

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

**IN THE MATTER OF THE
APPLICATION FOR APPROVAL
OF EMERGENCY CAPITAL
EXPENDITURE PROJECT, RE:
PROCUREMENT OF BRAND
NEW 10 MVA POWER
TRANSFORMER FOR LAOAG
SUBSTATION**

ERC CASE NO. 2013-079 RC

**ILOCOS NORTE ELECTRIC
COOPERATIVE, INC. (INEC),
Applicant.**

X-----X

D O C K E T E D
Date: SEP 14 2013
By: [Signature]

D E C I S I O N

Before the Commission for resolution is the *Application* dated 18 March 2013 (Application) filed on 22 April 2013 by the Ilocos Norte Electric Cooperative, Inc. (INEC) for the approval of its emergency Capital Expenditure (CAPEX) project, relative to the: procurement of a brand new 10 MVA power transformer for the Laoag Substation.

In its *Application*, INEC alleged the following:

1. It is an electric cooperative duly organized and existing under and by virtue of the laws of the Republic of the Philippines, with principal office at Suyo, Dingras, Ilocos Norte;
2. It holds an exclusive franchise issued by the National Electrification Commission (NEC) to operate an electric light and power distribution service in the cities of Batac and Laoag, and the twenty one (21) municipalities of the Province of Ilocos Norte, namely: Adams, Bacara, Badoc, Banguì, Banna, Burgos, Carasi, Currimao, Dingras, Dumalneg, Marcos, Nueva Era, Pagudpud, Paoay, Pasuquin, Piddig, Pinili, San Nicolas, Sarrat, Solsona and Vintar;

CAUSE OF ACTION

3. On February 10, 2013, the transformer of the old 10 MVA Substation located in Laoag City broke down. The management opted to divert the load to the nearby substations as a temporary solution to the problem. Power was restored on the same day in the areas being served by the substation. However, about 11, 000 consumers suffered under- voltages. The worst voltage ever recorded was about 178 volts, voltage which is not enough to power up even a fluorescent lamp;
4. Aside from unsatisfactory performance of the voltage delivered to customers, another problem is the high loading of the substations to where the load of the damaged 10 MVA Substation were diverted, which are the 5 MVA Tangaoan Substation and the new 10 MVA unit of Laoag Substation;
5. Another temporary solution employed to achieve quality power supply to the area was the construction of a tie line connecting San Nicolas Substation to Laoag City north of the river. About 3 MVA load of Laoag City was transferred to Feeder 6 which has an existing demand of 2.2 MVA. The latest demand the feeder hit was a stunning 5.4 MVA. This tie line from San Nicolas Substation has violated the design load of the feeder. The tie line also crosses the Padsan River, the flood gateway in the area which gives the risk of destroying the line by just a single flood;
6. Its pending Unplanned Capex Application¹ for the procurement of a new 10 MVA substation in Laoag City, if approved by the Commission, will not adequately solve the instant problem being faced by it. The Unplanned Capex was not intended as a replacement for the old 10 MVA substation in Laoag but to address the load growth brought about by the spot loads which commenced in 2012;

PROJECT DESCRIPTION

7. The Emergency Capex Project subject of the instant application is the immediate replacement of the damaged 10 MVA Power Transformer of the Laoag Substation. It is proposed that the replacement unit must be brand new with the following specifications: Power Transformer: 10/12.5 MVA, 3-Phase, 60 Hertz, ONAN/ONAF, 69kV/13.2/7.62kV Delta Wye-N connection, Conservator Type with Off- Load Tap Changer $\pm 2 \times 2.5\%$. Differential Relay: Functions 87, 87G, 50G, Nominal Rating-5A and Auxiliary volatage-48 Vdc. Current transformer: 15kV Class, Outdoor type application, Protection CT, 600:5 ratio;

