

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



IN THE MATTER OF THE APPLICATION FOR AUTHORIZATION TO PROVIDE ELECTRICITY SERVICE IN BALUT ISLAND, SARANGANI, DAVAO OCCIDENTAL, AS QUALIFIED THIRD PARTY (QTP) AND FOR ISSUANCE OF THE CORRESPONDING AUTHORITY TO OPERATE (ATO) AND FOR APPROVAL OF THE QTP SERVICE AND SUBSIDY CONTRACT (QSSC) WITH NATIONAL POWER CORPORATION (NPC), WITH PRAYER FOR ISSUANCE OF A PROVISIONAL AUTHORITY,

ERC CASE NO. 2015-199 RC

**POWERSOURCE PHILIPPINES,
INC. (PSPI),**

Applicant.

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DOCKETED
Date: FEB 26 2016
By: [Signature]

NOTICE OF PUBLIC HEARING

TO ALL INTERESTED PARTIES:

Notice is hereby given that on 11 November 2015, Power Source Philippines, Inc. (PSPI) filed an Application for authorization to provide electricity service in Balut Island, Sarangani, Davao Occidental as a Qualified Third Party (QTP), with request for the issuance of the corresponding Authority to Operate (ATO), and for approval of the QTP Service and Subsidy Contract (QSSC) with the National Power Corporation (NPC), with prayer for the issuance of provisional authority.

In support of said Application, PSPI alleged, among others, the following:

1. This is an Application for authorization to provide electricity service with request for the issuance of the corresponding Authority to Operate (ATO) as a Qualified Third Party (QTP) in Balut Island, Sarangani, Davao Occidental, filed before this Commission pursuant to and by virtue of the Rules for the Regulation of the Qualified Third Parties Performing Missionary Electrification in Areas Declared Unviable by the Department of Energy (ERC QTP Guidelines) approved in ERC Resolution No. 22, Series of 2006;
2. The instant Application likewise seeks the approval of the QTP Service and Subsidy Contract (QSSC)¹ dated 09 October 2015, executed by and between PSPI and the NPC, including the Full Cost Recovery Rate (FCRR) provided therein. A copy of the QSSC is attached to the Application as Annex "A";
3. PSPI is a corporation duly organized and existing under the laws of the Republic of the Philippines with its principal office at the 10th Floor, The Athenaeum Building, 160 Leviste Street, Salcedo Village, Makati City, Metro Manila. Copies of Applicant's relevant corporate documentation such as the Certificate of Registration with the Securities and Exchange Commission (SEC), Articles of Incorporation, latest Audited Financial Statements and latest General Information Sheet are attached to the Application as Annexes "B", "C", "D", and "E" respectively;
4. Applicant has the full legal, financial and technical capacity to operate as a QTP. At present, the Department of Energy (DOE) still has to issue the Certificate of Endorsement stating that Applicant was prequalified in accordance with DOE Circular No. 2004-06-006 and DOE Circular 2005-12-011. A copy of the Certificate of Endorsement will be attached to the Application as Annex "F" once it is released by the DOE;
5. PSPI may be served with orders or other legal processes through the undersigned counsel;

¹ The QTP Service and Subsidy Contract (QSSC) is the resulting legal document after combining the provisions of the QTP Service Contract (QSC) and Subsidy Disbursement Agreement (SDA).

COMPLIANCE WITH PRE-FILING REQUIREMENTS

6. In compliance with Rule 6 of the ERC Rules of Practice and Procedure, approved by the Commission on 22 June 2006 as Resolution No. 38, Series of 2005, PSPI has furnished the Sangguniang Panlalawigan of the Municipality of Sarangani with copies of the Application with all its annexes. Copies of the certifications from the Presiding Officer or Secretary of the Sangguniang Panlalawigan of the Municipality of Sarangani, or their duly authorized representatives, attesting to the fact of such service, are attached as Annex "G" of the Application;
7. Furthermore, PSPI has caused the publication of the present Application in its entirety in a newspaper of general circulation within the Municipality of Sarangani. Copies of the corresponding Affidavit of Publication and the newspaper are attached to the Application as Annexes "H" and "H-1", respectively;

