

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) AND FIRST  
(1<sup>ST</sup>) SUPPLEMENTAL  
AGREEMENT (SA) BETWEEN  
TABLAS ISLAND ELECTRIC  
COOPERATIVE, INCORPORATED  
(TIELCO) AND SUNWEST WATER  
AND ELECTRIC COMPANY  
(SUWECO), WITH PRAYER FOR  
THE ISSUANCE OF PROVISIONAL  
AUTHORITY

ERC CASE NO. 2014-150 RC

TABLAS ISLAND ELECTRIC  
COOPERATIVE, INCORPORATED  
(TIELCO) AND SUNWEST WATER  
AND ELECTRIC COMPANY  
(SUWECO),

Applicants.

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DOCKED  
Date: JAN 22 2015  
By: *W*

**NOTICE OF PUBLIC HEARING**

**TO ALL INTERESTED PARTIES:**

Notice is hereby given that on October 3, 2014, Tablas Island Electric Cooperative, Incorporated (TIELCO) and Sunwest Water and Electric Company (SUWECO) filed an application for approval of their Power Supply Agreement (PSA) and First (1<sup>st</sup>) Supplemental Agreement (SA), with prayer for the issuance of provisional authority.

In the said application, TIELCO and SUWECO alleged, among others, that:

**The Applicants**

1. TIELCO is a non-stock, non-profit rural electric cooperative duly organized and existing by virtue of Presidential Decree No. 269, as amended, with principal office at Odiongan, Romblon. It is a holder of an exclusive franchise issued by the National Electrification Commission (NEC) to operate an electric light and power service in the Municipalities of Odiongan, Ferrol, Looc, Sta. Fe, Alcantara, San Agustin, Calatrava, San Andres and Sta. Maria (originally a Barangay of San Agustin), all in the Province of Romblon (Franchise Area). A copy of its Certificate of Franchise is attached to the application;
  
2. SUWECO is a corporation duly organized and existing under the Philippine laws with office address at Unit 1208 West Tower, Philippine Stock Exchange, Ortigas Center, Pasig City. Copies of its Amended Articles of Incorporation (AOI), Certificate of Filing of Amended AOI and General Information Sheet (GIS) for the year 2013 are, likewise, attached to the application;

**Nature and Scope of the Application**

3. They are jointly filing the instant application for approval of their PSA and 1<sup>st</sup> SA (Agreements) with a prayer for the issuance of provisional authority pursuant to Rules 14 and 20 (B) of the ERC Rules of Practice and Procedure, copies of which are attached to the application;
  
4. Their Agreements provide for the development of a Power Station to be operated as the principal power source for the Island Grid of Tablas:
  - a. The Power Station shall have a minimum rated capacity of 7.5 MW plus N-1 and a Guaranteed Dependable Capacity (GDC) of 7,500 kW, pursuant to Section 2.9 of the 1<sup>st</sup> SA:

Generating Unit	Fuel Type	Installed Capacity, MW	Dependable Capacity, MW
1	HFO	2.58	2.45
2	HFO	2.58	2.45
3	HFO	2.58	2.45
4	Hydro	0.72	0.58
5	Hydro	0.70	0.52
6	Hydro	0.60	0.48
7	Hydro	0.85	0.68

\* Specifications may be subject to change

- b. Since it will take some time to order, manufacture, construct, install and complete the Bunker/Hydro Hybrid Power Plant, they agreed to install an Interim Diesel Plant to address the frequent brownouts and worsening power shortage in TIELCO's franchise area. Section 2.8 of the 1<sup>st</sup> SA provides for the installation and commissioning of eight (8) units 1.1 MW Cummins Modular Diesel Engine KTA50;
4. The instant application only pertains to the Interim Diesel Plant, due to the urgency and necessity for approval of the same. They are however reserving the right to file a separate application for approval of the Bunker/Hydro Hybrid Power Plant at a later date;

**Compliance with Pre-Filing Requirements – Rule 6, ERC Rules**

5. In compliance with Rule 6 of the ERC Rules of Practice and Procedure, they have furnished the legislative bodies of each of the local government units where they principally operate with copies of the present application and all its annexes and accompanying documents. Proofs of receipt by the legislative bodies of the City of Pasig, the Municipality of Odiongan and the Province of Romblon, are attached to the application;
6. Furthermore, they have caused the publication of the present application in its entirety in a newspaper of general circulation within the franchise area. Copies of

the newspaper and corresponding affidavit of publication are, likewise, attached to the application;

