



2. It holds an exclusive franchise from the National Electrification Commission, to operate an electric light and power distribution service in the two (2) cities and thirty-two (32) municipalities of the Province of Ilocos Sur, namely: Candon City, Vigan City, Alilem, Banayoyo, Bantay, Burgos, Cabugao, Caoayan, Cervantes, Galimuyod, Gregorio Del Pilar, Lidlidda, Magsingal, Nagbukel, Narvacan, Quirino, Salcedo, San Emilio, San Esteban, San Ildefonso, San Juan, San Vicente, Santa, Santiago, Sigay, Sinait, Sta. Lucia, Sta. Catalina, Sta. Cruz, Sta. Maria, Sto. Domingo, Sugpon, Suyo and Tagudin.

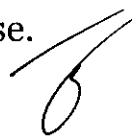
#### NATURE OF THE APPLICATION

3. Pursuant to ERC Resolution No. 26 Series of 2009 as well as other pertinent laws and rules, the instant Application is being filed for the Honorable Commission's consideration and approval of ISECO's proposed Capital Expenditure (CAPEX) Project for 2016, which consists of the Replacement of the old 10MVA Power Transformer at the Vigan Substation with a new 15MVA Power Transformer.

#### STATEMENT OF THE FACTS

4. The existing 10MVA power transformer at the Vigan Substation which was acquired in early 2000's, already reached its maximum economic life. It has been subjected to severe overloading during its early years of operation prior to the commissioning of back up capacity in 2007.

5. Sometime in 2013, the transformer underwent a Dissolved Gas Analysis (DGA) and the results showed a build-up of combustible and unwanted gases such as Ethylene of more than 50ppm, an indication of severe local overheating due to overloading; Carbon Monoxide of more than 350ppm and Carbon Dioxide of more than 2500ppm which indicate a possible thermal decomposition of cellulose.



6. Consequently, the reserve capacity of 10 MVA is being limited to 7 MVA to avoid faster deterioration of the equipment and prevent a possible happening of tremendous power blackout within the area. Moreover, the test results could be an indication of impending explosion of the equipment, which can cause vast capacity deficiency and prolonged power outage in some parts of Vigan City, to the serious prejudice of economic activities in the area.

7. With the foregoing situation, there is extreme necessity to replace the existing power transformer at the soonest possible time to ensure reliability, efficiency and safety of electric service in the covered areas.

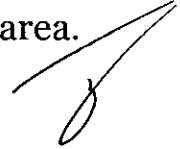
#### JUSTIFICATIONS FOR THE PROPOSED PROJECT

8. The selection of Vigan City as one of the Seven Wonder Cities of the world has shown a remarkable increase in power demand of the Vigan Substation.

9. Based on historical load growth rate in 2014 as against 2015, an increase of 9.22% was observed in 2015, with a total of 1.456 MW increase during peak season, which is the month of May.

10. The combined Megavolt-Ampere (MVA) loading of the substation has also increased up to 9.23% with a total of 1.484 MVA and it is expected that it will keep on increasing from 2016 onwards due to the booming economy of Metro Vigan as an effect of its potential to the International Tourism Industry.

11. Thus, capacity uprating is the ultimate solution to the impending capacity deficiency in the area.



**FINANCIAL AND ECONOMIC EVALUATION**

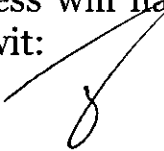
12. Financing Plan. The entire cost of the proposed project will be financed through a loan from the National Electrification Administration (NEA), and the corresponding loan amortizations shall be covered by the cooperative's Reinvestment Fund for Sustainable Capital Expenditure (RFSC). Presented in the Table below is the proposed financier to be pursued and the corresponding cost to be financed, to wit:

<b>Project Cost and Desired Borrowing</b>	
<b>Source of Fund</b>	<b>Annual Project Cost</b>
NEA Loan	PhP 17,144,548.00