STATEMENT OF FACTS

8. Under Section 59 of Republic Act No. 9136 or the Electric Power Industry Reform Act of 2001 (EPIRA) and Rule 14 of its Implementing Rules and Regulations (IRR), the provision of electric service in remote and unviable areas that a distribution utility is unable to service shall be opened to QTP;
9. As stable and reliable supply of power is essential to economic growth and sustainability, the electricity service provided by a QTP is envisaged to spur development in an economically unviable area and, in the long term, elevate such area to a level of viability. However, the provision of electricity service in unviable areas is expectedly costly and not economically feasible. It would not be reasonable to charge consumers in rural and remote areas high cost of providing such service;
10. In accordance with Section 70 of the EPIRA, the entry of QTPs to stimulate economic growth in unviable areas is made feasible by a subsidy sourced from the Universal Charge for Missionary Electrification (UC-ME). This enables a QTP to operate viably

while charging its consumers at rates that are reasonably acceptable in the area, as may be determined by the Commission;

11. Pursuant to Sections 59 and 70 of the EPIRA and its IRR, the DOE issued Department Circular No. 2004-06-006, which prescribes the qualification criteria for QTPs, and Department Circular 2005-12-011, which prescribes the guidelines for the participation of QTPs for provision of electric service in remote and unviable areas;
12. At the time when the regulatory and administrative framework for QTP projects, including mechanisms for the availment of UC-ME subsidy by QTPs, were still being developed, Applicant already commenced its operations as a QTP in Barangay Rio Tuba, Bataraza, Palawan (Rio Tuba) and was about to begin its operations in Malapascua Island, Barangay Logon, Daan Bantayan, Cebu;
13. PSPI is a pioneer QTP having been issued the very first Authority to Operate as a QTP in the entire country for its Rio Tuba electrification project. This exemplifies the successful economic upliftment of a remote and unviable area through the entry of a QTP;
14. **The QTP Service Area.** Balut Island, located in the Municipality of Sarangani, Davao Occidental (QTP Service Area) is a remote and unviable area within the franchise area of Davao del Sur Electric Cooperative, Inc. (DASURECO);
 - 14.1. The QTP Service Area is located about 13 kilometers (8.1 mi) from mainland Mindanao, separated by the Sarangani Strait. Balut, Sarangani and Olanivan Islands make up the island group known as the Sarangani Islands. The group comprises the Municipality of Sarangani of Davao Occidental. For Balut island, the total land area is 6,604 hectares;

The Island is composed of eight barangays namely; Mabila – 1,160 HH, Tinina – 385 HH, Tugal – 209 HH, Gomtago – 167 HH, Batuganding – 431 HH, Konel – 446 HH, Lipol – 455 HH, and Tagen – 317 HH and the total

potential HH is 3,570. Mabila is the town's center for commerce and the local government;

14.2. Balut is served by NPC-SPUG under DASURECO franchise. Electricity is currently available for 8 hours only from 4 pm to 12 midnight. The power plant is in good condition with a total capacity of 320 kW (2 x 160 kW). Mabila, Batuganding and Tugal are electrified barangays while the residents of the other barangays are using solar panels and small generators for their electricity. There is an existing distribution system in Mabila, Tugal and Batuganding. The distribution lines are still in good condition and can be extended for the electrification of Konel and Lipol. The Electric Cooperative has no plans of extending additional lines to the remaining 5 barangays nor electrify Sarangani;

15. **Selection of Applicant as Service Provider.** DASURECO sought the participation of the private sector to improve the quality, operating hours of the electricity service and extend electrification in said barangays. On 9 June 2014, Applicant submitted to DOE its Expression of Interest to be the QTP in Balut Island;

16.

16.1. Having met the qualification criteria, the DOE informed the Applicant on 26 June 2014 to submit its proposal within forty-five (45) days or no later than 22 August 2014. In accordance with DOE's instruction, Applicant submitted its proposal on 20 August 2014;

16.2. Subsequently, the DOE issued Publication Notice No. 2014-10-0003 dated 25 September 2014 to inform interested parties to submit their counter-proposals for Balut Island on or before 25 October 2014. Since no entity submitted a counter-proposal, DOE selected Applicant as the QTP to provide electricity service in Balut Island;

17. **Declaration of QTP Service Area as a Remote & Unviable Area.** On 7 April 2014, the DOE issued Publication No. 2014-04-0001, declaring as remote and unviable and thus open for QTP Program the following barangays in Balut and Sarangani Islands: Mabila, Batuganding, Tugal, Konel, Lipol, Gomtago, Tinina, Tagen, Laker Island, Camahual, Patuco and Camalig. A copy of

said DOE Publication is attached hereto as Annex “J” of the Application;