¹ *In the Matter of the Application for Approval of Unplanned Capital Expenditure Project for year 2012, re: Installation of new 10 MVA Substation in Laoag City and Construction of 69 kV Sub-transmission Line Due to Unexpected Significant New Load, with Prayer for Provisional Authority, Ilocos Norte Electric Cooperative, Inc. (INEC), ERC Case No. 2012-094 RC.*

JUSTIFICATIONS OR BENEFITS TO BE DELIVERED

8. Considering that none of the remedies it employed will permanently solve the problem, even with the completion of the Unplanned Capex Project (which concerns mainly on capacity augmentation), the utmost solution is the replacement of the damaged unit;
9. The damaged 10 MVA power transformer may be repaired but it will take considerable time to restore and is costly depending on the extent of the damage. On the other hand, a brand new unit will be more reliable and safer than a repaired transformer. Thus, it is highly recommended to procure a brand new power transformer to achieve the following benefits:
 - a. Sufficient Power Supply;
 - b. Substation load management and reserve capacity for contingency;
 - c. Reliability; and
 - d. Customer Satisfaction;

PROJECT COST ESTIMATES

10. The cost of the project is Twelve Million Pesos (PhP 12,000,000). This includes the delivery, installation and commissioning of the power transformer unit, installation and wiring connection of the protection current transformers for the differential relay and to the SF6 breaker;

PROJECT FINANCING PLAN

11. The project will be funded entirely through a term loan from bank at 12% interest rate per annum, payable quarterly in five (5) years. Amortizations shall be taken from the its Reinvestment Fund for Sustainable Capital Expenditures (RFSC);
12. Implementation of the project is expected to have an indicative rate impact on the rate base of PhP0.0133 per kWh under a 5-year term loan. The table below shows the details of the said rate impact for five (5) years;

	2013	2014	2015	2016	2017	TOTAL
kWh Sales Forecast	202,076,971	210,162,825	218,661,060	227,561,653	236,854,950	1,095,317,459
Loan Amortization at 12% per annum	1,613,177	3,226,354	3,226,354	3,226,354	3,226,354	14,518,593
CAPEX Approval Fee (P0.75 per P100.00)	102,750					102,750
Indicative Additional Revenue Requirement	1,715,927	3,226,354	3,226,354	3,226,354	3,226,354	14,621,343
Additional Revenue Requirement per kWh	0.0085	0.0154	0.0148	0.0142	0.0136	0.0133
Current RFSC Rate per kWh	0.2317	0.2317	0.2317	0.2317	0.2317	0.2317
Total RFSC Rate per kWh	0.2402	0.2471	0.2465	0.2459	0.2453	0.2450

13. Finally, in compliance with the pre-filing and other documentary requirements for the instant application, it is likewise submitting herewith the following documents, which are being made integral parts hereof, to wit:

Annex No.	Nature of Document
A	INEC's Board Resolution approving the filing of the instant application and authorizing its General Manager to cause its filing and to sign and execute all the necessary documents;
B	Executive Summary of the Project;
C to C-1	Proof of furnishing of copies of the Application to the Sangguniang Bayan of Dingras and Sangguniang Panlalawigan of Ilocos Norte; and
D to D-2	Publication of the Application in a newspaper of general circulation within INEC's franchise area or where it principally operates, with Affidavit of Publication; and

14. It prays that after due notice and hearing, its immediate acquisition, installation and commissioning of a 10 MVA Power Transformer in replacement of the damaged 10 MVA Power Transformer at its Laoag Substation be confirmed and approved accordingly.

Having found the *Application* sufficient in form and in substance, with the required fees having been paid, the Commission issued an Order and Notice of Public Hearing, both dated 30 September 2013, setting the case for initial hearing on 7 November 2013.

On 29 October 2013, INEC filed its *Pre-trial Brief* dated 25 October 2013 with the *Judicial Affidavit* of Engr. Felino Herbert P. Agdigos.

