

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



IN THE MATTER OF THE APPLICATION FOR APPROVAL OF PROPOSED CAPITAL EXPENDITURE PROGRAM FOR THE YEARS 2015 TO 2017, WITH APPLICATION FOR AUTHORITY TO SECURE LOAN FROM THE NATIONAL ELECTRIFICATION ADMINISTRATION (NEA), AND PRAYER FOR PROVISIONAL AUTHORITY,

ERC CASE NO. 2017-028 RC

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

Applicant.

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D O C K E T E D
Date: SEP 04 2017
By: W

ORDER

On 06 April 2017, Iloilo III Electric Cooperative, Inc. (ILECO III) filed an *Application* for approval of its proposed capital expenditure program for 2015 to 2017, with application for authority to secure loan from the National Electrification Administration (NEA), with prayer for provisional authority.

ILECO III alleged the following in its *Application*:

THE APPLICANT

1. ILECO III is a non-stock, non-profit electric cooperative duly organized and existing under and by virtue of Philippines laws, with principal office at Brgy. Preciosa, Sara, Iloilo;
2. It holds an exclusive franchise from the National Electrification Commission to operate an electric light and power distribution service in certain municipalities of the province of Iloilo, namely: Ajuy, Anilao, Balasan, Banate,

Barotac Viejo, Batad, Carles, Concepcion, Estancia, Lemery, San Dionisio, San Rafael and Sara.

LEGAL BASES FOR THE APPLICATION

3. Pursuant to Republic Act No. 9136, ERC Resolution 26, Series of 2009 and other laws and rules, and in line with its mandate to provide safe, quality, efficient and reliable electric service to its consumers, ILECO III seeks approval, confirmation and authority from this Honorable Commission to implement its proposed capital expenditure program for Years 2015 to 2017.
- [4.] On the other hand, the accompanying application for authority to secure loan from the National Electrification Administration (NEA) is being filed pursuant to Section 20 (e) of Commonwealth Act No. 146 otherwise known as the Public Service Act, which requires every public service to secure approval and authorization from the Commission for issuance of any bonds or other evidence of indebtedness payable in more than one year from the issuance thereof.

THE PROPOSED PROJECTS

4. The proposed projects are presented below, as follows, to wit:

<u>NETWORK CAPITAL PROJECTS</u>				
PROJECT CATEGORY	PROJECT TYPE	PROJECT DESCRIPTION	YEAR OF IMPLEMENTATION	TOTAL (PhP)
Other Network Requirements	Capacity	Add - ons for new consumers	2015 - 2017	38,382,283
Primary Distribution Project	Safety & Reliability	Replacement of dilapidated 13.2 kV protection of Natividad & Pani-an Substations	2016 - 2017	7,000,000
Other Network Requirements	System Loss	Replacement of old/defective kWh meters	2015 - 2017	12,851,200
Other Network Requirements	Capacity & Power Quality	Uprating of overloaded transformers	2016	4,080,550
Substation Project	Safety & Reliability	Procurement of disconnect switch for 5 MVA Substation in Daan Banwa, Estancia	2017	1,500,000
SUBTOTAL				63,814,033
<u>NON - NETWORK CAPITAL PROJECTS</u>				
NON - NETWORK ASSET	PROJECT	YEAR OF IMPLEMENTATION	TOTAL (PhP)	

	DESCRIPTION		
Office Equipment, Furniture & Fixtures	Procurement of office equipment, furniture & fixtures	2015 - 2017	3,379,270
Communication Plant & Equipment	Upgrade of hand-held radios, phones, other communication facilities and installation of PABX system	2016 - 2017	2,296,000
Information Systems Equipment	Upgrade of Information Systems Equipment	2015 - 2017	11,019,442
Miscellaneous Equipment	Procurement of meter reading gadgets and devices	2015 - 2017	1,120,138
Testing Equipment	Procurement of testing instruments	2017	600,000
Safety Gadgets & Linemen Tools	Procurement of safety gadgets and linemen tools	2015 - 2017	2,738,289
Structures & Improvements	Construction of additional structures and renovation of existing buildings	2015 - 2017	21,222,954
Transportation Equipment	Procurement of utility vehicle	2015 - 2017	13,105,000
SUBTOTAL			55,481,093
GRANDTOTAL			119,295,126

