

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



IN THE MATTER OF THE  
APPLICATION FOR THE APPROVAL  
OF THE POWER SUPPLY  
AGREEMENT BETWEEN MISAMIS  
OCCIDENTAL I ELECTRIC  
COOPERATIVE, INC. (MOELCI I) AND  
KING ENERGY GENERATION, INC.  
(KEGI) WITH MOTION FOR THE  
ISSUANCE OF PROVISIONAL  
AUTHORITY

ERC CASE NO. 2014-077 RC

MISAMIS OCCIDENTAL I ELECTRIC  
COOPERATIVE, INC. (MOELCI I) AND  
KING ENERGY GENERATION, INC.  
(KEGI),

DOCKETED  
Date: JUL 08 2014  
By: *[Signature]*

Applicants.

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**NOTICE OF PUBLIC HEARING**

**TO ALL INTERESTED PARTIES:**

Notice is hereby given that on June 6, 2014, Misamis Occidental I Electric Cooperative, Inc. (MOELCI I) filed an application for the approval of its Power Supply Agreement (PSA) with King Energy Generation, Inc. (KEGI), with motion for the issuance of provisional authority.

In the said application, MOELCI I, alleged, among others, that:

1. It is an electric cooperative duly organized and existing under and by virtue of Presidential Decree No. 269 (PD No. 269), as amended, otherwise known as the National Electrification Administration Decree, with principal office at Magcamiguing, Calamba, Misamis Occidental;

2. It is the exclusive franchise holder issued by the National Electrification Administration (NEA) to operate an electric light and power distribution service in the City of Oroquieta and the Municipalities of Aloran, Lopez Jaena, Plaridel, Calamba, Baliangao, Sapang Dalaga and Concepcion, all in the Province of Misamis Occidental;
3. 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;
4. It is filing the instant Application for the 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. A copy of the PSA is attached to the instant application;

**COMPLIANCE WITH THE PRE-FILING REQUIREMENTS  
RULE 6, ERC RULES**

5. In compliance with Rule 6 of the Commission's Rules of Practice and Procedure (ERCPP), It has furnished the legislative bodies of each of the local government units where its principally operates a copy of the instant application with all its annexes and accompanying documents;
6. It caused the publication of the present application in its entirety in a newspaper of general circulation within the Franchise Area;

**STATEMENT OF THE FACTS**

7. There exists a Mindanao-wide power supply shortage. This has resulted in significant power interruptions and rotating brownouts of several hours, which has been felt within its franchise area;
8. This situation is bound to worsen because of the mandate under Republic Act No. 9136 (Electric Power Industry Reform Act of 2001 or EPIRA) to privatize National Power Corporation (NPC) generation assets and to prohibit the same from investing in new generation capacity;

9. It faces an aggravated power supply deficiency situation. In the recent Contract for the Supply has Electric Energy (CSEE) with Power Sector Assets and Liabilities Management Corporation (PSALM), the latter committed significantly reduced average contract energy of 2,329 MWh/month for the period December 26 2012 to December 25, 2016. This new average contract energy is an alarming thirty percent (30%) reduction in the power supplied to it by PSALM;
10. Furthermore, PSALM had confirmed that it does not have sufficient capacity to supply its additional power requirements. PSALM cannot supply beyond the contracted energy and equivalent demand stipulated in the recent CSEE;
11. The energy requirement within its franchise area is expected to significantly increase in the future. A copy of its Historical and Forecasted Energy Purchase and Demand is attached to the instant application;
12. Its existing contracted demand from Therma Marine Inc. (TMI) is 2,000 kW. This is far from being sufficient to meet the energy requirement of its customers. A copy of its Distribution Development Plan is attached to the instant application;
13. While the power shortage continues to press in the island of Mindanao, there exists a scarcity of electricity suppliers. Accordingly, it was impelled to execute a contract for power supply with a generator of a proven track record;
14. In order to create a viable demand for additional energy, It, together with and Misamis Occidental II Electric Cooperative, Inc. MOELCI II decided to pool their requirements. The substantial demand for energy had KEGI convinced of the viability of constructing a power plant;
15. In turn, it agreed to procure additional energy from KEGI, hence the instant PSA;
16. The instant PSA is consistent with the Power Development Plan (PDP) of the Department of Energy (DOE) for the "very reason that the said production capacity is within the its Distribution Development Plan". A copy of the Certification is attached to the instant application;

