

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



**IN THE MATTER OF THE
APPLICATION FOR APPROVAL
OF THE POWER SUPPLY
AGREEMENT (PSA) BETWEEN
CAMIGUIN ELECTRIC
COOPERATIVE, INC.
(CAMELCO) AND KING
ENERGY GENERATION, INC.
(KEGI), WITH MOTION FOR
THE ISSUANCE OF
PROVISIONAL AUTHORITY**

ERC CASE NO. 2014-119 RC

**CAMIGUIN ELECTRIC
COOPERATIVE, INC.
(CAMELCO) AND KING
ENERGY GENERATION, INC.
(KEGI),**

Applicants.

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DOCKETED
Date: NOV 10 2014
By: W

ORDER

On August 18, 2014, Camiguin Electric Cooperative, Incorporated (CAMELCO) and King Energy Generation, Incorporated (KEGI) filed an application for approval of their Power Supply Agreement (PSA), with motion for the issuance of provisional authority.

In the said application, CAMELCO and KEGI alleged, among others, that:

1. CAMELCO is an electric cooperative duly organized and existing under and by virtue of the laws of the Philippines, with principal office at Pandan, Mambajao, Camiguin. It was granted a franchise by the National Electrification Administration (NEA) exclusively to operate an electric light and power services in the Municipalities of

Mambajao, Mahinog, Guinsiliban, Sagay and Catarman, all in the Island Province of Camiguin;

2. KEGI is a generation company duly organized and existing under and by virtue of the laws of the Republic of the Philippines. It has its principal office at the G/F Divine Savior Building, 102 Juan Luna St., Davao City;
3. They are filing the instant application for approval of their PSA with a motion for provisional authority pursuant to Rules 20 (B) and 14 of the ERC Rules of Practice and Procedure;

**Compliance with the Pre-Filing Requirements,
Rules 6, ERC Rules**

4. Pursuant to Rule 20 (B) of the Commission's Rules of Practice and Procedure, and other pertinent rules and regulations, the instant application is filed for the Commission's due consideration and approval;
5. In Compliance with Rule 6 of the said Rules, CAMELCO served copies of the application together with all of its annexes to the legislative bodies of the Province and Municipalities where it principally operates;

Supply – Demand Scenario

6. At present, CAMELCO is being supplied by the following generators:

Generator	Contracted Capacity	Contracted Energy	Period Covered
NPC-PSALM	2.2 MW	1,373,041 kWh	December 25, 2013 to December 25, 2014
TMI	1.0 MW	933,333 kWh	July 27, 2014

7. The Capacity and Energy Demand of CAMELCO for 2014 to 2023 is projected as follows (all in MWh):

Year	2014	2015	2016	2017	2018
Energy Demand	1,940.29	2,036.53	2,128.21	2,215.68	2,299.31

Year	2019	2020	2021	2022	2023
Energy Demand	2,379.41	2,456.29	2,530.21	2,601.40	2,670.08

8. The above data shows that CAMELCO will have supply deficiency that will become more pronounced starting 2016. However, as early as this year and in 2015, since there is no assurance from the Power Sector Assets and Liabilities Management Corporation (PSALM) that it will still be able to maintain its energy supply to CAMELCO, and considering further that the bilateral contract with TMI will expire on July 27, 2014, CAMELCO will have to insure that its current and future energy demand will be adequately covered by a long term contract;
9. CAMELCO is heavily dependent on hydro-powered electricity from National Power Corporation (NPC)/PSALM. However, starting the year 2010, NPC/PSALM has made it known that it cannot anymore supply all of its power requirements as it is required by the law to privatize gradually its generation assets and it is prohibited from building or constructing new ones. During the pendency of the Contract for the Supply of Electric Energy (CSEE), NPC/PSALM formally informed the CAMELCO that it has insufficient capacity to fully serve and comply with its contracted capacity and energy due to generation constraints. The letter of Mr. Froilan A. Tampinco, NPC President, dated December 6, 2011 is attached to the instant application;
10. That as a matter of fact, NPC/PSALM has unilaterally reduced its contracted power supply to CAMELCO by an annual average of as much as thirty-five percent (35%) for the last two (2) years and there is no assurance that PSALM will extend the CSEE upon its expiration on December 25, 2014, and if it does, up to what capacity and energy;
11. Due to the increasing load requirement of CAMELCO as shown in the table below, coupled with its generation supply constraints, it was compelled to negotiate and contract with KEGI for an additional 4.4 MW bunker

power plant capacity consisting of two (2) units of 2.2 MW bunker power plants to ensure adequacy, quality and reliability of electric energy to distribute to its members-consumers within its franchise area;

