

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



**IN THE MATTER OF THE
APPLICATION FOR THE
APPROVAL OF THE
GENERATION RATE FOR
THE USE OF THREE (3)
UNITS 2MW MODULAR
GENERATION SET BY
MISAMIS ORIENTAL I
RURAL ELECTRIC SERVICE
COOPERATIVE, INC.
(MORESCO 1) AND THE
CORRESPONDING
APPROVAL OF THE LOAN
FROM THE NATIONAL
ELECTRIFICATION
ADMINISTRATION (NEA)
AND OTHER FINANCIAL
INSTITUTION, WITH
PRAYER FOR THE
ISSUANCE OF
PROVISIONAL AUTHORITY**

ERC CASE NO. 2019-008 RC

**MISAMIS ORIENTAL I
RURAL SERVICE ELECTRIC
COOPERATIVE, INC.
(MORESCO 1)**

Applicant.

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Promulgated:
MAR 07 2019

NOTICE OF PUBLIC HEARING

TO ALL INTERESTED PARTIES:

Notice is hereby given that on 1 February 2019, the Misamis Oriental I Rural Service Electric Cooperative, Inc. (MORESCO-1) filed an *Application* dated 27 December 2018, seeking for the approval of the generation rate for the use of three (3) units 2 MW Modular Generation Set by Misamis Oriental I Rural Electric Service Cooperative, Inc. (MORESCO-1) and the corresponding approval of the loan from the National Electrification Administration (NEA) and other financial institution, with prayer for the issuance of provisional authority.

The pertinent portions of the said *Application* are hereunder quoted as follows:

1. That Applicant MORESCO-1 is an electric cooperative existing pursuant to law (P.D. 269) with postal address at Poblacion, Laguindingan, Misamis Oriental, where it may be served with the processes of this Honourable Commission through its Board President, MR. ALBERT BENEDICT BACUS and General Manager, ENGR. JOVEL UBAY-UBAY, P.E.E., whose joint authority to file this Application and represent the Applicant is authorized by the Board of Directors of the Applicant pursuant to Board Resolution No. 2018-0622-08 which is hereto attached as Annex "A" and made an integral part of this Application. The undersigned counsel is likewise duly authorized to represent and bind the applicant in the expository presentation and trial proper including the authority to enter into the pre trial conference, stipulation of facts, simplification of issues and other modes to expedite the proceedings, with Board Resolution No. 2018-0622-09 as proof of his authority is hereto attached as Annex "A-1";
2. That Applicant MORESCO-1's franchise area includes nine (9) municipalities, one (1) city, all in the Province of Misamis Oriental, a portion of Cagayan de Oro City and two (2) municipalities in the Province of Bukidnon. Specifically, in the province of Misamis Oriental: El Salvador City, the municipalities of Alubijid, Initao, Opol, Lugait, Laguindingan, Manticao, Gitagum, Libertad, Naawan; and in the province of Bukidnon: the municipalities of Talakag and Baungon.

It is duly registered with the National Electrification Administration (NEA) on February 12, 1971, attached herein as Annex "A-2". Its Articles of Incorporation and Certificate of By-laws are likewise attached herein as Annex "A-3."

MODULAR GENERATOR SET PROGRAM OF THE GOVERNMENT

3. That the Department of Energy (DOE) has made available funding under soft loan terms and conditions to be administered by the National Electrification Administration (NEA) to assist the electric cooperatives acquire their own generation facilities to partially address their supply requirements and to serve as standby units;
4. That under R.A. 9136 distribution utilities, like Applicant, are mandated to source their own power supply through "long term" contracts with generating companies (IPP's) and from the Wholesale Electricity Spot Market (WESM) and, as far as practicable, and at the same time to procure power supply at the least possible costs. Applicant through feasibility studies has determined that it would be more advantageous to have its own generation capacity rather than depend on IPP's and the market;
5. That under R.A. 10531, electric cooperatives are now authorized to generate power from its own facilities and resources;

STATEMENT OF THE PROBLEM

6. Sometime in 2011, the Mindanao area suffered severe power deficiency and MORESCO-1 in particular had to implement rotating blackouts in its franchise area. The Department of Energy then directed the NEA to implement the acquisition or lease of Modular Generator Sets and the NEA has prescribed the guidelines and procedures for the electric cooperatives which will avail of the program. Applicant availed of the program and initially acquired one (1) unit 2MW generator set. The present application pertains to the additional three (3) units of 2MW which applicant intends to acquire;
7. That furthermore, the generation sets shall serve as back-up power to ensure power reliability in the event the normal power source from the grid is not available;

VIABILITY AND LEAST COST ACQUISITION METHOD

8. Applicant has considered three (3) options to address the above stated problem: (1) Contract with existing Independent Power Producers (IPP's) for the required peaking and back-up power requirement; (2) Acquire the modular generator sets or (3) Lease the said generator sets.

