

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



IN THE MATTER OF THE  
APPLICATION FOR AUTHORITY TO  
SECURE A TWO BILLION PESO  
(PHP2,000,000,000.00) LOAN WITH  
SB CAPITAL INVESTMENT  
CORPORATION AND/OR FIRST  
METRO INVESTMENT  
CORPORATION, WITH PRAYER  
FOR PROVISIONAL AUTHORITY

ERC CASE NO. 2009-097 MC

VISAYAN ELECTRIC COMPANY,  
INC. (VECO),

Applicant.

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**D O C K E T E D**  
Date: JUL 20 2010  
By: [Signature]

**DECISION**

Before the Commission for resolution is the application filed by Visayan Electric Company, Inc. (VECO) on November 5, 2009 for authority to secure a Two Billion Pesos (PhP2,000,000,000.00) loan with SB Capital Investment Corporation and/or First Metro Investment Corporation, 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 December 17, 2009, were issued setting the case for initial hearing on January 14, 2010.

In the same Order, VECO 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, with the date of the last publication to be made not later than ten (10) days before the date of the scheduled initial hearing.

[Signatures]

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 hearings 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 the franchise area of VECO were furnished with copies of the Order and Notice of Public Hearing for the appropriate posting thereof on their respective bulletin boards.

On January 8, 2010, VECO filed its "*Pre-Trial Brief*".

During the January 14, 2010 hearing of this case, only VECO appeared. No intervenor/oppositor appeared nor was there any intervention/opposition registered.

At the said hearing, VECO presented its proofs of compliance with the Commission's posting and publication of notice requirements which were duly marked as Exhibits "A" to "M-3", inclusive. Thereafter, it conducted an expository presentation of its application.

At the termination of the expository presentation, VECO presented its lone witness, Mr. Nelson V. Perez, its Accounting Manager, who testified, among others, on his duties and responsibilities, terms and conditions of the loan, the



financial capability of VECO to secure the loan and the list and estimated cost of the projects where the loan shall be applied. In the course of his testimony, additional documents were presented and duly marked as exhibits. The direct examination having been terminated, the Commission propounded clarificatory questions on the said witness.

On January 26, 2010, VECO filed its "*Formal Offer of Evidence (FOE)*" which is hereby admitted for being relevant and material to the final resolution of the case.

## DISCUSSION

In the pursuit of its mandate and commitment to deliver quality electric service to its consumers, VECO proposes to implement major capital expenditure projects for the years 2009 to 2011. These capital projects were submitted for the Commission's approval in the applications docketed as ERC Case No. 2009-074<sup>1</sup> MC and ERC Case No. 2009-040<sup>2</sup> RC, and subsequently approved on March 8, 2010 as part of VECO's capital projects in the Final Determination.

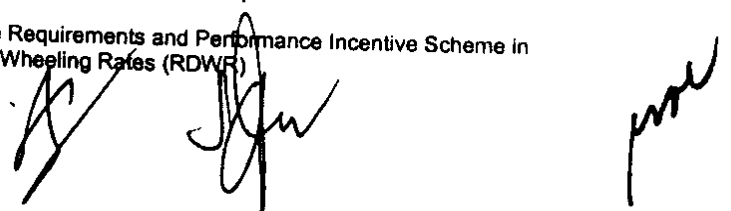
To implement the said capital projects, it will obtain a loan from SB Capital Investment Corporation (SBCIC) or First Metro Investment Corporation, or both, in the amount of PhP2,000,000,000.00.

The loan has a term of seven (7) years, inclusive of a one (1) year grace period on principal payment, with an indicative interest rate of 9.25% per annum, to be secured by a Negative Pledge. The proposed drawdown schedule will be divided as follows: 1) October 2009, in the amount of One Billion Five Hundred

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<sup>1</sup> In the Matter of the Application for Authority to Implement Proposed Capital Projects for the Year 2009, with Prayer for Provisional Authority (Closed and Terminated on May 12, 2010 for being moot and academic)

<sup>2</sup> In the Matter of the Application for Approval of the Annual Revenue Requirements and Performance Incentive Scheme in Accordance with the Provisions of the Rules for Setting Distribution Wheeling Rates (RDWR)



Million Pesos (PhP1,500,000,000.00); and 2) June 2010, in the amount of Five Hundred Million Pesos (PhP500,000,000.00). Amortization is assumed at PhP36,299,729 per month starting November 2010 to October 2016.

VECO alleged that it may opt to initially pay the loan plus accumulated interest thereon ahead of the term, without incurring any premium or penalty, provided that the initial payment is made during an interest payment date.

