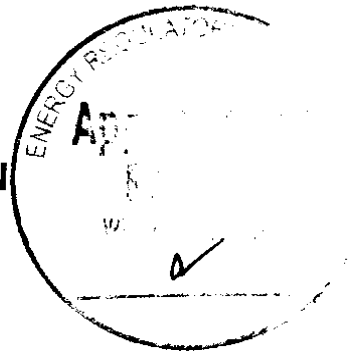


Republic of the Philippines
ENERGY REGULATORY COMMISSION
San Miguel Avenue, Pasig City



IN THE MATTER OF THE
APPLICATION FOR THE APPROVAL
OF MAJOR CAPITAL PROJECT – RE:
CONSTRUCTION OF 10 MVA SAN
JOSE SUBSTATION AND AUTHORITY
TO SECURE LOAN AMOUNTING TO
TWENTY-FOUR MILLION ONE
HUNDRED TWENTY-SIX THOUSAND
EIGHT HUNDRED FIFTY PESOS
(PHP24,126,850.00) FROM THE
NATIONAL ELECTRIFICATION
ADMINISTRATION (NEA), WITH
PRAYER FOR PROVISIONAL
AUTHORITY

ERC CASE NO. 2009-038 MC

ZAMBOANGA DEL SUR I ELECTRIC
COOPERATIVE, INC. (ZAMSURECO I),
Applicant.

x-----x

DOCKETED

Date: FEB 02 2010

By: 

DECISION

Before this Commission for resolution is the application filed on April 15, 2009 by Zamboanga del Sur I Electric Cooperative, Inc. (ZAMSURECO I) for the approval of its Major Capital Project – Re: construction of 10 MVA San Jose Substation and authority to secure loan amounting to Twenty-Four Million One Hundred Twenty-Six Thousand Eight Hundred Fifty Pesos (PhP24,126,850.00) from the National Electrification Administration (NEA); with prayer for provisional authority.



ERC Case No. 2009-038 MC
DECISION/November 16, 2009
Page 2 of 13

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 May 14, 2009, were issued setting the case for initial hearing on June 15, 2009.

In the same Order, ZAMSURECO I 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,

During the June 15, 2009 initial hearing of this case, only ZAMSURECO I appeared. No intervenor/oppositor appeared nor was there any intervention/opposition registered.

At the said hearing, ZAMSURECO I presented its proofs of compliance with the Commission's posting and publication of notice requirements which were duly marked as Exhibits "A" to "AG-2", inclusive. Thereafter, it conducted an expository presentation of its application.

At the termination of the expository presentation, ZAMSURECO I presented the following witnesses: 1) Mr. Jose Raul A. Sanieel, its General Manager; 2) Engr. Anastacio D. Autor, its Technical Services Manager; 3) Mr. Clifford M. Ferolin, its Executive Assistant who is assigned to the Office of the General Manager; and 4) Ms. Charina M. Arabejo, its Finance Department Manager, who all testified in support 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 July 1 to 3, 2009, the Commission conducted an ocular inspection on ZAMSURECO I's assets subject of the instant application.



On July 8, 2009, ZAMSURECO I filed its "Motion for Extension of Time to Submit Formal Offer of Evidence".

On July 27, 2009, ZAMSURECO I filed its "Formal Offer of Evidence" which is hereby admitted for being relevant and material to the final resolution of the case.

DISCUSSION

ZAMSURECO I sought the Commission's approval of the following:

Construction of a New 10 MVA San Jose Substation

a. Project Description:

- Design, supply, delivery, construction, installation and commissioning of a 10 MVA 69/13.2 kV outdoor type with on-load tap changer substation including ancillary equipment to be installed at Barangay San Jose, Pagadian City, Zamboanga del Sur

b. Rationale of the Project:

- To accommodate the increasing demand for electricity service, particularly for large commercial/industrial customers that have already established commercial operations at Area II in Pagadian City
- To provide reliable, efficient, quality and sufficient supply of electric service in its fast growing customer base

c. Project Cost:

PhP23,030,850.00



COST ANALYSIS

ZAMSURECO I's capital expenditure project requires a total capital investment of PhP24,126,850.00. The capital investment to be incurred for the said project will be sourced through a loan from the National Electrification Administration (NEA). The financing loan with NEA has a term of ten (10) years at ten percent (10%) interest rate.