After conducting the feasibility study in terms of impact on the blended rates which would result to the least cost to its members-consumers to ensure power reliability, Applicant deemed it best to acquire the modular generator sets.

COMPETITIVE SELECTION PROCESS

9. That Applicant adopted the Terms of Reference (TOR) which was originally prepared by the Association of Mindanao Region Electric Cooperatives (AMRECO), as directed by the NEA, to govern the technical and financial requirements of the prospective bid proposals, the TOR is attached herein as Annex "B";
10. That Applicant published in the Philippine Daily Inquirer, a newspaper of general circulation in the Philippines, on April 25, 2017 an Invitation to Bid (BAC Control No. 001-0419-2017) for the supply, delivery, installation, testing and commissioning of three (3) units of Modular Generator Sets announcing all the activities related thereto culminating to the issuance of the Notice To Award/Proceed, copy of the publication is hereto attached as Annex "C" and "C-1";
11. That Applicant conducted its pre bidding conference on May 9, 2017 as scheduled and published;
12. That on May 23, 2017, the bid documents were opened and after faithfully complying with the bidding procedures the Applicant's Bid and Awards Committee evaluated the Bids from May 24 to June 2, 2017 and thereafter submitted its recommendation to the Applicant's Board of Director's Committee;

13. That on September 29, 2017, CAMEC JCB Corporation was declared the winning bidder and a Notice of Award was issued to it, copy of the letter is hereto attached as Annex "D";
14. On October 13, 2017, Applicant's Board of Directors passed Resolution No.2017-1013-12.1, Series of 2017, authorizing the acquisition of Generator sets under DOE Circular DC 2013-08-019; copy of which is hereto attached as Annex "E";
15. That on October 20, 2017, a Contract for the Supply, Delivery, Installation and Commissioning of Three (3) units, 2 MW Modular Generator Sets was entered into by Applicant and the winning bidder, CAMEC JCB Corporation, copy of which is hereto attached as Annex "F";
16. That on October 23, 2017, the Notice to Proceed was issued to CAMEC JCB Corporation after its compliance of the posting of the performance bond, the said notice is hereto attached as Annex "G";

SALIENT FEATURES AND EXECUTIVE SUMMARY OF THE
CONSTRUCT, INSTALL, AND COMMISSIONING CONTRACT

The contractor CAMEC JCB Corporation will construct, deliver, install, and commission three (3) modular generator sets with each unit described as Annex "B"-BXXX" in the TOR forming part of the Contract which has a rated capacity of 2000 kW with an output voltage of 480 V, frequency of 60 Hz, rate of speed of 1800 RPM, power factor of 0.8 lagging, 3 phase with 110% allowable overload.

Cost and Manner of Payment

The total contract price is Php 129,206,250.00 which is payable in accordance with the schedule under Art. V, 5.4 in the Contract on the basis of the progress of work done and completed.

Delivery Date

CAMEC JCB Corporation shall supply, deliver, install and commission the three (3) units 2 MW generator sets within three hundred (300) days from its receipt of the Notice to Proceed as per Art. III, 3.1 of the Contract.

FINANCING OF THE ACQUISITION OF THE GENSETS BY THE
NATIONAL ELECTRIFICATION ADMINISTRATION

The project is financed by the National Electrification Administration pursuant to the DOE Department Circular No. DC 201308-0019 dated August 5, 2013 to provide loan to qualified electric cooperatives to procure additional power capacities.

The total amount of the loan is Php 129,206,250.00 subject to a First Mortgage on the equipment with only 4% interest per annum with a grace period of two (2) years and the principal payment shall commence after two (2) from the execution of the loan agreement with

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a maximum of 15 years repayment period. The Applicant also has the option to return the gensets to the NEA.

Copy of the Contract of Loan and the First Mortgage are hereto attached as Annex "H" and "I", respectively.

APPLIED GENERATION RATES

On the basis of the financial model, taking into account the total project cost, cost of debt, cost of equity, the weighted cost of capital, Applicant is proposing the following generation rates:

Particulars		Unit
I. CRF	225.66	Php/kW/mo.
II. Fixed O&M Charge	204.26	Php/kW/mo.
III. Var. O&M Charge	0.73	Php/kWh
IV. Fuel Recovery Charge	11.70	Php/kWh
V. Lube Recovery Charge	0.09	Php/kWh

IMPACT ON APPLICANT MORESCO-1 OVERALL GENERATION RATE

The table below shows the rate impact simulations indicated in the instant Application with the following assumptions:

- a) Billing Period March 26, 2019 to April 25, 2019
- b) TSI unit 1 on preventive maintenance shutdown for 30 days
- c) Low supply from NPC/PSALM as forecasted
- d) Forecasted Energy for April 2019 at 38,980,850kWh per DDP
- e) No WESM yet in Mindanao

With Additional Acquired Modular Generation Set (3 X 2MW)

