



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

**IN THE MATTER OF THE  
APPLICATION FOR APPROVAL  
OF THE ENERGY SUPPLY  
AGREEMENT (ESA) BETWEEN  
ZAMBOANGA DEL NORTE  
ELECTRIC COOPERATIVE, INC.  
(ZANECO) AND MCPARTNERS,  
INC. (MCP)**

**ERC CASE NO. 2014-154 RC**

**ZAMBOANGA DEL NORTE  
ELECTRIC COOPERATIVE, INC.  
(ZANECO) AND MCPARTNERS,  
INC. (MCP),**

**Applicants.**

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**DOCKETED**  
Date: **NOV 02 2015**  
By: *[Signature]*

**ORDER**

On October 15, 2014, Zamboanga Del Norte Electric Cooperative, Inc. (ZANECO) and MCPARTNERS, Inc. (MCP) filed an application for the approval of their Energy Supply Agreement (ESA).

In the said application, ZANECO and MCP alleged, among others, that:

1. ZANECO is an electric cooperative (EC) duly organized and existing under and by virtue of the laws of the Republic of the Philippines, with principal office at General Luna St., Dipolog City;
2. ZANECO is engaged in the distribution of electric light and power service in the Cities of Dapitan and Dipolog and the Municipalities of Rizal, Sibutad, La Libertad, Piñan, Mutia, Polanco, S. Osmeña, Katipunan, Roxas, Manukan, J. Dalman, Sindangan, Siayan, L. Postigo, Salug, Godod, Liloy, Labason, Gutalac, Tampilisan and Kalawit, all in the Province of Zamboanga del Norte;

*[Signature]*

3. MCP is a generation company authorized and existing under the laws of the Philippines, with principal office address at 28 Royal Palm Palmera Centro, Marikina Heights, Marikina City;
4. MCP declared its intention to supply electricity in Mindanao in a series of roadshows in 2013 that marketed the capacity of its 12 MW biomass direct combustion power plant (Power Plant) that will be built in Polanco, Baranggay Sinaman. The projected site is located within ZANECO's network system. The supply of energy shall be made through bilateral agreements with distribution utilities (DUs) within the region;
5. On February 7, 2014, ZANECO and MCP signed and executed the Energy Supply Agreement (ESA), subject of the application;
6. The whole of Mindanao, including ZANECO's franchise area, is suffering from a severe shortage of energy supply. ZANECO's franchise area has power outages for as long as ten (10) hours each day;
7. The inadequacy of energy supply to ZANECO is worsened by the estimated increase of its demand of four to five percent (4-5%) annually;
8. Under the ESA, MCP will supply power to ZANECO by constructing, owning, operating, managing and maintaining the Power Plant. The commercial operation of the Power Plant is expected on January 1, 2018. Technical description of the Power Plant is attached as Annex "N" of the application;
9. Under the ESA, MCP shall supply a portion of the energy requirements of ZANECO for an original term of twenty-five (25) years from the date of effectivity at the delivered price of PhP6.62/kWh of Contract Capacity;
10. The ESA contains the following terms and conditions:

- a. Execution Date

The agreement was executed on February 7, 2014, but it shall be effective upon the approval of the operating contract from the Department of Energy (DOE), the approval of the agreement by the Commission and registration with the Board of Investments (BOI);

- b. Term



The ESA has a term beginning from the Delivery Period Commencement Date and shall be in full force and effect until December 31, 2043, unless otherwise extended or renewed by agreement of both parties in writing expressly stating that the ESA is intended to be renewed or extended;

c. Contract Capacity

The Power Plant's rated capacity is 12 MW with an effective capacity of 10 MW. Under the ESA, MCP shall make available, reserve, guarantee and deliver to ZANECO 10 MW of power at the Delivery Point as specified under the ESA;

d. Effectiveness

The ESA shall not become effective unless the terms and conditions thereof, including the complete pass-through of the Contract Price and all other charges and taxes stipulated have been approved, provisional or otherwise, by the Commission. Any disallowance of the generation cost or any component thereof, as stipulated in the ESA, for recovery from the end-users, shall be for the sole account of MCP and shall not prejudice ZANECO;

e. Stages of Supply

Shown below is the two (2) phases of the implementation of the ESA with the power identified as the Net Installed Capacity:

Phase	Capacity Installed (Net)	Total Capacity (Net)	Date of Take and Pay Commencement
Phase 1	5,000kW	5,000 kW	Delivery Period Commencement Date
Phase 2	5,000kW	10,000kW	January 1, 2018

f. Contract Price

The Contract Price to be paid by ZANECO will depend on whether the power is delivered before commercial operation date or on or after commercial operation date. The Contract Price is PhP6.62/kWh from Year One (1) to Year Five (5). From the beginning of Year 6 and every two (2) years thereafter, until the conclusion of the ESA, the Contract Price shall be adjusted in line with the Core Inflation Rate of the twenty-four (24) month period immediately preceding the biennial adjustment. The

formula for the contract price adjustment is attached in the application and was made as an integral part thereof.