Funds for the payment of monthly amortization will be taken from the five percent (5%) Reinvestment Fund. ZAMSURECO I provided the Commission the Schedule of Amortization which showed that the loan shall be amortized in forty (40) Equal Quarterly Amortization (EQA) of PhP993,160.00. Details of the loan disclosed that the Outstanding Principal Balance of PhP24,931,078.00 includes the capitalized interest of PhP804,228.00. ZAMSURECO I's total reinvestment fund for 2008 was PhP23,461,229.00.

Based on the submitted NEA Loan Profile (as of December 31, 2008) ZAMSURECO I has an outstanding loan amounting to PhP24,545,176.00 but has made an advance payment of PhP8,344,754.54. The remaining balance is PhP16,200,421.46 .

Since it cannot internally finance such project construction, it opted to secure a loan from NEA through a financial loan package designed for Rural Power Projects.



The total amount of loan obtained from the NEA in the amount of PHP24,126,850.00 is broken down as follows:

DESCRIPTION	COST (PhP)
Purchased of 10MVA Power Transformer	18,500,000.00
Substation Metering & Equipment	5,626,850.00
TOTAL	24,126,850.00

ZAMSURECO I's major depository bank is the Development Bank of the Philippines (DBP) and it has already made actual drawdowns from said bank amounting to PHP10,679,850.00 starting December 2008, as shown below:

Releases	Amount Released (PhP)
CV # 49361 - 20% Mobilization	4,746,600.00
CV # 51611 - Partial Payment	5,933,250.00
Total Releases	10,679,850.00

The salient features of the said loan agreement with NEA are as follows:

a) The loan agreement is in the principal amount not exceeding PHP24,931,078.00 including capitalized interest and is payable in ten (10) years starting December 2008 at an initial interest rate of ten (10%) percent. This loan shall be exclusively for the purpose of constructing a new 10 MVA substation which will cover the financing of the purchase of electrical equipment and accessories including design, construction and installation.



b) The succeeding interest rates from the first release are subject to monthly re-pricing. Interest shall be payable quarterly to start one (1) month after date of initial drawdown, to coincide with the principal repayment.

An analysis of ZAMSURECO I's financial condition for the years 2006 to 2008 disclosed the following:

PARTICULARS	2006	2007	2008
Total Assets	594,000,207	672,214,089.	817,889,601
Total Liabilities	151,236,234	148,913,143	285,922,322
Member's Equity	442,763,973	68,846,943	531,967,279
Current Assets	130,762,380	145,466,050	253,402,010
Quick Assets	99,078,252	123,025,549	220,967,537
Current Liabilities	76,447,821	80,066,200	102,501,411
Operating Revenues	523,812,162	579,461,848	604,499,593
Operating Expenses	525,231,554	574,300,069	602,245,573
Net Income (Loss)	1,736,522	10,045,043	4,418,794
Net Income Before Int. and Dep.	20,610,516	34,853,504	30,493,250
Provisions for Reinvestment	20,511,565	22,668,872	23,461,229
Net Utility Plant	359,602,436	430,442,371	503,476,749
Financial Analysis Ratio			
Debt Ratio	0.25 : 1	0.22 : 1	0.35 : 1
Debt to Equity Ratio	0.34 : 1	0.28 : 1	0.54 : 1
Current Ratio	1.71 : 1	1.82 : 1	2.47 : 1
Quick Ratio	1.30 : 1	1.54 : 1	2.16 : 1
Sales to Net Utility Plant Ratio	1.46 : 1	1.35 : 1	1.20 : 1
Net Profit Margin	0.33 : 1	1.73 : 1	0.73 : 1
Return on Assets	0.30 : 1	1.59 : 1	0.71 : 1
Return on Equity	0.39 : 1	0.0192 : 1	0.0083 : 1

The Quick Ratio revealed that for the past three (3) years, ZAMSURECO I was able to meet its short-term liabilities. Its Current Ratio shows that it can easily cover payments to its liabilities more than twice without a need for a rate adjustment.