### Preliminary Facts

7. Pursuant to state policy towards the privatization of power generation mandated by Republic Act No. 9136, otherwise known as the Electric Power Industry Reform Act of 2001 or the EPIRA, as early as year 2005, TIELCO conducted a Competitive Selection Process (CSP) that failed due to the continuing breach of the winning bidder;
8. This earlier contract was deemed terminated by TIELCO per its Board Resolution No. 34-2010 dated July 24, 2010. Consequently, a new CSP was approved per its Resolution No. 30-2011, a copy of which is attached to the application;
9. SUWECO was declared as a qualified bidder by TIELCO's Technical Working Group (TWG) in the new CSP, as indicated in the Evaluation Report of TIELCO's Special Pre-qualification Bids and Awards Committee (TSPBAC), a copy of which is, likewise, attached to the application;
10. SUWECO was subsequently declared as the winning bidder in this CSP, which was certified by the Department of Energy (DOE) as compliant with its Department Circular No. 2004-01-002 in its letter dated February 19, 2014. A copy of the said DOE certification letter is attached to the application;
11. Subsequently, they executed a fifteen (15)-year PSA in May 2013 wherein it was agreed that SUWECO will use a combination of Bunker C (HFO Power Plant) and Hydropower with a GDC of 7.5 MW to supply the energy requirements of TIELCO. If SUWECO will commence operation, the National Power Corporation-Small Power Utilities Group (NPC-SPUG) at Tablas Island will cease supplying power to TIELCO-Tablas, as per tripartite agreement between and among the NPC-SPUG, TIELCO and SUWECO;

12. In the meantime however, in light of the extensive period without the expected New Power Provider (NPP) as well as the economic and commercial growth in TIELCO's franchise area, the supply of power from NPC has become inadequate. This has led to average daily brownouts of four (4) to five (5) hours even with the generating facilities in Tablas Island operating at full capacity. A copy of TIELCO's Demand/Supply Scenario is, likewise, attached to the application;
13. Due to this urgent need for additional capacity in Tablas Island, they agreed to install an eight (8) MW Interim Diesel Plant to immediately address the power supply problem while the engines for the planned HFO Power Plant and the turbines for the planned Hydropower Plant are being manufactured by foreign suppliers;
14. The additional energy to be sourced from the said eight (8) MW Interim Diesel Plant is projected to alleviate the daily brownouts within TIELCO's franchise area which is currently causing substantial economic losses and severe disruptions in the day-to-day activities of its member-consumers;
15. There will be no increase in the rates currently charge to TIELCO's member-consumers as a result of the operation of the Interim Diesel Plant because electricity fees to be charged to it under the Agreements will remain to be the Subsidized Approved Generation Rate (SAGR);
16. There is however a projected increase on the Missionary Electrification Universal Charge (UC-ME) Subsidy for Tablas Island, Romblon as SUWECO's True Cost Generation Rate (TCGR) is higher than the SAGR for Tablas Island;

**Abstract of the Agreements and Related Information**

17. They desired to clarify, modify or extend the terms provided in the PSA and thus entered into a 1<sup>st</sup> SA executed on April 24, 2014;

18. **Commencement of Commercial Operations Period.** Under Section 2.6 of the 1<sup>st</sup> SA, they agreed to work together to commence the Commercial Operations Period not later than one hundred twenty (120) days for the Interim Diesel Plant, and forty-eight (48) months for the Bunker Fired Plant, from Effective Date (Target Commercial Operations Date). Failure to meet the Target Commercial Operations Date shall be governed by the provisions of Section 4.4 of the PSA;
19. **Performance Bond.** Under Section 2.3.5 of the 1<sup>st</sup> SA, the Supplier shall have furnished the Off-taker with a copy of a Performance Bond on terms and conditions acceptable to the Off-taker in the amount of Eighteen Million Pesos (PhP18,000,000.00) and shall be in effect from Effective Date until the issuance of a Joint Declaration of Commercial Operations by them;
20. **Total Electricity Fees for the Eight (8) MW Interim Diesel Plant.** The Total Electricity Fees to be paid by TIELCO for the supply of power by SUWECO shall be PhP3.400/kWh, which is the sum of the Capacity Fee (CF) and both Local and Foreign Operation and Maintenance (O&M) Fees less Prompt Payment Discount (PPD), exclusive of the Lube Oil Charge and the Fuel Charge:

$$TEF = CF + \text{Local O\&M Fee} + \text{Foreign O\&M Fee} + \text{Lube Oil Charge} + \text{Fuel Charge} - PPD$$

- a. **Capacity Fee.** The monthly Capacity Fee shall be PhP2.00/kWh of Delivered Energy per month during the entire cooperation period subject to adjustment from time to time upon agreement of the parties and approval of the Commission;
- b. **Local O&M Fee.** The monthly Local O&M Fee shall be PhP0.7000/kWh of Delivered Energy per month during the entire cooperation period subject to adjustment from time to time upon agreement of the parties and approval of the Commission;

- c. **Foreign O&M Fee.** The monthly Foreign O&M Fee shall be computed in accordance with the following formula:

$$\text{FOMF} = \text{FOMR} \times \text{DE} \times \text{CPI current} / \text{CPI base}$$

*Where:*

FOMF	=	Foreign O&M Fee
FOMR	=	Foreign O&M Rate of PhP0.7000/kWh
DE	=	Delivered Energy
CPI current	=	Consumer Price Index (CPI), as published by the National Statistics Office (NSO) applicable during the Billing Period
CPI base	=	The Philippine CPI, as published by the NSO for the month at the time of PSA signing

