

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



**IN THE MATTER OF THE
APPLICATION FOR THE
APPROVAL OF THE 1ST
AMENDMENT TO THE
ELECTRICITY SUPPLY
AGREEMENT(ESA)
BETWEEN FIRST
CATANDUANES ELECTRIC
COOPERATIVE, INC.
(FICELCO) AND SUNWEST
WATER AND ELECTRIC
COMPANY (SUWECO), WITH
PRAYER FOR THE ISSUANCE
OF PROVISIONAL
AUTHORITY**

ERC CASE NO. 2015-065 RC

**FIRST CATANDUANES
ELECTRIC COOPERATIVE,
INC. (FICELCO) AND
SUNWEST WATER AND
ELECTRIC COMPANY
(SUWECO),**

D O C K E T E D
Date: **FEB 17 2016**
By: *M*

Applicants.

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NOTICE OF PUBLIC HEARING

TO ALL INTERESTED PARTIES:

Notice is hereby given that on 31 March 2015, First Catanduanes Electric Cooperative Inc. (FICELCO) and Sunwest Water and Electric Company (SUWECO) filed an application for the approval of the 1ST Amendment of their Electric Supply Agreement (ESA) with prayer for provisional authority.

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

THE APPLICANTS

1. Applicant FICELCO is a non-stock, non-profit rural electric cooperative duly organized and existing under the laws of the Republic of the Philippines, with principal office at Marinawa, Bato, Catanduanes.
2. Applicant FICELCO is a holder of an exclusive franchise to operate an electric light and power service in the Municipalities of Bagamanoc, Baras, Bato, Caramoan, Gigmoto, Pandan, Panganiban, San Andres, San Miguel, Viga and Virac, all in the Province of Catanduanes (the Franchise Area).
3. Applicant SUWECO is a corporation duly organized and existing under Philippine laws with principal office address at Embarcadero de Legaspi, Port Area, Legazpi City. Copy of SUWECO's Amended Articles of Incorporation, Certificate of Filing of Amended Articles of Incorporation and the General Information Sheet are hereto attached as Annexes "A", "A-1" and "A-2", respectively;
4. The Parties may be served with orders and other processes of this Honorable Commission through the undersigned counsel.

NATURE AND SCOPE OF THE APPLICATION

5. The aforementioned parties are jointly filing the instant Application for the approval of the 1st AMENDMENT TO THE ESA (hereafter "1st Amendment") with a prayer for the issuance of Provisional Authority pursuant to Rules 14 and 20 (B) of the ERC Rules of Practice and Procedure. Copy of the ESA and the 1st Amendment are attached hereto as Annexes "B" and "B-1".
6. The 1st Amendment between SUWECO and FICELCO provides for new Plant Factors for the

Solong Minihydro Power Plant (MHP), Hitoma 01 MHP, Capiplan MHP and Hitoma 02 MHP which are the MHP's subject of the ESA. This is in line with the experience of SUWECO with the Solong MHP and Hitoma 01 MHP wherein it failed to reach the projected plant capacity factors due to lack of water to run the MHP's. It also provides for the installation and commissioning of additional diesel-fueled power generators to provide for the power supply requirements of FICELCO until Hitoma 02 MHP and Capiplan MHP becomes operational.

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

7. In compliance with Rule 6 of the ERC Rules of Practice and Procedure, Applicants have furnished the legislative bodies of each of the local government units where they principally operate a copy of the present Application with all its annexes and accompanying documents. Proofs of receipt by the legislative bodies of the City of Legaspi, the Province of Albay, the Municipality of Bato and the Province of Catanduanes, are attached hereto as Annexes "C", "C-1", "C-2" and "C-3", respectively.
8. Furthermore, Applicants 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 attached hereto as Annexes "D" and "D-1," respectively.

PRELIMINARY FACTS

9. At present, there is insufficient supply of power in the Province of Catanduanes. Copies of FICELCO's Distribution Development Program, 2014 Projected Monthly Peak Demand, Daily Load Curve for the month of October 2014 and List of FICELCO's current power suppliers are hereto attached as Annexes "E", "E-1", "E-2" and "E-3", respectively.

10. In view of this prevailing situation, there is an insistent demand from FICELCO and the Catandunganons to modify and clarify the terms of the ESA. This is to continuously ensure good operating condition and deliver electricity of up to 7.9 MW in a safe and reliable manner to the Catandunganons and augment FICELCO's emergency power requirements.
11. To be able to comply with the demands of FICELCO's member consumers SUWECO and FICELCO executed the 1st Amendment to the Electricity Supply Agreement (ESA) on June 25, 2014.
12. The parties then informed the Department of Energy (DOE) of the planned diesel power plant as embodied in the 1st Amendment and the latter issued a Certificate of Endorsement stating that the planned 5MW Solong Diesel Power Plant is consistent with the Missionary Electrification Development Plan (MEDP) of the government. Copy of the Certificate of Endorsement is herein attached as Annex "F".
13. The additional energy to be sourced from the said 5MW Solong Diesel Power Plant is projected to alleviate the insufficient power supply within the franchise area of FICELCO which is currently causing substantial economic losses and severe disruptions in the day-to-day activities of the consumers within the franchise area of FICELCO.
14. There will be no increase in the rates currently charged to FICELCO consumers as a result of the operation of the 5MW Solong Diesel Power Plant because electricity fees to be charged to FICELCO under the 1st Amendment will remain to be the Subsidized Approved Generation Rate (SAGR).
15. In case however that the True Cost of Generation Rate (TCGR) of SUWECO exceeds the SAGR then the difference thereto shall be charge against the Universal Charge-Missionary Electrification (UC-ME) Subsidy.