13. Cash Flow. ISECO's cash flow shows that it can viably pursue and implement the proposed project without necessarily affecting a significant increase in its electricity rates. The Table below presents its Annual CAPEX Budget, to wit:

<b>Summary of Annual Cash Flow Cost of the Proposed Project</b>	
<b>Source of Fund</b>	<b>Project Cost (PhP)</b>
NEA Loan	17,144,548
ERC Permit Fee	128,584
Total Cost to Consumers	17,273,132

14. Further, the whole capital expenditure structure of ISECO also considered previous indebtedness incurred in financing past capital projects outstanding as of 2016, such that including the amortization of the said indebtedness will have the cash flow shown in the Table below, to wit:



<b>Summary of Net Cash Flow Cost of the Proposed Capital Expenditure</b>						
<b>Particulars</b>	<b>Annual Project Cost (PhP)</b>					
	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>Total</b>
<b>kWh Sales Forecast</b>	<b>267,827,665</b>	<b>285,367,842</b>	<b>304,492,018</b>	<b>325,221,927</b>	<b>347,574,074</b>	<b>1,530,483,527</b>
CAPEX Plan Amortization (New CAPEX Projects)	1,209,463	2,418,926	2,418,926	2,418,926	2,418,926	<b>10,885,167</b>
Previous Loan Amortization	8,852,106	8,852,106	8,852,106	8,852,106	8,852,106	<b>44,260,530</b>
Sub-total CAPEX Plan Cost	10,061,569	11,271,032	11,271,032	11,271,032	11,271,032	<b>55,145,697</b>
CAPEX Plan Approval Fee	128,584	-	-	-	-	<b>128,584</b>
<b>Net Cash Flow</b>	<b>(10,190,153)</b>	<b>(11,271,032)</b>	<b>(11,271,032)</b>	<b>(11,271,032)</b>	<b>(11,271,032)</b>	<b>(55,274,281)</b>

15. Rate Impact. For the full implementation of the proposed project scheduled for the five-year period, the cooperative will need an additional amount of PhP 55,274,281 or an average increase of PhP0.0379 per kWh to the RFSC. The Table below shows how the additional revenue requirement was derived and the corresponding increase in RFSC rate in PhP/kWh:

<b>Indicative Additional Revenue Requirement</b>						
<b>Particulars</b>	<b>Annual Project Cost (PhP)</b>					
	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>Total</b>
<b>kWh Sales Forecast</b>	<b>243,479,695</b>	<b>259,425,311</b>	<b>276,810,926</b>	<b>295,656,297</b>	<b>315,976,431</b>	<b>1,391,348,661</b>
Annual CAPEX Plan Cash Flow (Revenue Requirement)	(10,190,153)	(11,271,032)	(11,271,032)	(11,271,032)	(11,271,032)	<b>(55,274,281)</b>
<b>Excess (Shortfall) in RFSC in PhP</b>	<b>(10,190,153)</b>	<b>(11,271,032)</b>	<b>(11,271,032)</b>	<b>(11,271,032)</b>	<b>(11,271,032)</b>	<b>(55,274,281)</b>
<b>Rate Impact on RFSC in PhP/kWh - Excess/(Shortfall)</b>	<b>(0.0419)</b>	<b>(0.0434)</b>	<b>(0.0407)</b>	<b>(0.0381)</b>	<b>(0.0357)</b>	<b>(0.0397)</b>

**APPLICATION FOR AUTHORITY TO SECURE LOAN**

16. As shown above, the entire cost of the proposed project, in the amount of PhP17,144,548.00 will be financed solely through a loan from the NEA.