- d. **Lube Oil Charge.** The monthly Lube Oil Charge to be shall be computed in accordance with the following formula:

$$\begin{aligned} \text{LOC} &= \text{DE} \times \text{LOC/kWh} \\ \text{LOC/kWh} &= \text{GLOR} \times \text{ALOC} \end{aligned}$$

*Where:*

LOC	=	Lube Oil Charge
LOC/kWh	=	Lube Oil Charge per kWh
DE	=	Delivered Energy
GLOR	=	Guaranteed Lube Oil Rate of 0.001 liter/kWh
ALOC	=	Actual Lube Oil Cost, initially at PhP135.00/liter

- e. **Fuel Charge.** The monthly Fuel Charge shall be computed in accordance with the following formula:

$$\text{FC} = \text{DE} \times \text{FC/kWh}$$

$$\text{FC/kWh} = \text{GFCR} \times \text{AFC}$$

*Where:*

FC	=	Fuel Charge
FC/kWh	=	Fuel Charge per kWh
DE	=	Delivered Energy
GFCR	=	Guaranteed Fuel Consumption Rate of 0.285 liter/kWh
AFC	=	Average Actual Fuel Cost in Pesos per liter, initially at PhP47.00/liter

21. **Debt-Equity Ratio and Weighted Average Cost of Capital (WACC).** The eight (8) MW Interim Diesel Plant will be funded through loans and equity. The indicative debt-equity ratio for the project is 70:30 and the Pre-tax WACC is 11.83571%. A copy of the Loan Amortization Schedule, Asia United Bank (AUB) Indicative Loan Terms and the computation of WACC are attached to the application;
22. **Project Cost.** The total capital cost of the eight (8) MW Interim Diesel Plant is estimated at PhP224,216,151.48. A copy of its detailed breakdown is, likewise, attached to the application. Based on this estimated project cost, they were able to derive the projected CF and both Local and Foreign O&M Fees, copies of which are attached to the application;
23. **Working Capital.** The working capital allotted for sixty (60) days of operation for the eight (8) MW Interim Diesel Plant is PhP60,861,628.49. A copy of the detailed computation of the said working capital is, likewise, attached to the application;
24. **Interim Diesel Plant.** The Interim Diesel Plant will consist of eight (8) KTA50-G3 Diesel Engines. Copies of the General Plant Description, Supplemental Plant Description, Single Line Diagram of the Interim Diesel Plant, Specifications of the KTA50-G3 Diesel Engine, KTA50-G3 RP Connect Price Quotation and KTA50-G3



Bussbarr Corporation Price Quotation are attached to the application;

25. SUWECO has filed an application for the issuance of the Environmental Compliance Certificate (ECC) with the Department of Environment Natural Resources (DENR) in relation to the planned eight (8) MW Interim Diesel Plant as well as the 7.5 MW Bunker/Hydro Hybrid Power Plant. A copy of the letter from SUWECO is, likewise, attached to the application. SUWECO also has filed an application for the issuance of Certificate of Compliance (COC) with the Commission in connection with the aforementioned power plants, a copy of which is attached to the application;

**Allegations in Support of the Prayer for Provisional Authority**

26. They replead the foregoing allegations and further state, that:
- 26.1 There is a paramount relevance and urgent need for additional generating capacity in Tablas Island due to the current power supply problem, which resulted in daily brownouts. Thus, the urgent need to implement the Agreements;
- 26.2 To prevent delay in the implementation of the Agreements, a provisional authority is prayed for. An affidavit of merit in support of the prayer for provisional authority is attached to the application; and
- 26.3 Clearly, therefore, public interest compels the immediate issuance of a provisional authority, subject to any provisional or final authority that may be subsequently issued by the Commission; and

Prayer

27. Thus, they pray, that:

27.1 Upon filing of the instant application and pending hearing thereon, an Order be issued: a) granting provisional authority to them for the implementation of the provisions of their Agreements pertaining to the Interim Diesel Plant; and b) directing the NPC-SPUG to pay the difference between the approved rate and the amount billed to TIELCO; and

27.2 After hearing on the merits, a Decision be rendered: a) issuing a permanent approval of the said Agreements, including the rates set forth therein, pertaining to the Interim Diesel Plant; and b) directing the NPC-SPUG to pay the difference between the approved rate and the amount billed to TIELCO.

The Commission has set the application for initial hearing, expository presentation, pre-trial conference and evidentiary hearing on **February 18, 2015 (Wednesday) at nine o'clock in the morning (9:00 A.M.) at TIELCO's Main Office, Odiongan, Romblon.**

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 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 applicants, prior to the date of the initial hearing, that they be furnished with a 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**, and **GLORIA VICTORIA C. YAP-TARUC**, Energy Regulatory Commission, this 20<sup>th</sup> day of January, 2015 at Pasig City.

  
**ATTY. FRANCIS SATURNINO C. JUAN**  
Executive Director III