### FINANCIAL CAPABILITY OF VECO

It is significant to note that VECO's application<sup>3</sup> for the Annual Revenue Requirement (ARR) and Performance Incentive Scheme (PIS) under the Rules for Setting Distribution Wheeling Rates (RDWR) was approved in the Final Determination on March 8, 2010. Included in the said Final Determination was the total amount of PhP2,044.59 Million of VECO's capital expenditures for implementation for the regulatory years 2011 to 2014. Shown below is the comparison of approved total capital expenditure in the Final Determination as against forecast for the period January 2009 to June 2014:

Comparison of VECO Forecast and Recommended Capex (PhP million, real)

Particulars	RY 2011	RY 2012	RY 2013	RY 2014	Total (RY 2011-14)
VECO Forecast	1,323.46	748.02	507.78	442.15	3,021.41
Recommended	877.08	464.48	402.34	300.69	2,044.59
Adjustment	(446.38)	(283.54)	(105.44)	(141.46)	(976.82)
Impact of Adjustment	(34%)	(38%)	(21%)	(32%)	(32%)

Based on its Audited Financial Statement (AFS) as of December 31, 2008, the following financial ratios were computed using the data provided by VECO:

<sup>3</sup> ERC Case No. 2009-040 RC



## Data from Audited Financial Statements as of December 31, 2008 (in Pesos)

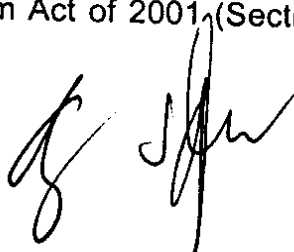
Particulars	2009	2008	2007
Total Assets	8,953,805,990	8,377,840,027	5,435,798,857
Long-term Liabilities	4,445,156,496	294,458,694	246,439,606
Total Equity	225,358,616	4,602,734,936	2,681,122,347
Quick Assets	4,508,649,494	1,602,278,742	1,981,971,698
Current Liabilities	1,421,100,351	1,340,521,333	1,350,698,324
Operating Revenues	1,898,900,140	9,899,114,592	9,388,743,268
Operating expenses	10,690,222,331	9,502,192,499	8,960,693,373
Net Income(Loss)	315,081,939	509,527,407	490,048,751
Net Income before Interest & deprec.	440,017,674	779,217,759	743,031,206
Net Utility Plant	7,228,969,297	6,435,489,086	3,176,107,502

## Resulting Financial Ratios

Particulars	2009	2008	2007
Debt Ratio	0.50	0.45	0.51
Debt to Equity ratio	0.99	0.82	1.03
Long-term Debt to Equity ratio	0.05	0.06	0.09
Current Ratio	0.75	1.20	1.47
Sales to Net Utility Plant Ratio	1.50	1.54	2.96
Net Profit Margin	0.03	0.05	0.05
Return on Assets	0.05	0.09	0.14
Return on Equity	0.10	0.17	0.28

Given the resulting ratios above, it can be concluded that VECO is financially capable to secure the said loan.

A perusal of the evidence presented herein showed that the loan in the amount of Two Billion Pesos (Php2,000,000,000.00) to be secured by VECO from the SB Capital Investment Corporation and/or First Metro Investment Corporation will redound 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 authority to secure a Two Billion Peso (PhP2,000,000,000.00) loan with SB Capital Investment Corporation and/or First Metro Investment Corporation filed by Visayan Electric Company, Inc. (VECO) is hereby **APPROVED**, subject to the following conditions:

1. The proceeds of the loan shall not be used, even temporarily for any purpose other than the purpose stated in the approved capital project expenditure;
2. The proceeds of the loan and the corresponding capital expenditures shall be recorded in a separate book;
3. The interest on the loan shall not be utilized or charged to fixed asset procured from the proceeds of the said loan;
4. The progress report of the projects funded from the proceeds of the loan must be submitted annually after the date of the Commission's Order/Decision as long as the loan has not been fully paid or a portion thereof remains outstanding; and
5. It should ensure that the contracting and procurement of the equipment, assets and services have been subjected to transparent and accepted industry procurement and purchasing practices to protect public interest.

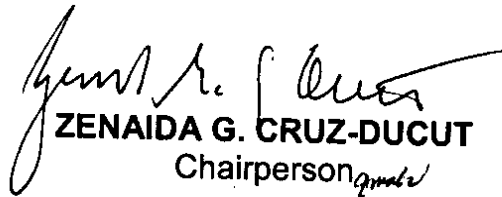


Further, VECO is hereby directed to submit, within fifteen (15) days from receipt hereof, a sworn statement containing the following:

- a) The breakdown of the actual amount of drawdown received from the lender, including the date/s of receipt thereof; and
- b) The amortization schedule showing the principal and interest payment of the loan and exchange rate at the time of the payment.

**SO ORDERED.**

Pasig City, June 15, 2010.

  
**ZENaida G. CRUZ-DUCUT**  
Chairperson

  
**RAUF A. TAN**  
Commissioner

(On Official Travel)  
**MARIA TERESA A.R. CASTAÑEDA**  
Commissioner

  
**ALEJANDRO Z. BARIN**  
Commissioner

  
**JOSE C. REYES**  
Commissioner

**Copy Furnished:**

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Metro Manila
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