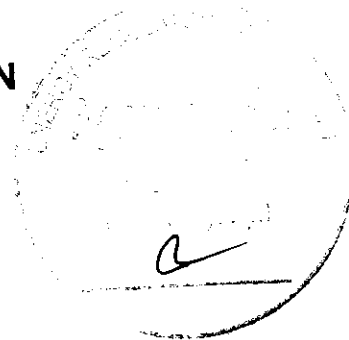


Republic of the Philippines
ENERGY REGULATORY COMMISSION
San Miguel Avenue, Pasig City



IN THE MATTER OF THE
APPLICATION FOR APPROVAL OF
EMERGENCY CAPITAL PROJECTS
IN ACCORDANCE WITH THE
PROVISIONS OF REPUBLIC ACT
NO. 9136 AND THE GUIDELINES
TO GOVERN THE SUBMISSION,
EVALUATION AND APPROVAL OF
ELECTRIC CAPITAL PROJECTS,
WITH PRAYER FOR ISSUANCE OF
PROVISIONAL AUTHORITY

ERC CASE NO. 2009-177 RC

ISABELA II ELECTRIC
COOPERATIVE, INC. (ISELCO II),
Applicant.
X-----X

DOCKETED

Date: JUL 09 2010

By: _____

DECISION

Before the Commission for resolution is the application filed on December 18, 2009 by Isabela II Electric Cooperative, Inc. (ISELCO II) for approval of its Emergency Capital Projects 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 issuance of 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 25, 2010, were issued setting this case for initial hearing on February 18, 2010.

In the same Order, ISELCO II was directed to cause the publication of the Notice of Public Hearing, at its own expense, twice (2x) for two (2) successive

weeks in two (2) newspapers 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. 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 and Municipalities within ISELCO II'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 12, 2010, ISELCO II filed its "*Pre-Trial Brief*".

On February 18 to 19, 2010, the Commission conducted an ocular inspection on ISELCO II's distribution assets subject of the instant application.

During the February 18, 2010 initial hearing, only ISELCO II appeared. No intervenor/oppositor appeared nor was there any intervention/opposition registered.



At the said hearing, ISELCO II presented its proofs of compliance with the Commission's posting and publication of notice requirements which were duly marked as Exhibits "A" to "F-20", inclusive. Thereafter, it conducted an expository presentation of its application.

At the termination of the expository presentation, ISELCO II presented the following witnesses: 1) Engr. Nestor M. Altoveros, Jr., its Technical Services Department Manager, who testified, among others, on the feasibility study he conducted and the necessity of the project; 2) Ms. Luzviminda L. Panangui, its Finance Services Department Manager, who testified, among others, on the financial aspect of the proposed projects; and 3) Mr. Antonio A. Young, its Officer-in-Charge, who testified, among others, on his authority to file the instant application.

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

On June 2 and 3, 2010, ISELCO II filed its "*Manifestation*" and "*Formal Offer of Evidence*", respectively, which are hereby admitted for being relevant and material in the final resolution of this case.

DISCUSSION

ISELCO II sought the Commission's approval of the following projects:



Replacement and Installation of 10 MVA Power Transformer

a. Project Description:

- Replacement and Installation of 10 MVA power transformer at the Roxas substation with the following components: 1) 69 kV High Voltage Protection, and 2) 13.2 kV switchgear and accessories

b. Rationale of the Project:

- To attain distribution system reliability and capacity for the existing energy requirement

c. Project Cost: **PhP20,400,000.00**

TECHNICAL ANALYSIS

On August 24, 2009, ISELCO II's 10 MVA power transformer at the Roxas Substation broke down. The said power transformer is a reconditioned unit rented from the Delta Star Power Manufacturing Corporation (DSPMC). After the technical evaluation conducted by ISELCO II on the following day, it was disclosed that the secondary winding of phase-C of the power transformer was damaged.

Under Resolution No. 26, Series of 2009 (*Resolution Amending the Rules for Approval of Regulated Entities' Capital Expenditure Projects*), a project brought about by an unforeseen major equipment failure can be considered as an emergency capital project.

ISELCO II's Roxas Substation supplies electricity to its eight (8) municipalities, 140 barangays, rice mills and 28,547 residential consumers. The substation has a registered peak load of 8 MVA making it a high loaded substation. Its location was about thirty two (32) kilometers away from the



nearest substation in Baligatan, Ilagan, Isabela. Hence, it was not feasible to transfer its 13.2 kV feeders due to considerable circuit length and limited available capacity of the Baligatan substation. The Baligatan Substation's capacity is only 7 MVA with a circuit length exceeding the economic load reach¹ of a 13.2 kV distribution system.

The installation of a new 69 kV Sulfur Hexafluoride (SF6) Circuit Breaker (CB) will improve the reliability of ISELCO II's distribution system.

