

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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D O C K E T E D
Date: **NOV 02 2015**
By: *W*

NOTICE OF PUBLIC HEARING

TO ALL INTERESTED PARTIES:

Notice is hereby given that 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 Minicipalities 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;

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, Barangay 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

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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
TOTAL	100.00	6.62

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)
OIL-BASED	16,492,986.80	89.57%	8.0208	7.6952
Supplier 1	1,436,534.92	7.80%	5.5937	
Supplier 2	483,824.37	2.63%	2.8367	

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Particulars	Projected Late 2017 Average Monthly Quantity (kWh)	Percentage	Average Rate (PhP/kWh)	Weighted Average Rate (PhP/kWh)
MC Partner	7,200,000.00	39.10%	6.62	7.15
Supplier 1	1,436,534.92	7.80%	5.5937	
Supplier 2	483,824.37	2.63%	2.8367	
Oil Based	9,292,986.80	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 (25th) 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 (25th); and c) after further proceedings, the approval be made permanent.

The Commission has set the application 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.**

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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 their presentation of 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 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 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 20th day of October, 2015 at Pasig City.


ATTY. FRANCIS SATURNINO C. JUAN
Executive Director III