During the 7 November 2013 initial hearing, only the representative of INEC appeared. There was no intervenor or oppositor who appeared nor was there any intervention or opposition that was filed.

At the said hearing, INEC presented proofs of its compliance with the Commission's posting and publication of notice requirements, which were duly marked as Exhibits "A" to I-1". Finding the submission compliant with the jurisdictional requirements enumerated in the Order dated 30 September 2013, the

Commission declared that it acquired jurisdiction over INEC's *Application*.

Thereafter, the Expository Presentation commenced. INEC presented Felino Herbert P. Agdigos (Engr. Agdigos) and Rosita Bumanglag, (Ms. Bumanglag) who both discussed the presentation under oath. Upon the conclusion of the Expository Presentation, the hearing proceeded with the Pre-trial Conference and presentation of evidence.

In the course of the Pre-trial Conference, INEC moved that the Commission adopts the stipulation of facts and issues in its Pre-trial Brief. Finding the motion meritorious and there being no oppositor or intervenor, the Commission granted the same.

During the presentation of evidence, INEC again presented Engr. Agdigos as its sole witness, who testified in support of the instant *Application*. During his testimony, Engr. Agdigos identified various documents, which were duly marked as exhibits. Subsequently, the Commission asked questions, which were addressed by INEC.

Upon the termination of the presentation of evidence, the Commission directed INEC to submit its *Formal Offer of Evidence*, as well as additional documents to aid the Commission in the evaluation of the instant case.

On 25 November 2013, INEC filed its *Compliance With Directive* and *Formal Offer of Exhibits* both dated 22 November 2013 in compliance with the Commission's directives during the 7 November 2013 hearing.

Consequently, the Commission issued an Order dated 1 June 2015 directing INEC to submit an update of its Capital Expenditure (CAPEX) application using the templates attached to the said Order as Annex A.

On 7 August 2015, INEC filed its *Compliance With Order* dated June 1, 2015.

Subsequently, on 21 March 2017, the Commission issued an Order admitting INEC's marked exhibits contained in its *Formal Offer of Exhibits* and submitting this case for resolution.

On 04 April 2017, the Commission deliberated and decided the instant Application. However, due to supervening events², the Decision could no longer be promulgated without undergoing reconfirmation by the Commission *En Banc*. Thus, the Commission resolved to reconfirm the Decision on 1 August 2017.

ISSUE

The issue to be resolved in the instant case is whether the Commission should approve the instant emergency CAPEX Application of INEC.

COMMISSION'S RULING

The Commission approves the instant Application of INEC, subject to certain conditions.

I. PROJECT DESCRIPTION

The Emergency Capital Expenditure (CAPEX) involved the immediate replacement of the 10 MVA Power Transformer of Laoag Substation.

II. PROJECT JUSTIFICATION

After the breakdown of the old 10 MVA Transformer of Laoag Substation, INEC immediately initiated several solutions in order to continue supplying electricity to its consumers. However, the solution employed by INEC was not sufficient to restore the electricity in the areas covered by the 10 MVA transformer.

Thus, INEC implemented the emergency CAPEX Project in order to achieve sufficient and reliable power supply.

III. PROJECT SCHEDULE

INEC implemented the emergency CAPEX Project subject of the instant *Application* in order for INEC to comply with its

² The Chairman was placed on preventive suspension as per Order of the Office of the President (OP-DC Case No. 17-D-094) dated 2 May 2017 and received on 04 May 2017.

obligation to restore service in its franchise area within the shortest time possible as provided in Section 1.2.1 of Resolution No. 12, Series of 2006 (Guidelines for Monitoring of Reliability Standards for Distribution Utilities), to wit:

“Each Distribution Utility shall make reasonable efforts to avoid and prevent Interruptions of service. However, when Interruptions occur, service shall be reestablished within the shortest time practicable.”