17. In this regard, the following provisions of law and ERC Rules, provide, to wit:

a) Section 20 (e) of Commonwealth Act No. 146 otherwise known as the Public Service Act:

*“Section 20. Acts requiring the approval of the Commission. Subject to established limitations and exceptions and saving provisions to the contrary, it shall be unlawful for any public service or for the owner, lessee or operator thereof, without the approval and authorization of the Commission previously had-*

*xxx*

*(e) Hereafter to issue any stock of stock certificates representing an increase of capital; or issue any share or stock without par value; or issue any bonds or other evidence of indebtedness payable in more than one year from the issuance thereof, provided that it shall be the duty of the Commission, after hearing, to approve any such issue maturing in more than one year from the date thereof, when satisfied that the same is to be made in accordance with the law, and the purpose of such issue be approved by the Commission.”*

b) Section 3.2.1.15 of ERC Resolution No. 26, Series of 2009:

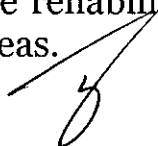
*“Approval to secure loans sourced from NEA may be filed together with the CAPEX Application”.*

18. Based on the foregoing, Applicant likewise applies with the Honorable Commission for authority to secure loan from NEA to finance the proposed project.

**ALLEGATIONS IN SUPPORT OF THE MOTION FOR  
ISSUANCE OF A PROVISIONAL AUTHORITY**

19. Applicant respectfully repleads herein the foregoing allegations;

20. As narrated above, the present condition of the existing 10MVA power transformer at the Vigan Substation requires an urgent replacement with a brand new 15MVA power transformer, at the soonest possible time, to ensure reliability and safety of electric service in the covered areas.



21. In view thereof, Applicant respectfully moves for provisional authority while the instant Application is pending, to implement the proposed project, to enable the cooperative to deliver a safe, reliable and efficient electric service to its consumers in Vigan City.

### **PRAYER**

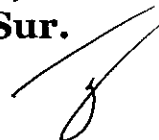
**WHEREFORE**, premises considered, ISECO respectfully prays of this Honorable Commission, that:

1. upon initial review of the instant Application and pending trial on the merits, the cooperative be provisionally authorized to implement the proposed project and to secure loan from the National Electrification Administration (NEA) to finance the same; and

2. after due notice and hearing, the cooperative's proposed Capital Expenditure Project for 2016, namely: Replacement of the old 10MVA Power Transformer at the Vigan Substation with a new 15MVA Power Transformer as well as the corresponding Application for authority to secure loan from NEA to finance the same, be granted and approved accordingly.

Other reliefs, just and equitable in the premises are likewise prayed for.

Finding the said Application to be sufficient in form and in substance with the required fees having been paid, the same is hereby set for determination of compliance with the jurisdictional requirements, expository presentation, pre-trial conference, and presentation of evidence on **7 September 2016 (Wednesday) at one o'clock in the afternoon (1:00 P.M.) at ISECO Principal Office, Brgy. Bigbiga, Santiago, Ilocos Sur.**



ISECO is hereby directed to cause the publication of the attached Notice of Public Hearing in two (2) newspapers of general circulation in the Philippines at its own expense, twice (2x) within two (2) successive weeks, the dates of publication not being less than seven (7) days apart, with the date of last publication made not later than ten (10) days before the date of the scheduled initial hearing. It is 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.

Let copies of the Application, this Order, and the attached Notice of Public Hearing be furnished the Office of the Solicitor General (OSG), the Commission on Audit (COA), and the Committees on Energy of both Houses of Congress. They are hereby requested, if they so desire, to send their duly authorized representatives at the scheduled hearing.

Likewise, let copies of this Order and the attached Notice of Public Hearing be furnished the Offices of the Governor of the Province of Ilocos Sur as well as the Mayors and the Local Government Legislative Bodies of the Cities or municipalities within ISECO's franchise area for the appropriate posting thereof on their respective bulletin boards.

ISECO is hereby directed to furnish all those making requests therefor with copies of the Application and its attachments, subject to reimbursement of reasonable photocopying costs.