12. In the meantime, due to the El Niño phenomenon plus the fact that CAMELCO is heavily dependent on hydro power from PSALM which ordinarily ebbs during the summer months, aggravated by the ever increasing power requirements, it has to implement Demand Side Management (DSM) through the Interruptible Load Program (ILP). However, despite this measure, it is still in severe deficiency of power supply, thus the need to source more energy from available power suppliers;

**The Power Plant and
Its Operating and Maintenance Expenses**

13. KEGI has offered to build and construct two (2) units of 2.2 MW bunker diesel powered plant to be located at Maubog, Balbagon, Mambajao, Camiguin;
14. KEGI has offered to CAMELCO a contracted capacity of 4,000 kW per month and a monthly dispatchable energy of 933,333 kWh for the contract duration at a price consisting of CRF, FOM and VOM;
15. The project cost of the two (2) units 2.2 MW bunker power plant that KEGI will build and construct is estimated at PhP468,806,393.00, the details of which is attached to the application;
16. For the Fixed Operating and Maintenance Expenses (FOM), KEGI has budgeted a total annual expense of PhP15,076,560.00, the details of which is, likewise, attached to application;
17. For the Variable Operating and Maintenance Expenses (VOM), KEGI has determined that the annual variable expense is PhP14,972,134.00, the details of which is attached to the application;

Procurement Process

18. CAMELCO is serving Camiguin Island which is located in the north eastern seaboard of the Main Island of Mindanao. Although it is currently connected to the Mindanao Grid through a submarine cable, it is imperative that it should have its own embedded generation source to protect it from the problems associated with the shortage in the Mindanao Grid and reliability of transmission due to the distance involved and its remoteness from the generation source. CAMELCO has initiated extended efforts to attract and invite independent power producers (IPP) since 2010 to put up a power plant in the Island of Camiguin, however, none have shown interests until KEGI submitted a letter of interest. This was then brought to the attention of the members-consumers of CAMELCO, who in several district assemblies, have given their approval and consent for the construction of a power plant. Thus, due to the urgency of the power requirement and considering further the lack of interests from other power producers, CAMELCO entered into a negotiated PSA with KEGI which is now the subject matter of this application;

Abstract of the PSA¹ and Other Relevant Information

19. **Executive Summary.** The Contract Capacity to be made available by KEGI to CAMELCO shall be 4,000 kW per month which shall be delivered in accordance with the Schedule of Contract Energy which is fixed on daily and hourly bases. The PSA provides that KEGI and CAMELCO shall be excused from their respective obligation to deliver and receive energy during the occurrence of scheduled or unscheduled outages, in which case, the contract energy for the affected billing period may be adjusted pro rata or as agreed by the parties. KEGI has the option to supply CAMELCO all or a portion of the contract energy, and additional energy if applicable, during the occurrence of scheduled or unscheduled outages, from its back up facility and/or third party in accordance with Sec. 2 of the PSA. For the portion of the contract energy and additional energy provided by KEGI from the Generator Set, CAMELCO

¹ Annex "E" of the application

shall pay the Contract Energy Fee in the form of Load Curtailment Adjustment in lieu of the Capacity Fee;

Salient Features of the PSA.