Power Suppliers	Supply Mix (kWh)	% Mix (kWh)	Generation Cost	Average Rate (Php/kWh)	Blended Rate (Php/kWh)
FDC-Coal	16,368,000	41.99%	89,384,988.48	5.4610	4.9247
TSI	1,860,000	4.77%	10,960,719.00	5.8929	
SMCPC	3,720,000	9.54%	18,239,191.50	4.9030	
PACERM-1	1,249,920	3.21%	22,776,790.85	18.2226	
MODULAR GENSET (2MW)	267,840	0.69%	3,036,121.86	11.3356	
Additional 3 Modular Genset	612,000	1.57%	10,241,760.00	16.7349	
NPC	14,903,090.73	38.23%	37,328,990.31	2.5048	
Total Blended Rate	38,980,850	100%	191,968,562.00		

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With PSA to KEGI (Rate Using ERC Case No. 2014-153 RC)

Power Suppliers	Supply Mix (kWh)	% Mix (kWh)	Generation Cost	Average Rate (Php/kWh)	Blended Rate (Php/kWh)
FDC-Coal	16,368,000	41.99%	89,384,988.48	5.4610	5.0665
TSI	1,860,000	4.77%	10,960,719.00	5.8929	
SMCPC	3,720,000	9.54%	18,239,191.50	4.9030	
PACERM-1	656,640	1.68%	17,814,359.63	27.1296	
MODULAR GENSET (2MW)	-	-	752,360.00	-	
Sourced from KEGI	1,473,120	3.78%	23,014,267.20	15.6228	
NPC	14,903,090.73	38.23%	37,328,990.31	2.5048	
Total Blended Rate	38,980,850	100%	197,494,876.11		

RATE IMPACT (5.0665 - 4.9247)	0.1418
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Although there is a projected increase on MORESCO-1's generation rate, it will however redound to the benefit of MORESCO-1's consumer by way of reliable supply of electricity.

PRAYER

WHEREFORE, foregoing premises considered, it is most respectfully prayed of this Honourable Commission, to approve provisionally the generation rates arising from the use of the three (3) units 2 MW modular genset upon the filing of this Application as follows:

Particulars		Unit
I. CRF	225.66	Php/kW/mo.
II. Fixed O&M Charge	204.26	Php/kW/mo.
III. Var. O&M Charge	0.73	Php/kWh
IV. Fuel Recovery Charge	11.70	Php/kWh
V. Lube Recovery Charge	0.09	Php/kWh

The prayer for the issuance of a Provisional Authority is necessitated in order that applicant MORESCO-1 can immediately use of the said gensets upon delivery and commissioning by CAMEC JCB Corporation pending review and evaluation by the Honourable Commission of the final authority on the generation rates applied for.

And likewise, prayed to approve the financing of the acquisition of loan through the National Electrification Administration and other financial institution.

Other reliefs consistent with justice and equity are likewise prayed for.

The Commission has set the *Application* for determination of compliance with the jurisdictional requirements, expository presentation, pre-trial conference, and presentation of evidence on **27 March 2019 (Wednesday), at two o'clock in the afternoon (02:00 P.M.), at MORESCO-1's Principal Office located at Poblacion, Laguindingan, Misamis Oriental.**

All persons who have an interest in the subject matter of the instant case may become a party by filing with the Commission a verified Petition to Intervene at least five (5) days prior to the initial hearing and subject to the requirements under Rule 9 of the 2006 ERC Rules of Practice and Procedure, indicating therein the docket number and title of the case and stating the following:

- 1) The petitioner's name and address;
- 2) The nature of petitioner's interest in the subject matter of the proceeding and the way and manner in which such interest is affected by the issues involved in the proceeding; and
- 3) A statement of the relief desired.


All other persons who may want their views known to the Commission with respect to the subject matter of the case may file their Opposition or Comment thereon at any stage of the proceeding before Applicant rests its case, subject to the requirements under Rule 9 of the 2006 ERC Rules of Practice and Procedure. No particular form of Opposition or Comment is required, but the document, letter, or writing should contain the following:

- 1) The name and address of such person;
- 2) A concise statement of the Opposition or Comment; and
- 3) The grounds relied upon.

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All such persons who wish to have a copy of the *Application* may request from Applicant that they be furnished with the same, prior to the date of the initial hearing. MORESCO - 1 is hereby directed to furnish all those making such request with copies of the *Application* and its attachments, subject to the reimbursement of reasonable photocopying costs. Any such person may likewise examine the *Application* and other pertinent records filed with the Commission during the standard office hours.

WITNESS, the Honorable Chairperson and CEO, **AGNES VST DEVANADERA**, and the Honorable Commissioners **ALEXIS M. LUMBATAN**, **CATHERINE P. MACEDA**, and **PAUL CHRISTIAN M. CERVANTES**, Energy Regulatory Commission, this 5th day of March 2019 in Pasig City.


JOSEFINA PATRICIA A. MAGPALE-ASIRIT
Oversight Commissioner for Legal Service


LS:LEI/BSA/GLO