- 17.1. As a result of said declaration, DASURECO issued Resolution No. 50, Series of 2014, dated 8 March 2014, formally waiving its right to provide service in the QTP Service Area. A copy of the said Resolution is attached to the Application as **Annex “K”** ;
 - 17.2. On 27 May 2015, DASURECO and Applicant executed a Waiver Agreement, whereby DASURECO waived in favor of Applicant the right to provide electricity service in the aforesaid area. A copy of the Waiver Agreement is attached to the Application as **Annex “L”**;
18. **QTP Operations.** Currently, three (3) of the eight (8) barangays located on Balut Island are served at least in part by power generated by NPC-SPUG’s diesel generating plant through distribution lines and metering operated by DASURECO. Electricity is currently available for eight (8) hours only from 4pm to 12 midnight. The power plant is in good condition with a total capacity of 320 kW (2 x 160 kW) commissioned in 1997. Presently, however, DASURECO does not have plans of extending additional lines to the remaining five (5) barangays nor electrify the other island, Sarangani;
- 18.1. Applicant will provide twenty four hour electricity service to at least five (5) barangays and solar home systems to the remaining three (3) isolated and dispersed barangays. The community population of an estimated 2,701 households will initially represent significant sales of around 638,581 kWh;
 - 18.2. QTP operations shall be for a period of twenty (20) years in accordance with the Waiver Agreement with DASURECO and the QTP Service and Subsidy Agreement with NPC;
 - 18.3. Applicant’s project has been a realization of the goal of the QTP program to stimulate economic progress in remote and unviable areas through electrification. The beneficial impact of stable and reliable electricity service to the economy of the local community in the QTP Service Area as well as the daily lives of the consumers cannot be overstated;

**SIGNIFICANT ASPECTS OF THE PROJECT
AND THE QTP SERVICE AND SUBSIDY CONTRACT**

19. Under the QSSC, PSPI shall provide 24-hour electricity service in the QTP Service Area for a term of twenty (20) years. In order to ensure that PSPI will be able to viably serve the QTP Service Area, it may be allowed to avail of the UC-ME Subsidy;
 - 19.1. **The Generation Facilities.** Due to small loads in off-peak hours, Applicant will install a modular, flexible and highly redundant diesel generating plant based on three (3) units of small high speed gensets, 1 x 100 kW and 2 x 120 kW. This ensures modest capital cost and maximum flexibility in the early years of operations. As the load on the island grows, Applicant may add 1 x 350 kW to the installed capacity on the third year;
 - 19.2. The relevant Certificate of Non-Coverage (CNC) to be issued by the Department of Environment and Natural Resources (DENR) and Certificate of Compliance (COC) to be issued by the Commission covering the diesel generating units will be obtained prior to Commercial Operations Date;
 - 19.3. Applicant intends to comply with Renewable Portfolio Standards and source a certain percentage of its power supply from Solar Home Systems for the three (3) barangays in the QTP Service Area as indicated in the QSSC;
 - 19.4. **Availment of UC-ME Subsidy.** The QSSC provides the terms and conditions governing Applicant's availment of the UC-ME Subsidy. For the provision of electricity service, Applicant shall charge and collect from its end users the SARR. Should the FCRR be higher than the SARR, Applicant shall be entitled to recover the difference from the UC-ME Subsidy through the mechanism provided in the QSSC;
20. **Financial Plans/Sources of Funds.** As QTP, this project shall be funded by the subsidy drawn from the UC-ME as disbursed by the NPC and the SARR collected from the end-

users. A detailed discussion of the funding/financial aspects of the project is attached as Annex "M" of the Application;

20.1. Project Cost. The total capital cost is Thirty-Three Million Sixty-Eight Thousand, Five Hundred Seventeen Pesos (PhP33,068,517.00), consisting of the costs of the plant equipment, buildings, capitalized expenses and working capital for initial stocks of fuels and lubes and mobilization during plant trials and personnel training. A summary of the project cost components is contained in **Annex "N"**;

20.2. Debt/Equity Ratio. The debt-equity ratio for the capital cost of the Generation Facilities shall be 67:33;

20.3. Computation of Return on Investment/Weighted Average Cost of Capital. The Weighted Average Cost of Capital (WACC) for the project is 11% p.a. This was obtained considering an interest of 9.5% p.a. on debt capital;

20.4. The minimum desired return for equity capital for the **project** and the cost of debt capital are placed at 14.3% p.a. and 9.5% p.a., respectively, to reflect the significantly higher risks associated with providing electricity service in a remote and unelectrified rural community without an offtake guaranteed by a contractual counter-party. A computation of the above WACC is contained in **Annex "O"**;