CAPITAL EXPENDITURE PLAN

5. ILECO III's Capital Expenditure (CAPEX) Plan for the period 2015 - 2017 is discussed in detail in its Distribution Development Plan for 2015-2017, with technical and financial analysis and supporting data presented in ERC-prescribed templates;

FINANCIAL AND ECONOMIC EVALUATION

6. **Financing Plan.** ILECO III's proposed projects will be financed partly through its collections of Reinvestment Fund for Sustainable Capital Expenditures (RFSC) and partly through a loan from the National Electrification Administration (NEA). The CAPEX Plan financiers to be pursued and the corresponding costs to be financed are presented in the Table below.

**PROPOSED FINANCIERS AND CORRESPONDING DESIRED
BORROWINGS**

SOURCE OF FUNDS	PROJECT COST TO BE FINANCED (PhP)	2015 (PhP)	2016 (PhP)	2017 (PhP)	TOTAL (PhP)
NEA	35,249,306			35,249,306	35,249,306
RFSC	84,045,820	13,995,315	31,880,037	38,170,468	84,045,820
TOTAL COST TO FINANCE	119,295,126	13,995,315	31,880,037	73,419,774	119,295,126

7. **Annual CAPEX Plan Costs.** The following table shows the annual CAPEX Plan costs including the permit fee for the projects:

SUMMARY OF ANNUAL CAPEX PLAN COST

PARTICULARS	2015 (PhP)	2016 (PhP)	2017 (PhP)	TOTAL (PhP)
RFSC	13,995,315	31,880,037	38,170,468	84,045,820
NEA	0	0	35,249,306	35,249,306
CAPEX Permit Fee	104,965	239,100	550,648	894,713
Total CAPEX Plan Cost to Consumers	14,100,280	32,119,137	73,970,422	120,189,839

8. **Cash Flow.** ILECO III's cash flow shows that it can viably pursue and implement the proposed CAPEX Plan and will determine the sufficiency of its RFSC Rate. ILECO III also considered in the whole capital expenditure structure previous indebtedness incurred in financing past capital expenditure projects outstanding as of 2014, including the amortization of said indebtedness. The Table below shows the projected cash flow starting only in Year 2016 and reflects the actual beginning balance of the RFSC for the said year.

**SUMMARY OF CASH FLOW COST OF CAPEX PLAN INCLUDING
AMORTIZATION OF PAST INDEBTEDNESS**

PARTICULARS	2016 (PhP)	2017 (PhP)	TOTAL (PhP)
Forecasted energy sales, kWh	77,428,345	90,216,185	167,644,530
Cash balance beginning, PhP, excess/(shortfall)	22,172,928		22,172,928
CASH INFLOWS			
Current year collection @PhP0.4231/kWh	32,759,933	38,170,468	70,930,401
Loan proceeds from NEA, PhP		35,249,306	35,249,306
Total Cash Inflows, PhP	32,759,933	73,419,774	106,179,707
Available cash for Disbursement	54,932,861	73,419,774	128,352,635
CASH OUTFLOWS			
CAPEX requirement	45,875,352	73,419,774	119,295,126
Old debt (old amortization)	15,245,922	13,405,544	28,651,466
New amortization (new CAPEX), PhP	-	8,276,318	8,276,318
ERC Permit Fee, PhP	344,065	550,648	894,713
Total Cash Outflows, PhP	61,465,339	95,652,284	157,117,623
Cash balance ending, PhP, excess/(shortfall)	(6,532,478)	(22,232,510)	(28,764,988)

9. **Rate Impact Analysis.** The CAPEX Plan was envisioned to bring the most value to consumers at the most reasonable and justifiable electricity rates, such that implementation of the proposed projects will have a reasonable rate impact of **PhP 0.1716** per kWh, as shown in the Table below, to wit:

**EXCERPTS FROM CASH FLOW ANALYSIS SHOWING
THE RATE IMPACT IN TERMS OF RATE PER KWH**

PARTICULARS	2016 (PhP)	2017 (PhP)	TOTAL (PhP)
kWh Sales Forecast	77,428,345	90,216,185	167,644,530
Current MCC Rate per kWh	.4231	.4231	
Available cash for Disbursement	54,932,861	38,170,468	93,103,329
Capex Plan Cost Cash Flow	61,465,339	60,402,978	121,868,317
Indicative Additional Revenue Requirement	6,532,478	22,232,510	28,764,988
Current MCC Rate per kWh	.4231	.4231	
Capex Plan Cost Cash Flow Indicative Rate per kWh	.7938	.6695	
Indicative Additional Revenue Requirement per kWh	0844	.2464	.1716