Shown below is the projected unbundled Contract Price:

ITEM	WEIGHTING (%)	AMOUNT (PhP)
Feedstock	26.59	1.76
Plant Operations	17.37	1.15
SG&A	14.35	0.95
Financing	29.61	1.96
Depreciation	5.14	0.34
Effective tax	3.78	0.25
Net profit	3.17	0.21
<b>TOTAL</b>	<b>100.00</b>	<b>6.62</b>

The parties agreed that the unbundled Contract Price will vary throughout the lifetime of the ESA and will be subjected to market conditions and project inputs. A financial analysis of the unbundled contract price is attached in the application and was made as an integral part thereof;

**g. Delivery Point**

The parties agreed that the location of the interconnection point of the Power Plant, as far as practicable, be at the closest location to enable the direct supply to ZANECO's distribution network. MCP commits to install synchronization equipment at its own cost.


**h. Rate Impact**

Particulars	Projected Late 2017 Average Monthly Quantity (kWh)	Percentage	Average Rate (PhP/kWh)	Weighted Average Rate (PhP/kWh)
<b>OIL-BASED</b>	<b>16,492,986.80</b>	<b>89.57%</b>	<b>8.0208</b>	7.6952
Supplier 1	1,436,534.92	7.80%	5.5937	
Supplier 2	483,824.37	2.63%	2.8367	

Particulars	Projected Late 2017 Average Monthly Quantity (kWh)	Percentage	Average Rate (PhP/kWh)	Weighted Average Rate (PhP/kWh)
<b>MC Partner</b>	7,200,000.00	<b>39.10%</b>	<b>6.62</b>	7.15
Supplier 1	1,436,534.92	7.80%	5.5937	
Supplier 2	483,824.37	2.63%	2.8367	
<b>Oil Based</b>	<b>9,292,986.80</b>	50%	8.02	

11. The Power Plant is expected to be ready to commence full commercial operations on January 1, 2018. Once the plant goes online, ZANECO's Franchise Area can enjoy a more reliable and steady supply of electricity;
12. MCP needs to start its development and civil works on December 2014 in order to meet its target commissioning date on September 2017. However, the release of funds from its investors depends on the grant of the provisional authority. Hence, MCP needs a provisional authority to implement the ESA before it can acquire the funds needed for the aforesaid works;
13. In view of the foregoing, ZANECO and MCP submit that the issuance of the provisional authority prior to the final resolution of the application is not only proper but urgent and imperative. The provisional approval of the ESA will alleviate significantly the power supply situation in Mindanao and thereby promote business growth and the quality of life of Mindanaoans; and
14. ZANECO and MCP pray that: a) an Order be issued granting the provisional authority for the implementation of the provisions of the ESA dated February 7, 2014; b) pending final resolution of the application, they be authorized to implement the ESA upon the first Billing Period ending on the twenty-fifth (25<sup>th</sup>) day of the calendar month on which the Delivery Period Commencement Date occurred, or the next succeeding calendar month if the Delivery Period Commencement Date falls after the twenty-fifth (25<sup>th</sup>); and c) after further proceedings, the approval be made permanent.

Relative thereto, on March 2, 2015, the Commission issued an Order and a Notice of Public Hearing setting the case for initial hearing on April 16, 2015.



During the April 16, 2015 hearing, only ZANECO appeared. MCP failed to appear despite due notice. Thus, the Commission terminated the said hearing.

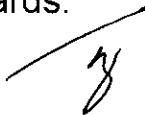
On August 10, 2015, MCP filed a "Motion/Manifestation" alleging, among others, that it has not received the aforesaid Order and Notice of Public Hearing on time for it to prepare the scheduled hearing. Thus, it was unable to attend the said hearing. It prays that another Order and Notice of Public Hearing be issued by the Commission setting the application for initial hearing.

