



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

IN THE MATTER OF THE
APPLICATION FOR APPROVAL OF
UPGRADING OF PASSI SUBSTATION
FROM 5 MVA TO 10 MVA AND
AUTHORITY TO SECURE LOAN
FROM NATIONAL ELECTRIFICATION
ADMINISTRATION (NEA), WITH
PRAYER FOR PROVISIONAL
AUTHORITY

ERC CASE NO. 2011-014 RC

ILOILO II ELECTRIC COOPERATIVE,
INC. (ILECO II),

Applicant.

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DOCKETED
Date: NOV 15 2011
By: _____

DECISION

Before the Commission for resolution is the application filed on February 14, 2011 by Iloilo II Electric Cooperative, Inc. (ILECO II) for the approval of the upgrading of Passi Substation from 5 MVA to 10 MVA and authority to secure loan from National Electrification Administration (NEA), 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 February 24, 2011, were issued setting the case for initial hearing on March 31, 2011.

In the same Order, ILECO 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 Municipalities within ILECO 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 March 30, 2011, the Commission conducted an ocular inspection in the franchise area of ILECO II and found that the proposed project was not yet implemented.

During the March 31, 2011 hearing, only ILECO II appeared. No oppositor/intervenor appeared nor was there any opposition/intervention registered.



At the said hearing, ILECO II presented proofs of its compliance with the Commission's publication and posting of notice requirements which were duly marked as exhibits. Thereafter, it conducted an expository presentation of its application.

At the termination of the expository presentation, ILECO II presented the following witnesses: 1) Engr. Jose Redmond Eric S. Roquios, its General Manager, who testified, among others, on the technical aspect of the application, and the importance of the projects to the operation and maintenance of the distribution system; and 2) Ms. Maesit Q. Gallo, its Financial Service Department Manager, who testified on the financial analysis and the project's rate impact.

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

On April 12, 2011, ILECO II filed its "Formal Offer of Evidence" which is hereby admitted for being material and relevant for the final resolution of the instant application.

DISCUSSION

PROJECT OVERVIEW

The project involves the upgrading of the existing power transformer at Passi City, Iloilo from 5 MVA to 10 MVA capacity. This will serve the load requirements



of customers in the area especially the newly-built Gaisano Mall in Passi City. The existing 5 MVA substation has reached more than 90% of its rated capacity.

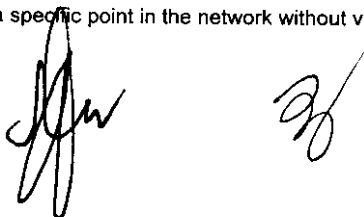
With the full operation of Gaisano Mall, the existing 5 MVA substation is critically-loaded with more than 100% of its rated capacity. If not upgraded, the risk of damaging the power transformer can result to widespread power interruption or load curtailment in Passi City and the nearby municipalities. Load transfer/shifting of distribution feeders to other substations temporarily relieves the load of the existing 5 MVA substation. However, this will cause voltage violations since the feeder lengths exceed the *economic load reach*¹. Thus, it is imperative that the substation be upgraded to address the problem.

The table below shows the forecast loading of the proposed 10 MVA power transformer.

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Load, MVA	4.92	5.09	5.27	5.45	5.62	5.92	6.27	6.50	6.75	7.05
% loading	49.20	50.90	52.70	54.45	56.20	59.20	62.70	65.00	67.50	70.50

The existing 5 MVA power transformer will be rehabilitated and will be used as a spare unit as soon as the new 10 MVA transformer at Passi City becomes operational. The upgrading project is necessary to provide additional substation capacity since a number of medium and large commercial establishments are being constructed in the city which will require adequate and reliable power supply.

¹ The effective circuit length from a substation to a specific point in the network without voltage violation.



PROJECT FUNDING

The project's capital outlay will be provided by the NEA through a financing loan, the amortization of which will be funded by the Members' Contribution to Capex (MCC). The NEA loan will have an interest rate of 9% per annum, payable in five (5) years.

AUTHORITY TO SECURE LOAN

The project cost of **Ten Million Three Hundred Eighty-Eight Thousand Pesos (PhP10,388,000.00)** yields a positive figure in terms of its net present value, a benefit/cost ratio of 1.43 with a payback period of five (5) years. Shown below is ILECO II's projected financial condition for the next five (5) years, from 2010 to 2014:

FINANCIAL INDICATORS	Audited PhP'000	PROJECTIONS (With the Project)				
	2009	2010	2011	2012	2013	2014
Total Assets	684,215	726,405	762,965	801,037	842,137	888,717
Total Liabilities	177,124	175,738	186,126	184,503	189,160	206,586
Member's Equity	507,091	550,667	576,839	616,534	652,977	682,131
Quick Assets	190,631	234,725	323,966	394,164	480,532	560,413
Total Current Assets	203,482	247,577	336,818	407,014	493,384	573,265
Total Current Liabilities	78,142	94,965	113,958	136,750	164,100	196,920
Operating Revenue	586,870	769,310	808,086	851,825	898,014	945,783
Ave. Collection Period	45	42	42	42	40	40
EBIT	(4,743)	26,172	27,684	30,712	33,641	36,192