AUTHORITY TO SECURE LOAN FROM NEA

10. As shown above, the proposed projects shall be financed partly through a loan from NEA considering that the cooperative's RFSC is not readily available and further not sufficient to finance the implementation of the proposed projects as planned. In view thereof, the cooperative hereby applies for authority from the Honorable Commission to secure said loan.

ALLEGATIONS IN SUPPORT OF THE PRAYER FOR PROVISIONAL AUTHORITY

11. Applicant repleads the foregoing allegations as may be material herein;
12. As shown in the table of proposed projects, some of the projects may require implementation while the instant application is pending evaluation of the Honorable Commission;
14. In view thereof, applicant respectfully moves for issuance of a provisional authority while the case is pending, to implement said projects as may be deemed necessary and urgent under prevailing circumstances, to enable the cooperative to deliver a safe, more reliable and efficient electric service to its consumers.

DOCUMENTARY AND PRE-FILING REQUIREMENTS

15. Finally, in compliance with the documentary as well as pre-filing requirements for the instant application, applicant is likewise submitting herewith the following documents, to wit:

Annex Markings	Nature of Document
<i>Annex A</i>	Distribution Development Plan for 2015-2017, with technical and financial analysis and supporting data presented in ERC-prescribed templates
<i>Annexes B B-1</i>	Affidavit of Posting Notice to Consumers
<i>Annex C</i>	Affidavit of Undertaking that the corresponding application for approval of concerned agencies shall be filed, when required
<i>Annex D</i>	Supporting documents for the application for authority to secure loan from NEA
<i>Annex E</i>	Judicial Affidavit in Support of the Prayer for Provisional Authority
<i>Annexes F to F-1</i>	Proof of furnishing of copies of the Application to the Sangguniang Bayan of Sara and Sangguniang Panlalawigan of Iloilo
<i>Annexes G to G-2</i>	Publication of the Application in a newspaper of general circulation within ILECO III's franchise area or where it principally operates, with Affidavit of Publication

PRAYER

WHEREFORE, premises considered, ILECO III respectfully prays of this Honorable Commission that:

1. During the pendency of the instant application, ILECO III be granted provisional authority to implement the proposed projects as they become urgently necessary under prevailing circumstances, as well as to secure loan from the National Electrification Administration (NEA) to finance the same;
2. After due notice and hearing, the cooperative's Capital Expenditure Program for 2015 to 2017 as well as application for authority to secure loan from NEA, be granted accordingly.

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

Finding the said *Application* sufficient 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 **16 November 2017 (Thursday) at ten o'clock in the morning (10:00 A.M.) at ILECO III's principal office at Brgy. Preciosa, Sara, Iloilo.**

Accordingly, ILECO III is hereby directed to:

- 1) Cause the publication of the attached Notice of Public Hearing in two (2) newspapers of nationwide 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 and the date of the last publication to be made not later than ten (10) days before the date of the scheduled initial hearing;
- 2) Furnish with copies of this Order and the attached Notice of Public Hearing the Offices of the Provincial Governors, the City and/or Municipal Mayors, and the Local Government Unit (LGU) legislative bodies within the affected franchise area for the appropriate posting thereof on their respective bulletin boards;

- 3) Inform of the filing of the *Application*, its reasons therefor, and of the scheduled hearing thereon, the consumers within the affected franchise area, by any other means available and appropriate;
- 4) Furnish with copies of this Order and the attached Notice of Public Hearing, 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; and
- 5) Furnish with copies of the *Application* and its attachments all those making requests therefor, subject to reimbursement of reasonable photocopying costs.