On the date of the initial hearing, ISECO must submit to the Commission its written Compliance with the jurisdictional requirements attaching therewith, methodically arranged and duly marked, the evidences on the actual posting and publication of the Notice of Public Hearing consisting of a certification issued to that effect, signed by the afore-mentioned Office of the Governor and Administrator/Responsible Officer, bearing the seals of their offices, and the affidavits of the Editors or Business Managers of the newspapers where the said Notice of Public Hearing were published together with the complete issues of the said newspapers, and such other proofs of compliance with the requirements of the Commission.



ISECO and all interested parties are directed to submit, at least five (5) days before the date of initial hearing and pre-trial conference, their respective Pre-Trial Briefs containing, among others:

- (a) A summary of admitted facts and proposed stipulation of facts;
- (b) The issues to be tried or resolved;
- (c) The documents or exhibits to be presented, stating the purposes thereof and proposed markings therefore; and
- (d) The number and names of the witnesses, with their written testimonies in an individual affidavit form, to be attached to the Pre-Trial Brief.

Failure of ISECO to submit the required Pre-Trial Brief and Judicial Affidavits of their witnesses within the prescribed period shall be a ground for cancellation of the scheduled hearing, and the resetting of which shall be six (6) months from said date of cancellation.


As part of the pre-trial conference, ISECO must also be prepared to make an expository presentation of their Application, aided by whatever communication medium that they may deem appropriate for the purpose, in order to put in plain words and explain, for the benefit of the consumers and other concerned parties, what the Application is all about and the reasons and justifications being cited in support thereof.

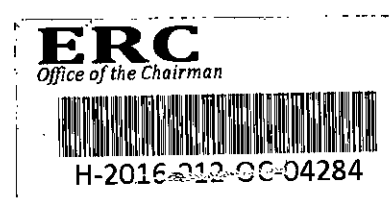
**SO ORDERED.**

Pasig City, 3 August 2016.

FOR AND BY AUTHORITY  
OF THE COMMISSION:

  
**JOSE VICENTE B. SALAZAR**  
*Chairman and CEO*

  
ERC/APV ord.2015-153 ISECO -capex



Copy furnished:

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*Counsel for ISECO*  
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- 2. Ilocos Sur Electric Cooperative**  
Barangay Bigbiga, Santiago  
Ilocos Sur
  
- 3. Office of the Solicitor General (OSG)**  
134 Amorsolo Street, Legaspi Village,  
City of Makati 1229
  
- 4. Commission on Audit (COA)**  
Commonwealth Avenue,  
Quezon City 1121
  
- 5. Senate Committee on Energy**  
GSIS Building, Roxas Boulevard,  
Pasay City 1300
  
- 6. House of Representatives Committee on Energy**  
Batasan Hills, Quezon City 1126
  
- 7. Office of the Governor**  
Province of Ilocos Sur
  
- 8. Office of the Sangguniang Panlalawigan**  
Province of Ilocos Sur
  
- 9. Office of the City Mayor**  
Candon City, Ilocos Sur
  
- 10. Office of the Sangguniang Panglungsod**  
Candon City, Ilocos Sur
  
- 11. Office of the City Mayor**  
Vigan City, Ilocos Sur
  
- 12. Office of the Sangguniang Panglungsod**  
Vigan City, Ilocos Sur
  
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Alilem, Ilocos Sur
  
- 14. Office of the Sangguniang Bayan**  
Alilem, Ilocos Sur

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Suyo, Ilocos Sur
- 75. Office of the Municipal Mayor**  
Tagudin, Ilocos Sur
- 76. Office of the Sangguniang Bayan**  
Tagudin, Ilocos Sur
- 77. Philippine Chamber of Commerce and Industry (PCCI)**  
3rd Floor, Chamber and Industry Plaza (CIP),  
1030 Campus Avenue corner Park Avenue,  
McKinley Town Center, Fort Bonifacio, Taguig City
- 78. Technical Staff-Regulatory Operations Service**