FINANCIAL RATIOS	Actual	PROJECTIONS (With the Project)				
	2009	2010	2011	2012	2013	2014
I. Leverage Ratios						
(a) Debt Ratio	0.29	0.24	0.24	0.23	0.22	0.23
(b) Debt/Equity	2.86	3.13	3.10	3.34	3.45	3.30
II. Liquidity Ratios						
(a) Current Ratio	2.60	2.61	2.90	3.00	3.00	2.90
(b) Quick Ratio	1.08	2.47	2.80	2.90	2.90	2.80

III. Efficiency Ratios						
(a) Sales to Asset	0.86	1.06	1.06	1.06	1.07	1.06
(b) ACP	45.00	42.00	42.00	42.00	40.00	40.00
IV. Profitability Ratios						
(a) Net Profit Margin	(0.008)	0.034	0.034	0.036	0.037	0.038
(b) Return on Assets	(0.007)	0.036	0.036	0.038	0.040	0.040

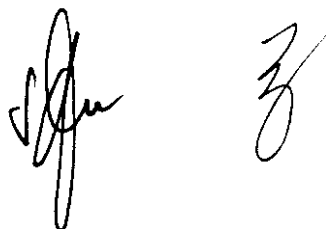
In terms of financing, ILECO II's debt to equity ratio shows a greater than one (1) ratio, thus, it will be able to pay its obligations with an excess of more or less PhP2.00 for every peso debt.

ILECO II's liquidity through its current ratio will increase by an average of 0.4% from the actual 2.60 in 2009 to 3.00 in 2013. A ratio of more than one (1) means that it will be able to settle its current/short-term obligations.

Sales to asset ratio will also improve together with the average collection period indicating ILECO II's efficiency in its operations. Further, its net profit margin and return on assets show a good sign within the 5-year period as said profitability ratios are at an increasing trend. Considering that the loan will be used to finance this project, the Commission is convinced that ILECO II should be granted an authority to secure loan from the NEA.

INDICATIVE RATE IMPACT

The project has an average impact of PhP0.0243/kWh for the next five (5) years. Incidentally, the approved MCC rate of PhP0.3227/kWh for ILECO II is enough to cover payment of its loan amortization.



The indicative rate impact for the 5-year repayment period is shown below.

Year	Annual Amortization (PhP)	Projected Sales (kWhr)	Rate Impact (PhP)	Approved MCC (PhP)	MCC Residual (PhP)	Ave. MCC Residual (5-yrs) (PhP)
2011	2,587,653	96,661,000	0.0268	0.3227	0.2959	0.2984
2012	2,587,653	101,883,000	0.0254		0.2973	
2013	2,587,653	107,418,000	0.0241		0.2986	
2014	2,587,653	113,132,000	0.0229		0.2998	
2015	2,587,653	116,113,000	0.0223		0.3004	

A perusal of the evidence presented showed that the approval of the upgrading of Passi Substation from 5 MVA to 10 MVA and its authority to secure loan from the NEA in accordance with the provisions of Republic Act No. 9136 and the *“Guidelines to Govern the Submission, Evaluation, and Approval of Electric Capital Projects”* 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 Iloilo II Electric Cooperative, Inc. (ILECO II) for approval of the upgrading of its Passi substation from 5 MVA to 10 MVA and the authority to secure loan from the National Electrification Administration (NEA), with prayer for provisional authority, is hereby **APPROVED**.



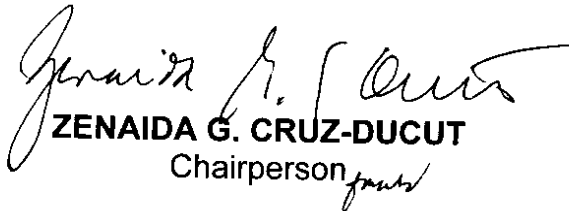
Accordingly, ILECO II is hereby directed to pay the Commission, within fifteen (15) days from receipt hereof, a total permit fee in the sum of **Seventy-Seven Thousand Nine Hundred Ten Pesos (PhP77,910.00)** computed as follows:

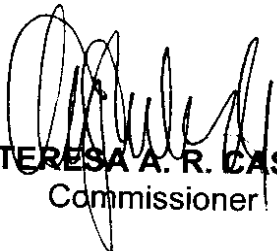
$$\begin{array}{r} \text{Permit Fee} = \quad \text{PhP10,388,000.00} \\ \hline \text{PhP100.00} \end{array} \times \text{PhP0.75} = \text{PhP77,910.00}$$

Permit Fee = **PhP77,910.00**


SO ORDERED.

Pasig City, August 15, 2011.


ZENAIDA G. CRUZ-DUCUT
Chairperson


MARIA TERESA A. R. CASTAÑEDA
Commissioner


JOSE C. REYES
Commissioner


ATR/MFAS/NJS/ILECO II ERC CASE NO. 2011-014 RC-Decision

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