COST ANALYSIS

On September 4, 2009, ISELCO II entered into an "*Equipment Lease Agreement*" with Asiaphil Hope, Inc. (AHI) for the replacement of its damaged 10 MVA Roxas Substation. Said agreement has a term of five (5) years with a condition that upon its expiration, AHI shall transfer the component machinery or equipment to ISELCO II upon payment of all rental obligations.

Under the said lease agreement, ISELCO II pays AHI a monthly rental of Php380,000.00. Compared to its monthly rental fee of Php500,000.00 to DSPMC, said lease agreement would be beneficial to ISELCO II since it will be realizing Php1,440,000.00 savings per year from substation rental expense.

ISELCO II intends to finance the project through its Members' Contribution for Capital Expenditures (MCC).

¹ Economic Load Reach is the effective circuit distance from a substation to a specific point in the network without voltage drop violation. For a 13.2 kV system, the economic load reach is 15 to 20 kilometers.



A perusal of the evidence presented herein showed that the replacement of ISELCO II's 10 MVA power transformer would 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 filed by Isabela II Electric Cooperative, Inc. (ISELCO II) for approval of its Emergency Capital Projects is hereby **APPROVED**.

Relative thereto, ISELCO II is hereby directed to pay a permit fee, within fifteen (15) days from receipt hereof, in the amount of **One Hundred Fifty Three Thousand Pesos (PhP153,000.00)**, computed as follows:

$$\begin{array}{r} \text{PhP20,400,000.00} \\ \hline \text{PhP100.00} \end{array} \times \text{PhP0.75} = \text{PhP153,000.00}$$

SO ORDERED.

Pasig City, June 21, 2010.


ZENAIDA G. CRUZ-DUCUT
Chairperson *for*

(On Official Travel)
RAUF A. TAN
Commissioner


ALEJANDRO Z. BARIN
Commissioner


MARIA TERESA A. R. CASTAÑEDA
Commissioner


JOSE C. REYES
Commissioner

Copy Furnished:

1. **ANCHETA & ASSOCIATES LAW OFFICES**
Attention: Atty. REY ANTHONY ROBLES
Counsel for ISELCO II
Penthouse Park Avenue Mansions
Park Avenue, Pasay City
2. **Mr. Joel Mari M. Bigornia**
President
Isabela II Electric Cooperative, Inc. (ISELCO II)
Barangay Alibagu, Ilagan, Isabela
3. **Office of the Solicitor General**
134 Amorsolo Street, Legaspi Village
Makati City, Metro Manila
4. **Commission on Audit**
Commonwealth Avenue
Quezon City, Metro Manila
5. **Senate Committee on Energy**
GSIS Bldg., Roxas Blvd., Pasay City
Metro Manila
6. **House Committee on Energy**
Batasan Hills, Quirino City, Metro Manila
7. **Office of the Municipal Mayor**
Municipality of Ilagan
Province of Isabela
8. **Office of the Municipal Mayor**
Municipality of Gamu
Province of Isabela
9. **Office of the Municipal Mayor**
Municipality of Burgos
Province of Isabela
10. **Office of the Municipal Mayor**
Municipality of Roxas
Province of Isabela
11. **Office of the Municipal Mayor**
Municipality of Aurora
Province of Isabela
12. **Office of the Municipal Mayor**
Municipality of San Manuel
Province of Isabela
13. **Office of the Municipal Mayor**
Municipality of Quirino
Province of Isabela
14. **Office of the Municipal Mayor**
Municipality of Quezon
Province of Isabela
15. **Office of the Municipal Mayor**
Municipality of Mallig
Province of Isabela

16. **Office of the Municipal Mayor**
Municipality of San Pablo
Province of Isabela
17. **Office of the Municipal Mayor**
Municipality of Santa Maria
Province of Isabela
18. **Office of the Municipal Mayor**
Municipality of Delfin Albano
Province of Isabela
19. **Office of the Municipal Mayor**
Municipality of Santo Tomas
Province of Isabela
20. **Office of the City Mayor**
Cauayan City
Province of Isabela
21. **Office of the Municipal Mayor**
Municipality of Tumaini
Province of Isabela
22. **Office of the Municipal Mayor**
Municipality of Cabagan
Province of Isabela
23. **Office of the Municipal Mayor**
Municipality of Naguilian
Province of Isabela
24. **Office of the Municipal Mayor**
Municipality of Benito Soliven
Province of Isabela
25. **Office of the Municipal Mayor**
Municipality of San Mariano
Province of Isabela
26. **Office of the Municipal Mayor**
Municipality of Maconacon
Province of Isabela
27. **Office of the Municipal Mayor**
Municipality of Palanan
Province of Isabela
28. **Office of the Municipal Mayor**
Municipality of Divilacan
Province of Isabela