21. Purchased Power Rate. The Full Cost Recovery Rate ("FCRR") consists of a levelized base rate of 37.14/kWh, which shall be automatically adjusted for each billing period based on Philippine and US consumer price indices as well as actual fuel costs, in accordance with the adjustment mechanisms in the QSSC. In accordance with the ERC QTP Guidelines, Applicant shall charge and collect from the end-users SARR. Should the FCRR be higher than the SARR, Applicant shall be entitled to recover the difference from the UC-ME Subsidy. A detailed discussion on the FCRR, including its breakdown and the rationale supporting the indexation, is attached to the Application as Annex "P";

- 21.1. **Breakdown of the FCRR.** The FCRR reflects twenty (20) years of operations and use of the WACC of 11% as discounting factor for all costs and generated electricity. A sample computation of the FCRR and the ME Subsidy requirement is attached to the Application as **Annex “Q”**;
22. **Cash Flow.**
- 22.1. **Initial Costs, Operating and Maintenance Expenses.** The initial capital cost for the project consists of diesel plant costs amounting to Thirty-Three Million Sixty-Eight Thousand, Five Hundred Seventeen Pesos (PhP33,068,517.00). The capital costs for the first five (5) years, as well as the breakdown of the operating and maintenance expenses for the twenty (20) year term of the QSSC are shown in **Annex “R”**;
23. **Projected Demand.** Considering the nature of the project, there is no minimum energy off-take, as the sale of power is based on actual energy consumed by each end-user consumer. The FCRR is determined based on an assumed annual increase in actual energy demand of four percent (3.5%). A detailed discussion on the projected demand is contained in Annex “S.” A survey study was commissioned by PSPI on the QTP Service Area. The results of the survey were considered as and used as the assumption for the load demand and load growth in the Financial Model. The survey summary report is attached to the Application as Annex “T”;
24. **Procurement of Fuel.** Applicant is sourcing and will source its future diesel fuel supply from potential suppliers willing to deliver fuel to the site. Applicant will procure fuel from the least expensive supplier should additional suppliers become available. Applicant will source its biomass fuel from local farmers and will develop its own plantation to produce such fuel.

RATE IMPLICATIONS OF THE QTP SERVICE
AND SUBSIDY CONTRACT

25. The grant of an Authority to Operate and the approval of the QSSC, along with the corresponding subsidy support, will enable PSPI to operate viably and, at the same time, charge a lower tariff on its customers in the QTP Service Area. In the absence of an ERC-approved SARR, the tariff to be charged by it shall be equivalent to the ERC-approved retail rate of DASURECO, in accordance with Section II, Article IV of the ERC QTP Guidelines.

The following table shows the impact of the QSSC on the electricity rates:

		March 2015 Billing	March 2015 Billing	
		DASURECO - BALUT (SAGR)	DASURECO- BALUT (Using NPC TCGR)	PSPI- BALUT QTP (FCRR)
Generation Charges:		4.8600	31.0000	
	Generation System Charge	4.8024	31.0000	
	GRAM	0.0536		
	FCA			
	Forex	0.004		
System Loss Charge		0.6313	0.6313	
Distribution Charges:		0.5782	0.5782	
	Demand Charge			
	Distribution System Charge	0.5782	0.5782	
Supply Charges:		0.6001	0.6001	
	Retail Customer Charge			
	Supply System Charge	0.6001	0.6001	
Metering Charges:		5.4326	5.4326	
	Retail Customer Charge	5.0000	5.0000	
	Metering System Charge	0.4326	0.4326	
Members' Contribution for CAPEX		0.2904	0.2904	
Universal Charges:		0.3524	0.3524	
	Missionary Electrification - SPUG	0.1561	0.1561	
	Missionary Electrification - RED CI			
	Environmental Charge	0.0025	0.0025	

	NPC Stranded Contract Cost	0.1938	0.1938	
FIT ALL (Renewable)		0.0406	0.0406	
Other Charges:		-0.0995	-0.0995	
	Lifeline Rate	0.1181	0.1181	
	Power Act Reduction			
	Senior Citizen Subsidy	0.0005	0.0005	
	PPA Refund	-0.2181	-0.2181	
Effective Rate		12.6861	38.8261	37.14

* Subject to periodic adjustments based on consumer price indices, foreign exchange rate, and actual costs.

** In the absence of an ERC-approved SARR, the retail rate of DASURECO shall be applied. Once the ERC approves an SARR, the SARR shall apply.