Years 2006 and 2007 Financial Reports of ZAMSURECO I showed that its Debt and Debt-to-Equity Ratios decreased. However, for the year 2008, the same ratios increased. This is attributable to the loans granted by NEA which were released on July 22, 2008. The grant of said loans increased ZAMSURECO I's Total Liabilities and Member's Equity account.

ZAMSURECO I posted an all time high net income of Ten Million Pesos (PhP10,000,000.00) in year 2007. Since year 2006, it is steadily attaining a positive net income. The decrease in year 2008 resulted to the low returns on its assets from 1.59:1 to 0.71:1 and equities attributed to under recoveries of operating expenses.

ZAMSURECO I is confident that the cost of the project will be recouped through the benefits that will be derived from the project based on the increase in kilowatthour sales, Net Present Value (NPV) and Return on Investment (ROI) computations.

It is worth noting that the total amount of the project as submitted is only in the amount of Twenty-Three Million Thirty Thousand and Eight Hundred and Fifty Pesos (PhP23,030,850.00).

TECHNICAL ANALYSIS

The City of Pagadian, the Regional Center of Western Mindanao, is currently experiencing unprecedented growth and dynamic economic activity owing to a great deal of improved investment environment, rising income levels



of people, and changing consumption behavior of consumers, among others. This economic dynamism is strongly evident in the construction industry where numerous large commercial building constructions (e.g., department stores, hotels, agora complex, etc.) and infrastructure projects (e.g., fish port, airport upgrading, hospital, etc.) are undertaken by both government and private entities.

ZAMSURECO I's existing two (2) 10 MVA substations serving Area II, namely, the Tiguma and Balangasan Substations are going beyond their ideal loading limit. The Tiguma Substation has breached seventy percent (70%) ideal loading for a transformer while the Balangasan Substation is nearing the 8.610 MVA ideal loading limit. This condition implies that ZAMSURECO I's 20/25 MVA installed capacity for Area-II has surpassed the combined ideal maximum tolerable loading of 17.5 MVA.

Based on ZAMSURECO I's field inspections, several big load customers have already started commercial operations in 2008 while others are expected to start operations in the early and later part of 2009. Incoming big loads will utilize sixty percent (60%) of their "as planned" capacity.

ZAMSURECO I's existing two (2) substations will definitely be overloaded if no corrective measures will be undertaken. A feasibility study was conducted to solve the problem of overloading arising from the robust investment now taking place in the province, most especially in Pagadian City. A primary consideration is the immediate relief of these two (2) substations or the transfer of some of their present load to nearby substations. Since the nearest substation is about 30



kilometers away from the city, ZAMSURECO I has no other option but to construct a new substation located near the load center which is Pagadian City. The alarmingly unexpected shortage of capacity will be aggravated once all the Government Regional Offices relocate their offices from Zamboanga City to Pagadian City.

Based on the computed NPV which is greater than zero, the project is viable. Profitability Index is 2.64 which means that for every PhP1.00 cash outflow, ZAMSURECO I will expect a return of PhP2.64. The Return on Investment (ROI) is 24.75%.

A perusal of the evidence presented herein showed that the approval of the loan and the completion and acquisition of the aforesaid project will redound to the benefit of ZAMSURECO I'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 of major capital projects – re: construction of 10 MVA San Jose Substation and authority to secure loan amounting to Twenty-Four Million One Hundred Twenty-Six Thousand Eight Hundred Fifty Pesos (PhP24,126,850.00) from the National Electrification Administration (NEA); with prayer for provisional authority, filed by Zamboanga del Sur I Electric Cooperative, Inc. (ZAMSURECO I) is hereby **APPROVED with modification**.