**THE POWER SUPPLY AGREEMENT  
MATERIAL PROVISIONS AND RELATED INFORMATION**

17. **Executive Summary.** KEGI shall supply it electricity, with a contract demand of 3.76 MW. Under the PSA, KEGI has the option, to source an alternative supply from its own back-up facility and/or any third party to supply all or a part the Contract Energy. On the other hand, it has the option to have its unused contracted energy re-marketed (sold) to other power customer. A copy of the Executive Summary is attached to the instant application;
18. **Plant Description.** KEGI will be constructing a 15.6 MW Power Plant in Brgy. Map-an, Panaon, Misamis Occidental. A copy of the General Plan Description is attached to the instant application;
19. **Term.** The PSA shall remain in force and effect for a period of ten (10) years counted from the Closing Date, defined in Schedule 1 of the PSA;
20. **Rates Schedule.** The contract rate is specified in Annex "B" of the PSA;
21. The Contract Energy Fee (CEF) shall be composed of the Fixed Charge (FC) and the Variable Charge (VC).

$$\underline{\text{CEF}} = \underline{\text{Contract Energy Fee in Php}} = \text{FC} + \text{VC}$$

$$\underline{\text{FC}} = \underline{\text{Fixed Charge per month in Php}} \\ = (\text{CF} + \text{FOM} \times \text{IFf}) \times \text{BC}$$

$$\begin{aligned} \text{CF} &= \text{Capacity Fee} = \text{PhP } 1,273/\text{kW}/\text{month} \\ \text{FOM} &= \text{Fixed O\&M Fee} = \text{PhP } 188.54/\text{kW}/\text{month} \\ \text{IFf} &= \text{Inflation Factor fixed} = \text{P CPI m} / \text{P CPI b} \\ \text{P CPI m} &= \text{Philippine CPI of the current billing month} \\ \text{P CPI b} &= \text{Philippine CPI of the effectivity month of the PSA} \\ \text{BC} &= \text{Billing Capacity in kW} = 3,760\text{kW} \end{aligned}$$

$$\underline{\text{VC}} = \underline{\text{Variable Charge per month in PhP}} \\ = (\text{VOM} \times \text{IFv} + \text{FL}) \times \text{ED}$$

VOM = Variable O&M per month = PhP 0.6870/kWh

IFv = Inflation Factor Variable

=  $0.0086 + 0.0129 \times (\text{PCPI}_m / \text{PCPI}_b) + 0.9784 \times (\text{PEX}_m / \text{PEX}_b)$

PCPI<sub>m</sub> = Philippine CPI of the current billing month

PCPI<sub>b</sub> = Philippine CPI of the effectivity month of the PSA

PEX<sub>m</sub> = Philippine Peso to EURO exchange rate at the end of the current billing month

PEX<sub>b</sub> = Philippine Peso to EURO exchange rate on the effectivity month of the PSA

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

ED = Energy delivered in kWh

22. The basic electricity fees shall cover an operation of up to eight (8) hours per day. In excess of that, an Additional Energy Fee (AEF) shall be charged;

AEF = Additional Energy Fee in PhP

=  $AC \times BC \times h + (\text{VOM} + \text{FL}) \times \text{FEE}$

AC = Additional Cost = .078 PhP/kWh

BC = Billing Capacity, as defined above

h = Hours in excess of eight (8) hours

VOM = Variable O&M per month as defined above

FL = Fuel and Lube oil in PhP/kWh, as defined above

EE = Energy delivered in Excess of eight (8) hours

23. **Security Deposit.** A Security Deposit at an amount equivalent to one month of the sum of the average monthly Capacity Fee, Fixed and Variable O&M Fees and Fuel Cost Recovery Fee shall be posted by it in the form of manager' check, cashier's check or cash;