Finding the said motion meritorious, the same is hereby **GRANTED**. Accordingly, the application is hereby set for jurisdictional hearing, expository presentation, pre-trial conference and evidentiary hearing on **November 26, 2015 (Thursday) at two o' clock in the afternoon (2:00 P.M.) at the ZANECO's Principal Office, General Luna St., Dipolog City.**

ZANECO and MCP are hereby directed to cause the publication of the attached Notice of Public Hearing, at their 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. They are also directed to inform the consumers within ZANECO's franchise area, by any other means available and appropriate, of the filing of the instant application, their 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 Provincial Governor of Zamboanga del Norte and the Mayors of the Cities and Municipalities within the franchise area of ZANECO for the appropriate posting thereof on their respective bulletin boards.



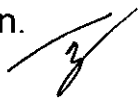
ZANECO and MCP are hereby directed to furnish all those making requests therefor with copies of the application and its attachments, subject to reimbursement of reasonable photocopying costs.

On the date of the initial hearing, ZANECO and MCP must submit to the Commission their written Compliance with the jurisdictional requirements attaching therewith, methodically arranged and duly marked, the evidence on the actual posting and publication of the Notice of Public Hearing consisting of certifications issued to that effect, signed by the afore-mentioned Governor and Mayors or their duly authorized representatives, 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.

ZANECO, MCP 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 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 ZANECO and MCP 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.



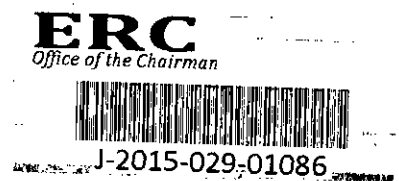
As part of the pre-trial conference, ZANECO and MCP must also be prepared to make an expository presentation of their application, aided by whatever communication medium that they may deem appropriate for the purpose, in order to put in plain words and explain, for the benefit of the consumers and other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

**SO ORDERED.**

Pasig City, October 20, 2015.

FOR AND BY AUTHORITY  
OF THE COMMISSION:

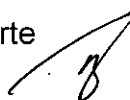
  
**JOSE VICENTE B. SALAZAR**  
Chairman





Copy Furnished:

1. **Atty. Fortunato C. Pagdanganan, Jr.**  
Counsel for Applicants  
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Marikina Heights, Marikina
2. **The General Manager**  
**Zamboanga Del Norte Electric Cooperative, Inc. (ZANECO)**  
General Luna Street, Central Barangay, Dipolog City, Zamboanga  
Del Norte
3. **Office of the Solicitor General**  
134 Amorsolo Street, Legaspi Village  
Makati City, Metro Manila
4. **Commission on Audit**  
Commonwealth Avenue  
Quezon City, Metro Manila
5. **Senate Committee on Energy**  
GSIS Bldg. Roxas Blvd., Pasay City  
Metro Manila
6. **House Committee on Energy**  
Batasan Hills, Quezon City, Metro Manila
7. **Philippine Chamber of Commerce and Industry (PCCI)**  
3rd Floor, ECC Building, Sen. Gil Puyat Avenue  
Makati City
8. **Provincial Governor**  
Province of Zamboanga Del Norte
9. **City Mayor**  
Dipolog, Zamboanga Del Norte
10. **City Mayor**  
Dapitan, Zamboanga Del Norte
11. **Municipal Mayor**  
Godod, Zamboanga Del Norte
12. **Municipal Mayor**  
Gutalac, Zamboanga Del Norte
13. **Municipal Mayor**  
J. Dalman, Zamboanga Del Norte
14. **Municipal Mayor**  
Katipunan, Zamboanga Del Norte



15. **Municipal Mayor**  
Kalawit, Zamboanga Del Norte
16. **Municipal Mayor**  
La Libertad, Zamboanga Del Norte
17. **Municipal Mayor**  
L. Postigon, Zamboanga Del Norte
18. **Municipal Mayor**  
Liloy, Zamboanga Del Norte
19. **Municipal Mayor**  
Labason, Zamboanga Del Norte
20. **Municipal Mayor**  
Manukan, Zamboanga Del Norte
21. **Municipal Mayor**  
Mutia, Zamboanga Del Norte
22. **Municipal Mayor**  
Piñan, Zamboanga Del Norte
23. **Municipal Mayor**  
Polanco, Zamboanga Del Norte
24. **Municipal Mayor**  
Rizal, Zamboanga Del Norte
25. **Municipal Mayor**  
Roxas, Zamboanga Del Norte
26. **Municipal Mayor**  
Salug, Zamboanga Del Norte
27. **Municipal Mayor**  
S. Osmeña, Zamboanga Del Norte
28. **Municipal Mayor**  
Siayan, Zamboanga Del Norte
29. **Municipal Mayor**  
Sibutad, Zamboanga Del Norte
30. **Municipal Mayor**  
Sindangan, Zamboanga Del Norte
31. **Municipal Mayor**  
Tampilisan, Zamboanga Del Norte

