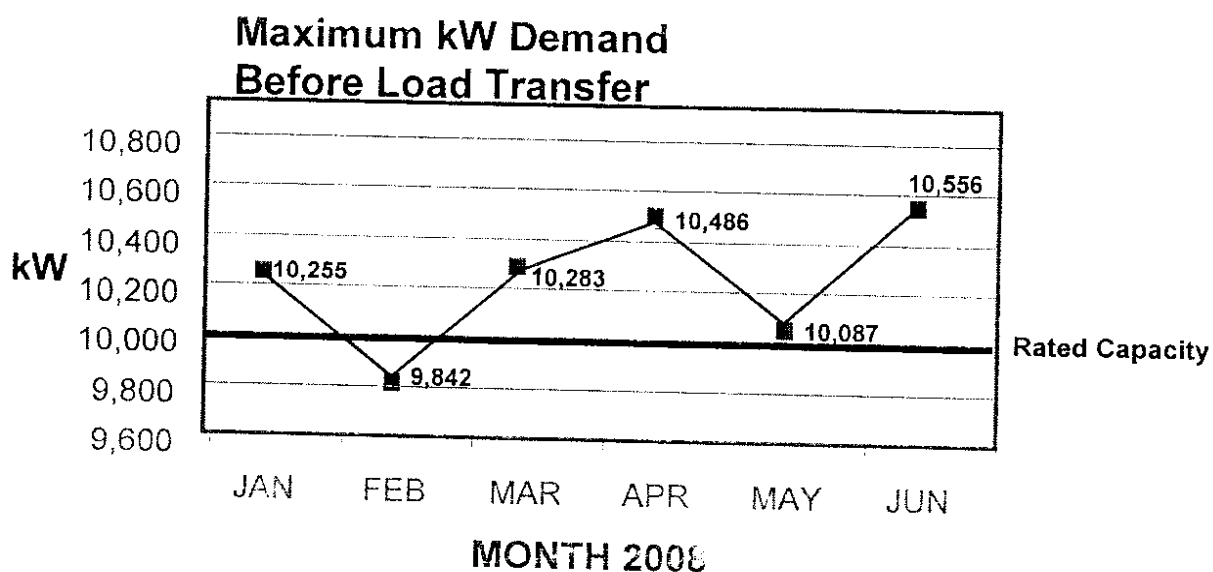


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PEAK DEMAND
 Substation: POLANCO 10 MVA

	% Loading	PEAK DEMAND			
		KVA	KW	KVAR	% PF
2002	86.55	8,665.00	8,166.00	2,899.00	94.2
2003	103.05	10,305.00	9,679.00	3,537.00	93.9
2004	94.88	9,488.00	8,967.00	3,101.00	94.5
2005	98.03	9,803.00	9,359.00	2,915.00	95.5
2006	102.29	10,229.00	9,779.00	3,001.00	95.6
2007	107.88	10,788.00	10,360.00	3,008.00	96.0
2008	109.26	10,926.00	10,556.00	2,817.00	96.6

The annual average loading of this particular substation indicates that the power transformer with a capacity of 10 MVA has been operating beyond the ideal loading percentage of 60% of its rated capacity. The remedial measure by ZANECO to temporarily relieve the substation to avoid damage and probably loss of equipment in the system was to transfer temporarily some of the load of 10 MVA Polanco Substation to the nearby Dapitan Substation. The table below shows the kW and kWhr demand of Polanco Substation prior to the shifting of load to Dapitan Substation:



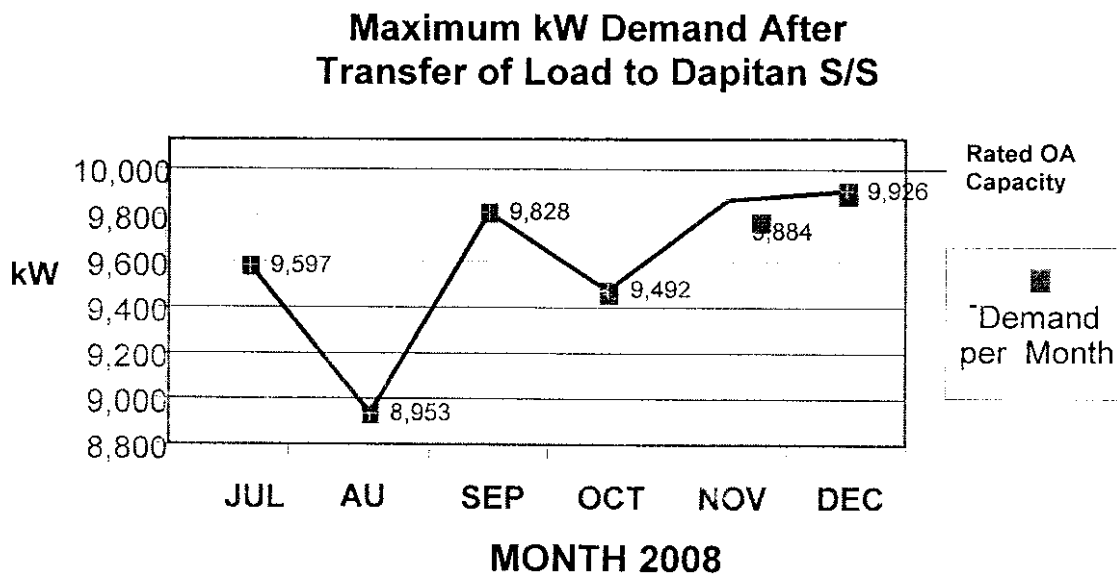
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To transfer some loads of the Polanco Substation to Dapitan Substation is to lessen its burden without first addressing the growing demand. Load sharing was considered the immediate solution, though this remedy is not permanent in nature. The tabular illustration below shows the present condition of the power transformer:



ZANECO has no other option but to uprate the existing 10 MVA power transformer to 20 MVA to prevent it from overloading. The uprating will accommodate the incoming big customers like LEE Plaza which has a 3000 kW load. The net gain in energy sales in implementing the project would be 1,409,406 kWhrs equivalent to PhP6,675,543.76 as illustrated below:

Table 1. Benefits of the Capital Project on ZANECO's Financial Performance

Particulars	Unserviced kWhrs per annum	Rate (PhP / kWhr)	Sub Total (PhP)
Residential	649,599.2459	4.9434	3,211,228.91
Commercial	287,392.6627	4.6970	1,349,883.34
Industrial	421,802.6118	4.3890	1,851,291.66
Public Buildings	39,786.8090	4.8193	191,744.57
Street Lightings	10,824.6827	6.5956	71,395.28
Net Gain-Energy Sales	1,409,406.01		6,675,543.76

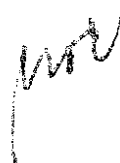
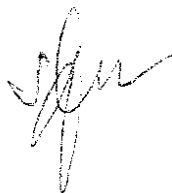
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COST ANALYSIS

Upon acquisition of the 20 MVA power transformer, the existing 10 MVA power transformer at the Polanco Substation will be transferred to the Dapitan Substation. The existing power transformer at the Dapitan Substation is being rented from TRANSCO at PhP63,090.72 per month. ZANECO also submitted utilization of its 5% RF and as of December 2008, its cumulative balance amounted to PhP21,245.74.

Based on the submitted documents, the ZANECO's RF for 2008 amounted to PhP19,243,283.56. Annual amortization for the National Electrification Administration (NEA) loan amounted to PhP6,147,102.55 at an interest rate of ten percent (10%) and payable within ten (10) years beginning 2009 up to 2018. With the acquisition of the new 20 MVA power transformer, the net gain in energy sales of the Polanco Substation will be at PhP6,675,543.76 and the avoided TRANSCO rental at Dapitan's power transformer at PhP757,088.64 (*PhP63,090.72 /month x 12 months*) would be enough to cover the annual amortization of the project and therefore considered the project to be viable and beneficial to the interest of ZANECO's customers.

A perusal of the evidence presented herein showed that the completion and acquisition of the aforesaid projects will redound to the benefit of ZANECO'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”*).