26. The subsidy component necessary for the continued provision of electricity supply that will sustain the economic growth of the QTP Service Area will have a reduction of Php1.6861/kWh on the Universal Charge;
27. Applicant respectfully submits that the aforementioned amount is more than reasonable considering the 24-hour, enterprise level service provided under the QSSC that directly results in the significant economic upliftment and improvement in the quality of life in the QTP Service Area beyond anything possible in the traditional 6 to 12 hour rural electrification systems;

**ARGUMENTS IN SUPPORT OF
REQUEST FOR INTERIM RELIEF & PROVISIONAL
AUTHORITY (PA) TO OPERATE IN THE QTP AREA**

28. Rule 14 of the Commission's Rules of Practice and Procedure authorizes the issuance of a PA and/or an interim relief prior to a final decision, provided that the facts and circumstances warrant the issuance thereof;
29. In the case of PSPI, it must be noted that the PA is necessary for the execution of its agreement with NPC which will embody the seamless phase-in of its operation, and the eventual phase-out of NPC's generating function, in the QTP area;
30. Furthermore, the PA will be submitted by PSPI to its prospective lenders as a requirement for the grant of loans, necessary to finance the project;
31. Moreover, it must be emphasized that PSPI has already secured offers from third parties for the lease of the rights to the

generation and distribution facilities for the project. Applicant is, therefore, constrained to request for the issuance of the PA before the expiration of the aforesaid offers;

32. In the matter of interim relief, PSPI is seeking to collect a lower rate through the Subsidized Approved Retail Rate (SARR) instead of the Full Cost Recovery Rate (FCRR) as ordered by the ERC in consideration of the limited paying capacity of its consumers. The electrification of the QTP Service Area will not be possible if consumers were charged at true cost;
33. Finally, the success of this project with the regulatory imprimatur of this Commission will pave way for further investment by PSPI in more projects designed to spur economic growth in remote and unviable areas through the provision of a 24-hour reliable electricity service. Applicant's interest in other project sites will be dependent on the success of the present Application, particularly on the availment of the necessary subsidy support under the QTP program. With such support, PSPI looks forward to replicating the success of this project in other areas;

PRAYER

34. PSPI prays that, at the soonest possible time, the Commission grants it provisional and interim relief as follows:
 - 1.1. Authority to Operate as a Qualified Third Party under the ERC QTP Guidelines;
 - 1.2. A Provisional Authority to Operate in the QTP Area be immediately issued in its favor pending ERC Resolution;
 - 1.3. The QTP Service Contract, including the Full Cost Recovery Rate therein, be approved;
 - 1.4. Authority to charge its customers a tariff equivalent to the ERC-approved retail rate of DASURECO, in accordance with Section II, Article IV of the ERC QTP Guidelines; and

- 1.5. Permission to recover from the UC-ME Subsidy the difference between the FCRR and rate charged by it to its consumers; and to this end, NPC be directed to release to PSPI such subsidy in accordance with the terms of the QTP Service Contract.

The Commission has set the Application for jurisdictional hearing, expository presentation, pre-trial conference and evidentiary hearing on **29 March 2016 (Tuesday) at ten o'clock in the morning (10:00 A.M.) at the Municipal Gymnasium, Balut Island, Sarangani, Davao Occidental.**

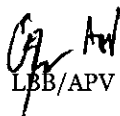
All persons who have an interest in the subject matter of the proceeding may become a party by filing, at least five (5) days prior to the initial hearing and subject to the requirements in the ERC's Rules of Practice and Procedure, a verified petition with the Commission giving the docket number and title of the proceeding and stating: (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 proceeding may file their opposition to the Application or comment thereon at any stage of the proceeding before the Applicant concludes the presentation of its evidence. No particular form of opposition or comment is required, but the document, letter or writing should contain the name and address of such person and a concise statement of the opposition or comment and the grounds relied upon.

All such persons who wish to have a copy of the Application may request from the Applicant that they be furnished with the same, prior to the date of the initial hearing. The Applicant 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 Chairman, **JOSE VICENTE B. SALAZAR**, and the Honorable Commissioners, **ALFREDO J. NON**, **JOSEFINA PATRICIA A. MAGPALE-ASIRIT** and **GERONIMO D. STA. ANA**, **Energy Regulatory Commission**, this 22nd day of February 2016 at Pasig City.


ATTY. NATHAN J. MARASIGAN
Chief of Staff
Office of the Chairman and CEO


LBB/APV