On the date of the initial hearing, Applicant must submit to the Commission its written compliance with the aforementioned jurisdictional requirements attaching therewith, methodically arranged and duly marked the following:

- 1) The evidence of publication of the attached Notice of Public Hearing consisting of affidavits of the Editors or Business Managers of the newspapers where the said Notice of Public Hearing was published, and the complete issues of the said newspapers;
- 2) The evidence of actual posting of this Order and the attached Notice of Public Hearing consisting of certifications issued to that effect, signed by the aforementioned Governors, Mayors, and LGU legislative bodies or their duly authorized representatives, bearing the seals of their offices;
- 3) The evidence of other means employed by Applicant to inform of the filing of the *Application*, its reasons therefore, and of the scheduled hearing thereon, the consumers within the affected franchise area;
- 4) The evidence of receipt of copies of this Order and the attached Notice of Public Hearing by the Office of the Solicitor General (OSG), the Commission on Audit (COA), and the Committees on Energy of both Houses of Congress;

- 5) The evidence of receipt of copies of the *Application* and its attachments by all those making requests therefor, if any; and
- 6) Such other proofs of compliance with the requirements of the Commission.

Applicant and all interested parties are also required 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:

- 1) A summary of admitted facts and proposed stipulation of facts;
- 2) The issues to be tried or resolved;
- 3) The documents or exhibits to be presented, stating the purposes and proposed markings therefore; and
- 4) The number and names of the witnesses, with their written testimonies in a Judicial Affidavit form attached to the Pre-trial Brief.


Failure of Applicant to comply with the above requirements 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 the said date of cancellation.

ILECO III must also be prepared to make an expository presentation of the instant *Application*, aided by whatever communication medium that it 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, 31 July 2017.

**FOR AND BY AUTHORITY
OF THE COMMISSION:**



ALFREDO J. NON
Officer-in-Charge of the ERC

LS: LSP/APV.io

Copy furnished:

1. Dechavez & Evangelista Law Offices
Counsel for Applicant ILECO III
Unit 2008, Tycoon Center
Pearl Drive, Ortigas Center, Pasig City 1605
3. Iloilo III Electric Cooperative, Inc. (ILECO III)
Brgy. Preciosa, Sara, Iloilo
2. Office of the Solicitor General
134 Amorsolo Street, Legaspi Village, Makati City
3. Commission on Audit
Commonwealth Avenue, Quezon City
4. Senate Committee on Energy
GSIS Bldg. Roxas Blvd., Pasay City
5. House Committee on Energy
Batasan Hills, Quezon City
8. Office of the President
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
9. Office of the Municipal Mayor
Ajuy, Iloilo
10. Office of Sangguniang Bayan
Ajuy, Iloilo
11. Office of the Municipal Mayor
Anilao, Iloilo
12. Office of Sangguniang Bayan
Anilao, Iloilo
13. Office of the Municipal Mayor
Balasan, Iloilo
14. Office of Sangguniang Bayan
Balasan, Iloilo
15. Office of the Municipal Mayor
Banate, Iloilo

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16. Office of Sangguniang Bayan
Banate, Iloilo
17. Office of the Municipal Mayor
Barotac Viejo, Iloilo
18. Office of Sangguniang Bayan
Barotac Viejo, Iloilo
19. Office of the Municipal Mayor
Batad, Iloilo
20. Office of Sangguniang Bayan
Batad, Iloilo
21. Office of the Municipal Mayor
Carles, Iloilo
22. Office of Sangguniang Bayan
Carles, Iloilo
23. Office of the Municipal Mayor
Concepcion, Iloilo
24. Office of Sangguniang Bayan
Concepcion, Iloilo
25. Office of the Municipal Mayor
Estancia, Iloilo
26. Office of Sangguniang Bayan
Estancia, Iloilo
27. Office of the Municipal Mayor
Lemery, Iloilo
28. Office of Sangguniang Bayan
Lemery, Iloilo
29. Office of the Municipal Mayor
San Dionisio, Iloilo
30. Office of Sangguniang Bayan
San Dionisio, Iloilo
31. Office of the Municipal Mayor
San Rafael, Iloilo
32. Office of Sangguniang Bayan
San Rafael, Iloilo
33. Office of the Municipal Mayor
Sara, Iloilo
34. Office of Sangguniang Bayan
Sara, Iloilo
35. Office of the Provincial Governor
Province of Iloilo
36. Office of Sangguniang Panlalawigan
Province of Iloilo
37. Regulatory Operations Services (ROS)
Energy Regulatory Commission
17F Pacific Center Building, San Miguel Avenue,
Ortigas Center, Pasig City