IV. PROJECT CLASSIFICATION

Resolution No. 26, Series of 2009³ defines Emergency Capital Expenditures as projects that require immediate implementation during an event other than those enumerated and covered in the definition of a *force majeure*, or fortuitous event in order to maintain safe, reliable, secure and efficient operation of the power system. These projects shall be filed with the Commission for approval within sixty (60) days after the start of construction.

INEC started the implementation of its Emergency CAPEX Project on 16 April 2016. The instant *Application* was filed on 22 April 2013. INEC complied with the above-mentioned provision considering that the *Application* was filed within 60 days from the implementation of the project. The project was completed on 10 May 2013.

V. PROPOSED PROJECT COST

INEC's proposed project cost to finance the project is in the amount of PhP12,000,000.00. This includes delivery, installation, wiring connection of the protection current transformers for the differential relay and to the SF6 breaker.

The Commission evaluated the project cost of INEC's emergency CAPEX Project. Upon evaluation, the Commission modified the proposed amount and made adjustments thereof, as follows:

³ Ibid.

Item	Particulars	Amount (PhP)
1	10 MVA 69/13.2 kV Power Transformer	11,000,000.00
2	Labor Cost Distribution (January to August 8, 2013)	24,169.89
3	Bare Copper Wire (30mm)	9,106.50
4	Accessories	15,711.91
5	Supply, installation, testing & commissioning of transformer relay	430,000.00
Grand Total		11,478,988.30

In view thereof, the Commission approves the emergency CAPEX Project of INEC with modification on the project cost from the proposed **PhP12,000,000.00** to **PhP11,478,988.30**.

VI. PROJECT FINANCING

The emergency CAPEX project would be funded through a loan from the National Electrification Administration (NEA) at nine percent (9%) per annum for a period of five (5) years.

The Commission made a simulation of the indicative effect of the projects on the existing Reinvestment Fund for Sustainable Capital Expenditures (RFSC) rate of INEC without the availment of the loans. The simulation considered the project cost and other financial considerations, which are not present in the application, such as, the accumulated RFSC collection, half of the projected annual lease income from INEC's asset, and the financing plan in a related case, which is the Unplanned CAPEX Project under ERC Case No. 2012-094 RC⁴.

⁴ See, *supra* Note 1.

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The results of this simulation are shown in the table below:

	2013	2014	2015	2016	2017	Entire 5-years
Energy Sales Forecast, KWh	220,892,817	226,702,559	240,925,871	258,363,266	262,691,655	1,209,576,168
Approved RFSC Rate, PhP/KWh	0.2317	0.2317	0.2317	0.2317	0.2317	0.2317
Cash balance beginning, PhP, excess/(shortfall)	129,023.80	13,849,113.20	42,859,327.12	75,165,082.43	111,511,082.16	129,023.80
CASH INFLOWS						
Current year RFSC Collection, PhP	51,180,865.70	52,526,982.92	55,822,524.31	59,862,768.73	60,865,656.46	280,258,798.13
Loan proceeds from financial institutions (Unplanned), PhP	33,500,000.00	-	-	-	-	-
50% income on leased properties, PhP	2,265,831.00	2,265,831.00	2,265,831.00	2,265,831.00	2,265,831.00	11,329,155.00
Total Cash Inflows, PhP	86,946,696.70	54,792,813.92	58,088,355.31	62,128,599.73	63,131,487.46	325,087,953.13
Available cash for disbursement, PhP	87,075,720.50	68,641,927.12	100,947,682.43	137,293,682.16	174,642,569.63	568,601,581.84
CASH OUTFLOWS						
Unplanned CAPEX Requirement, PhP	35,611,837.00	-	-	-	-	35,611,837.00
Emergency CAPEX Requirement, PhP	11,478,988.30	-	-	-	-	11,478,988.30
Previous Loan Amortization, PhP	16,670,600.00	16,670,600.00	16,670,600.00	16,670,600.00	16,670,600.00	83,353,000.00
Unplanned CAPEX Amortization, PhP	9,112,000.00	9,112,000.00	9,112,000.00	9,112,000.00	9,112,000.00	45,560,000.00
Unplanned CAPEX Permit Fees, PhP	267,089.00	-	-	-	-	267,089.00
Emergency CAPEX Permit Fees, PhP	86,093.00	-	-	-	-	86,093.00
Total Cash Outflows, PhP	73,226,607.30	25,782,600.00	25,782,600.00	25,782,600.00	25,782,600.00	176,357,007.30
Cash balance ending, PhP, excess/(shortfall)	13,849,113.20	42,859,327.12	75,165,082.43	111,511,082.16	148,859,969.63	392,244,574.54