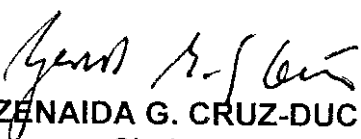
WHEREFORE, the foregoing premises considered, the application for approval of its major capital project – re: upgrading of the Polanco Substation from 10 MVA to 20 MVA, with prayer for provisional authority, filed by Zamboanga Del Norte Electric Cooperative, Inc. (ZANECO) is hereby **APPROVED**.

Relative thereto, ZANECO is hereby directed to pay a total permit fee in the amount of **Two Hundred Ninety-Five Thousand Eight Hundred Seventy-Five Pesos (PhP295,875.00)**, within fifteen (15) days from receipt hereof, computed as follows:

$$\begin{array}{r} \text{PhP39,450,000.00} \\ \text{-----} \times \text{PhP0.75} = \text{PhP295,875.00} \\ \text{PhP100.00} \end{array}$$

SO ORDERED.

Pasig City, May 11, 2009.


ZENAIDA G. CRUZ-DUCUT
Chairperson


RAUF A. TAN
Commissioner


ALEJANDRO Z. BARIN
Commissioner

(Took No Part)
MARIA TERESA A. R. CASTAÑEDA
Commissioner


JOSE C. REYES
Commissioner

Copy Furnished:

1. **Dechavez Bugayong Concepcion & Sagayo Law Offices**
Attention: **Atty. Luis Manuel U. Bugayong**
Counsel for Applicant
Units 1609-1610, 16th Floor, Tycoon Centre
Condominium Pearl Drive, Ortigas Center
Pasig City, Metro Manila

2. **Office of the Solicitor General**
134 Amorsolo Street, Legaspi Village
City of Makati 1229

3. **Commission on Audit**
Commonwealth Avenue
Quezon City 1121

4. **Senate Committee on Energy**
GSIS Building, Roxas Boulevard
Pasay City 1307

5. **House Committee on Energy**
Batasan Hills, Quezon City 1126

6. **Mr. Edgardo G. Lacson**
President
Philippine Chamber of Commerce and Industry (PCCI)
3rd Floor, ECC Building, Sen. Gil Puyat Avenue
Makati City

7. **The City Mayor**
Dapitan City, Zamboanga del Norte 7101

8. **The City Mayor**
Dipolog City, Zamboanga del Norte 7100

9. **The Municipal Mayor**
Bacungoan, Zamboanga del Norte

10. **The Municipal Mayor**
Godod, Zamboanga del Norte

11. **The Municipal Mayor**
Gutalac, Zamboanga del Norte 7118

12. **The Municipal Mayor**
Jose Dalman (Ponot), Zamboanga del Norte 7111

13. **The Municipal Mayor**
Katipunan, Zamboanga del Norte 7109
14. **The Municipal Mayor**
La Libertad, Zamboanga del Norte 7119
15. **The Municipal Mayor**
Labason, Zamboanga del Norte 7117
16. **The Municipal Mayor**
Liloy, Zamboanga del Norte 7115
17. **The Municipal Mayor**
Manukan, Zamboanga del Norte 7110
18. **The Municipal Mayor**
Mutia, Zamboanga dei Norte 7107
19. **The Municipal Mayor**
Pinan, Zamboanga del Norte 7105
20. **The Municipal Mayor**
Polanco, Zamboanga del Norte 7106
21. **The Municipal Mayor**
Pres. Roxas, Zamboanga del Norte 7102
22. **The Municipal Mayor**
Rizal, Zamboanga del Norte 7104
23. **The Municipal Mayor**
Salug, Zamboanga del Norte 7114
24. **The Municipal Mayor**
Sergio Osmeña, Zamboanga del Norte 7108
25. **The Municipal Mayor**
Siayan, Zamboanga del Norte 7113
26. **The Municipal Mayor**
Sibutad, Zamboanga del Norte 7103
27. **The Municipal Mayor**
Sindangan, Zamboanga del Norte 7112
28. **The Municipal Mayor**
Tampilisan, Zamboanga del Norte 7116
29. **Zamboanga del Norte Electric Cooperative, Inc. (ZANECO)**
Pinan, Zamboanga del Norte 7105