Term. The PSA shall have a term or contract period of ten (10) years from effective from the Closing Date. Closing Date means the time KEGI is obligated to deliver the contract capacity and contract energy to CAMELCO, provided, these conditions are satisfied: (a) Receipt of KEGI of a certificate executed by the corporate secretary of CAMELCO adopting the resolutions to (1) authorize CAMELCO to execute, enter into, and deliver the PSA and performance of its obligation under the PSA; and (2) Designating the person authorize to execute the PSA in behalf of CAMELCO; (b) Receipt by KEGI of the Security Deposit pursuant to Sec. 3.2 of the PSA; (c) Receipt of KEGI of the location of the Generator Set which must be at least one (1) hectare, including the title, contract of lease duly registered with the Register of Deeds and other evidence of ownership; (d) Receipt by KEGI, of all permits, licenses, and other requirements for the operation of the power generation facility in the area of operation of CAMELCO; and (e) Receipt from the Commission of its approval of the PSA (including Provisional Authority);

Contract Energy. KEGI shall deliver the Contract Capacity and Contract Energy at the Metering Points² at the Rates Schedule³ specified under the PSA. On the other hand, to make available for delivery, the contract energy shall be based on the schedule of Contract Energy attached to the PSA;

20. **Rates Schedule.** The basic components of the Electricity Fee is as follows:

Particulars	Rates
Capacity Fee, PhP/kW/month	1,458
Fixed O&M Fee, PhP/kW/month	314.00
Variable O&M Fee, PhP/kWh	1.368.50
Billing Capacity kW	4000
Operating Schedule	8 hours a day

² Annex "A" of the PSA

³ Annex "B" of the PSA

Contract Energy Fee per month

$$\text{CEF} = \text{FC} + \text{VC}$$

$$\text{FC} = (\text{CF} + \text{FOM} \times \text{IFf}) \times \text{BC}$$

$$\text{VC} = (\text{VOM} \times \text{IFv}) \times \text{ED}$$

Where:

BC = Billing Capacity in kW

FC = Fixed charge per month in PhP in kW

VC = Variable charge per month in PhP in kW

ED = Energy delivered in kWh

CEF = Contract Energy Fee in PhP

VOM = Variable Operating & Maintenance Fee per month in PhP in kWh

CF = Capacity Fee in PhP per month in kW

FOM = Fixed Operating & Maintenance Fee per month in PhP in kW

IFf = Inflation factor fixed

IFv = Inflation factor variable

FL = Fuel and Lube oil in PhP/kWh (pass through subject to heat rate schedule)

Inflation factor

Inflation factor for fixed O & M:

$$IF (f) = 1 (P CPI m / P CPI b)$$

Inflation factor for variable O & M

$$IF (v) = 0.0075 + 0.1445 x (P CPI m/ P CPI b) + 0.8480 x (P EX m/ P EX b)$$

Where:

P CPI m = Philippine CPI of the current billing month

P CPI b = Philippine CPI on the effectivity month of the PSA

P EX m = Peso to Euro exchange rate at the end of the current billing month

P Ex b = Peso to Euro exchange rate on the effectivity month of the PSA

Consumer Price Index

P CPI m = 169.80 BSP Jan 2012

P CPI b = 169.80 BSP Jan 2012

Peso Exchange Rate

P EX m = 59.0115 PhP/Euro BSP 2012

P EX b = 59.0115 PhP/Euro BSP 2012

Computation of Fuel and Lube Oil Rate

$$FL = HFOCR \times \text{Actual Heavy Fuel cost per liter}$$

Where:

$$HFOCR = \text{Heavy fuel oil consumption rate in liters/kWh}$$

$$= 0.026L/kWh$$

Testing and commissioning fee

Only actual fuel cost and variable Operating and Maintenance expenses.

Start-up fee

Actual cost of additional start-up and shutdown with documents.

Additional Energy Fee in excess of eight (8) running hours per day

$$AEF = AC \times BC \times h + (VOM + FL) \times EE$$

Where:

$$AEF = \text{Additional Energy Fee in PhP}$$

$$AC = \text{Additional cost (0.78 PhP/kw/h) in excess of eight (8) running hours per day}$$

$$BC = \text{Billing Capacity}$$

$$H = \text{Excess hours per day}$$

$$VOM = \text{Variable O \& M}$$

FL = Fuel and lube oil

EE = Energy delivered in excess of eight hours

Impact on CAMELCO's Overall Generation Rate

The determination of the generation rate impact is based on the blended generation rates of CAMELCO, subject to the condition that the CSEE with NPC will be renewed in the subsequent years:

Current Generation Mix without KEGI:

Average Monthly kWh Purchased From PSALM	1,373,041.60 kWh
Average Rate of PSALM	PhP3.11 kWh
Amount	PhP4,270,159.37
Average Monthly kWh Purchased From TMI	933,333 kWh
Average Rate of TMI	PhP14.50 kWh
Amount	PhP13,533,328.50
Total kWh Purchased From PSALM and TMI	2,306,374.60 kWh
Total Generation Cost	PhP17,803,487.87
Average Generation Mix Cost per kWh	PhP7.72

Proposed Generation Mix with KEGI Replacing TMI

Contracted Energy	933,333.00 kWh
Average Rate	PhP14.40 kWh
Amount	PhP13,439,995.20
Total kWh Purchased From PSALM and KEGI	2,306,374.60
Total Generation Cost	PhP 17,710,154.57
Average Generation Mix Cost per kWh	PhP7.68
kWh Cost Before KEGI	PhP7.72 kWh
kWh Cost With KEGI	PhP7.68kWh

Average reduction in generation rate is PhP0.04 per kWh; and

21. Thus, they pray that:

- a. Upon filing of the instant application, and pending hearing thereon, an Order be issued: (1) granting provisional authority for the urgent implementation of the provisions of the PSA so that KEGI can immediately start with the Engineering, Procurement and Construction activities of the Generation Plant pending review and evaluation by the Commission of the final authority on the generation rate applied for to meet closing date; and
- b. After hearing after due notice, publication and hearing, the proposed generation rate subject matter of this application be approved as follows:

Particulars	Rates
Capacity Fee, PhP/kW/month	1,458.00
Fixed O&M Fee, PhP/kW/month	314.54
Variable O&M Fee, PhP/kWh	1.3368
Fuel and Lube Oil Rate	Pass-through cost based on PhP0.26 li/kWh

Finding the said application to be sufficient in form and in substance with the required fees having been paid, the same is hereby set for jurisdictional hearing, expository presentation, pre-trial conference and evidentiary hearing on **November 28, 2014 (Friday) at two o'clock in the afternoon (2:00 P.M.) at CAMELCO's Principal Office, Pandan, Mambajao, Camiguin.**

CAMELCO and KEGI 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 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.

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 Office of the Provincial Governor of Camiguin and the Mayors of the Municipalities within the franchise area of CAMELCO for the appropriate posting thereof on their respective bulletin boards.

CAMELCO and KEGI 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, CAMELCO and KEGI 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.

CAMELCO, KEGI 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 CAMELCO and KEGI 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, CAMELCO and KEGI 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, November 3, 2014.

FOR AND BY AUTHORITY
OF THE COMMISSION:


ZENAIDA G. CRUZ-DUCUT
Chairperson *gud*

Copy Furnished:

1. **Atty. Eleuterio Diao**
Counsel for CAMELCO
1906 Bontong, Camaman-an, Cagayan de Oro City
2. **King Energy Generation, Inc. (KEGI)**
G/F Divine Savior Building,
102 Juan Luna St., Davao City
3. **Camiguin Electric Cooperative, Inc. (CAMELCO)**
Pandan, Mambajao, Camiguin
4. **The Office of the Solicitor General**
134 Amorsolo Street, Legaspi Village
Makati City, Metro Manila
5. **The Commission on Audit**
Commonwealth Avenue, Quezon City
6. **The Senate Committee on Energy**
GSIS Building, Roxas Boulevard, Pasay City
7. **The House Committee on Energy**
Batasan Hills, Quezon City
8. **Philippine Chamber of Commerce and Industry (PCCI)**
3rd Floor, ECC Building, Sen. Gil Puyat Ave., Makati City
9. **Office of the Governor**
Province of Camiguin
10. **Office of the Municipal Mayor**
Mambajao, Camiguin
11. **Office of the Municipal Mayor**
Mahinog, Camiguin
12. **Office of the Municipal Mayor**
Guinsiliban, Camiguin
13. **Office of the Municipal Mayor**
Sagay, Camiguin
14. **Office of the Municipal Mayor**
Catarman, Camiguin
15. **National Association of Electricity Consumers for Reforms, Inc. (NASECORE)**
No. 1 Beta Bayview homes, San Jose, Tacloban City