Based on the above simulation, the revenues derived from INEC's existing RFSC rate in 2013, when the project was implemented, is sufficient to finance the entire capital expense for the particular year of project implementation.

The above simulations, however, do not reflect any reduction in the overall rate, due to improved efficiency, reliability (less Expected Energy Not Served [EENS]) and system loss reduction caused by the implementation of the proposed projects.

The presented simulation is merely indicative as to the RFSC rate component based on the available data. The Distribution, Supply and Metering (DSM) component and the overall rate impact considering the benefits of the project will still be subject for review in the rate adjustment application every regulatory reset period of INEC as indicated in the Tariff Glide Path (TGP) Guidelines.

A perusal of the evidence presented herein showed that the approval of INEC's emergency Capital Expenditure project, relative to the procurement of a brand new 10 MVA power transformer for the Laoag Substation is in accordance with the provisions of Republic Act No. 9136 (R.A. 9136), otherwise known as the Electric Power Industry Reform Act of 2001 (EPIRA), the Commission's Resolution No. 26,

Series of 2009⁵, and Section 20 (e)⁶ of Commonwealth Act No. 146 (C.A. 146), as amended, otherwise known as, the Public Service Act, and will redound to the benefit of the consumers in terms of continuous, reliable and efficient power supply as mandated under Section 2 of R.A. 9136, to wit:

Section 2. Declaration of Policy – xxx

(b) to ensure the quality, reliability, security and affordability of the supply of electric power.

VII. PERMIT FEE

As specified in Resolution No. 26, Series of 2009⁷, INEC should be required to pay the Commission a permit fee based on the existing Commission's schedule of Fees and Charges for the authorization and approval of its capital expenditure projects. The total amount of permit fee shall be **PhP86,093.00**, as summarized in the table below. The said amount was based on 75 centavos for every PhP100.00 of the approved total project cost.

Approved Total CAPEX Requirement (PhP)	11,478,988.30
Permit Fee (PhP)	86,093.00

WHEREFORE, the foregoing premises considered, the *Application* filed by the Ilocos Norte Electric Cooperative, Inc. (INEC) for the approval of its emergency Capital Expenditure Project, relative to the procurement of brand new 10 MVA power transformer for Laoag Substation, is hereby **APPROVED with MODIFICATION**.

⁵ See Supra Note 3.

⁶ "Sec. 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
(c) Hereafter to issue any stock or stock certificates representing an increase of capital; or issue any share of 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 law, and the purpose of such issue be approved by the Commission."

⁷ See Supra Note 5.

Relative thereto, INEC is hereby directed to remit to the Commission, within **fifteen (15) days** from receipt hereof, a total Permit Fee in the amount of **Eighty-Six Thousand Ninety-Three Pesos (Php 86,093.00)**.

SO ORDERED.


Pasig City, 1 August 2017.

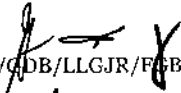
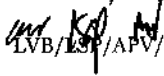
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LVB/LSJ/APV/ERC CASE NO. 2013-079 RC INEC-DECISION

* The Chairman was placed on preventive suspension as per Order of the Office of the President (OP-DC Case No. 17-D-094) dated 2 May 2017 and received on 04 May 2017.

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