24. **Return in Investment.** KEGI will be investing PhP1,326,220,069.79. This represents a project cost of PhP1,275,539,505.00 and working capital PhP50,680,564.00. Copy of the Project Detailed Cost, Projected Financial and Economic Analysis, Power Plant Economic Feasibility Study and Cash Flow, Operation and Maintenance Cost Analysis and Wartsila Proposal for Operations and Maintenance Services are attached to the instant application;

25. **Debt-Equity Ratio.** The project will be funded through loans and equity. The indicative debt-equity ratio for the Project is 70:30 representing the equity of PhP928,354,049.00 and a loan of PhP397,866,020.94;
26. **Loan Amortization.** The loan will be amortized at an interest rate of nine percent 9%;
27. **WACC.** The return on equity sought is 18%, giving the project a Weighted Average Cost of Capital (WACC) of 15.30%;
28. **Environmental Compliance Certificate (ECC).** The proposed plant was issued ECC No. ECC-R10-1310-0249 on 13 November 2013. A copy of the certificate is attached to the instant application;
29. **Rate Impact.** The average rate impact of the instant PSA on its blended cost results to a decrease in PhP0.25/kWh.

| <b>SCENARIO 1</b>      | <b>SCENARIO 2</b>                                       | <b>SCENARIO 3</b>  | Generation Cost Increase/Decrease | Rate Impact between Scenario |
|------------------------|---|--|-----------------------------------|------------------------------|
| CURRENT GENERATION MIX | REDUCED NPC/PSALM & INCREASE TMI BARGE TO COVER DEFICIT | REDUCED NPC/PSALM & MAINTAIN TMI BARGE & KEGI TO COVER DEFICIT |                                   |                              |
| (PhP/kWh)              | (PhP/kWh)   | (PhP/kWh)  | (PhP/kWh)                         | (PhP/kWh)                    |
| <b>3.61</b>            | <b>5.42</b>   | <b>5.17</b>  | <b>1.56</b>                       | <b>(0.25)</b>                |

**ALLEGATIONS IN SUPPORT OF THE PRAYER FOR PROVISIONAL AUTHORITY**

It repleads the foregoing allegations and further states that:

30. It has an urgent and pressing need for an additional generating capacity;
31. The immediate implementation of the PSA will significantly benefit its customers, reducing the power interruptions and electricity rationing that they currently have to deal with;
32. An affidavit of merit in support of the prayer for provisional authority is attached to the instant application;

33. Public interest therefore compels the immediate issuance of a provisional authority, subject to a final authority that may be subsequently issued by the Commission; and
34. Thus, it prays 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; and
  - b. After hearing on the merits, a Decision be rendered issuing a **PERMANENT APPROVAL** of the said PSA, including the rates set forth therein.

On June 10, 2014, KEGI filed a "Motion to Join King Energy Generation, Inc. as Co-applicant in the Instant Application for Approval of Power Supply Agreement with Entry of Appearance".

The Commission has set the instant application for jurisdictional hearing, expository presentation, pre-trial conference and evidentiary hearing on **July 30, 2014 (Wednesday) at ten o'clock in the morning (10:00 A.M.) at the MOELCI I's Principal Office, Magcamiguing, Calamba, Misamis 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 the 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 applicants conclude the presentation of their 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 may wish to have a copy of the application may request the applicant, prior to the date of the initial hearing, that they be furnished with copy of the application. The applicants are hereby directed to furnish all those making such request with copies of the application and its attachments, subject to reimbursement of reasonable photocopying costs. Likewise, any such person may examine the application and other pertinent records filed with the Commission during the usual office hours.

**WITNESS**, the Honorable Chairperson, **ZENAIDA G. CRUZ-DUCUT**, and the Honorable Commissioners, **ALFREDO J. NON**, **GLORIA VICTORIA C. YAP-TARUC**, and **JOSEFINA PATRICIA A. MAGPALE-ASIRIT**, Energy Regulatory Commission, this 30<sup>th</sup> day of June 2014 at Pasig City.

  
**ATTY. NOEL J. SALVANERA**  
Director III, Legal Service