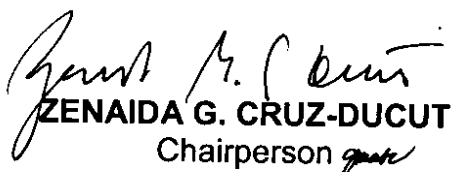
Accordingly, ZAMSURECO I is hereby authorized to secure a loan from NEA in the amount of **Twenty-Three Million Thirty Thousand Eight Hundred Fifty Pesos (PhP23,030,850.00)** only.

Relative thereto, ZAMSURECO I is hereby directed to pay a permit fee in the amount of **One Hundred Seventy-Two Thousand Seven Hundred Thirty-One Pesos and Thirty-Eight Centavos (PhP172,731.38)**, within fifteen (15) days from receipt hereof, computed as follows:

$$\frac{\text{PhP}23,030,850.00}{\text{PhP}100.00} \times \text{PhP}0.75 = \text{PhP}172,731.38$$

SO ORDERED.

Pasig City, November 16, 2009.


ZENAIDA G. CRUZ-DUCUT
Chairperson


RAUFA. TAN
Commissioner


ALEJANDRO Z. BARIN
Commissioner


MARIA TERESA A. R. CASTAÑEDA
Commissioner


JOSE C. REYES
Commissioner

Copy Furnished:

1. **Atty. Domingo T. Redelosa IV**
Counsel for ZAMSURECO I
ZAMSURECO I Main Office
J.S. Alano St., Pagadian City
Zamboanga del Sur
2. **Zamboanga del Sur I Electric Cooperative, Inc. (ZAMSURECO I)**
J.S. Alano St., Pagadian City
Zamboanga del Sur
3. **Office of the Solicitor General**
134 Amorsolo Street, Legaspi Village
City of Makati 1229
4. **Commission on Audit**
Commonwealth Avenue
Quezon City 1121
5. **Senate Committee on Energy**
GSIS Building, Roxas Boulevard
Pasay City 1307
6. **House Committee on Energy**
Batasan Hills, Quezon City 1126
7. **Mr. Edgardo G. Lacson**
President
Philippine Chamber of Commerce and Industry (PCCI)
3rd Floor, ECC Building, Sen. Gil Puyat Avenue
Makati City
8. **The City Mayor**
Pagadian City, Zamboanga del Sur
9. **Office of the Municipal Mayor**
Aurora, Zamboanga del Sur
10. **Office of the Municipal Mayor**
Dimataling, Zamboanga del Sur
11. **Office of the Municipal Mayor**
Dinas, Zamboanga del Sur
12. **Office of the Municipal Mayor**
Dumalinao, Zamboanga del Sur
13. **Office of the Municipal Mayor**
Dumingag, Zamboanga del Sur
14. **Office of the Municipal Mayor**
Don Mariano Marcos, Zamboanga del Sur
15. **Office of the Municipal Mayor**
Josefina, Zamboanga del Sur
16. **Office of the Municipal Mayor**
Labangan, Zamboanga del Sur

17. **Office of the Municipal Mayor**
Lapuyan, Zamboanga del Sur
18. **Office of the Municipal Mayor**
Mahayag, Zamboanga del Sur
19. **Office of the Municipal Mayor**
Margosatubig, Zamboanga del Sur
20. **Office of the Municipal Mayor**
Midsalip, Zamboanga del Sur
21. **Office of the Municipal Mayor**
Molave, Zamboanga del Sur
22. **Office of the Municipal Mayor**
Pitogo, Zamboanga del Sur
23. **Office of the Municipal Mayor**
Ramon Magsaysay, Zamboanga del Sur
24. **Office of the Municipal Mayor**
Vicencio Sagun, Zamboanga del Sur
25. **Office of the Municipal Mayor**
San Miguel, Zamboanga del Sur
26. **Office of the Municipal Mayor**
San Pablo, Zamboanga del Sur
27. **Office of the Municipal Mayor**
Tabina, Zamboanga del Sur
28. **Office of the Municipal Mayor**
Tambulig, Zamboanga del Sur
29. **Office of the Municipal Mayor**
Tukuran, Zamboanga del Sur