**ABSTRACT OF THE 1st AMENDMENT TO
THE ESA
AND RELATED INFORMATION**

16. The parties desire to clarify, modify and add to the terms provided in the ESA thus, they entered into a 1st Amendment to the ESA on 25 June 2014.
17. **Power Plant Capacity.** The Parties agreed to include the installation and commissioning of additional diesel-fueled power generators with a gross maximum capacity of 4.4MW plus 600 kW, 80% rated capacity and an estimated annual contracted energy of 31,536,000 kWh.
18. **Period of Operation.** It is understood that the 5MW Solong Diesel Power Plant shall be in operation pending the completion, delivery and full operation of the Capiplan MHP and Hitoma 02 MHP. Upon delivery and full operation of the Capiplan and Hitoma 02 power plants the diesel-fueled power generators shall only be used to augment any power deficiency in the province of Catanduanes.
19. **Completion date of the Capiplan MHP and Hitoma 02 MHP.** SUWECO is obliged to deliver the Capiplan Mini-hydro Power Plant by 2018 and the Hitoma 02 Mini hydro Power Plant 4 years from the delivery of the Capiplan MHP at full energy capacity of 4,175 kW.
20. **Amount of Contracted Energy.** It is agreed by the parties that all power generated from the 5MW Solong Diesel Power Plant shall be purchased by FICELCO. FICELCO requires SUWECO to deliver an annual contracted energy of 31, 536,000 kWh.
21. In connection with this planned 5MW Solong Diesel Power Plant, SUWECO was issued an Environmental Compliance Certificate (ECC) by the Department of Environment Natural Resources (DENR). A copy of the ECC issued to SUWECO is herein attached as Annex "G". SUWECO in relation to said project also filed an Application for the

issuance of Certificate of Compliance with the Energy Regulatory Commission (ERC). A copy of the Application is hereto attached as Annex "H".

22. Electricity Fees for the 5MW Solong Diesel Power Plant. The Computation of the Total Fees for the Interim Diesel Power Plant shall be as follows:

1. Total Electricity Fees. The Total Electricity Fees for the supply of power by **SUWECO** shall be the sum of the Capacity Fee, the Local O & M Fee, the Foreign O& M Fee, Lube Oil Charge and the Fuel Charge.

(TEF = CF + Local O & M Fee + Foreign O & M Fee + Lube Oil Charge + Fuel Charge).

The parties agree that in case where the TRUE COST GENERATION RATE (TCGR) of SUWECO is higher than the SUBSIDIZED APPROVED GENERATION RATE (SAGR) determined by the Energy Regulatory Commission, then SUWECO shall be allowed to recover the difference between the TCGR and the SAGR from the UC/ME Subsidy.

2. Capacity Fee. The monthly Capacity Fee shall be **PhP2.94/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 Energy Regulatory Commission.

3. Local O & M Fee. The monthly Local Operation & Maintenance Fee shall be **PhPo.89/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 Energy Regulatory Commission.

4. Foreign O & M Fee. The monthly Foreign Operation and Maintenance 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 Operation and Maintenance Fee

FOMR Foreign operation and maintenance rate of **Php0.71/kwh**

DE Delivered Energy

CPI current- The latest Philippine Consumer Price Index as published by the NSO applicable during the Billing Period.

CPI base- The Philippine Consumer Price Index as published by the NSO for the month at the time of signing of the First Addendum.

5. Lube Oil Charge. The monthly Lube Oil Charge shall be computed in accordance with the following formula:

$$\text{LOC} = \text{SE} \times \text{LOC/kWhr.}$$

$$\text{LOC/kWhr.} = \text{GLOR} \times \text{ALOC}$$

Where:

LOC Lube Oil Charge

LOC/kWhr. Lube Oil Charge per Kilowatt-Hour

DE Delivered energy

GLOR Guaranteed Lube Oil Consumption **Rate of 0.001 liter/kWh**

ALOC Actual Lube Oil Cost

6. Fuel Charge. The monthly Fuel Charge shall be computed in accordance with the following formula:

$$\text{FC} = \text{DE} \times \text{FC/kWhr.}$$

$$\text{FC/kWhr.} = \text{GFCR} \times \text{AFC}$$

Where:

FC Fuel Charge

FC/kWhr. Fuel Charge per Kilowatt-Hour

DE Delivered Energy
GFCR Guaranteed Fuel Consumption
Rate of **0.280 liter/kWh**
AFC Average Actual Fuel Cost in Pesos
per liter

23. Project Cost. The total capital cost of the 5MW Solong Diesel Power Plant is estimated at P138,080,422.10. Copy of the detailed breakdown of the total project cost is hereto attached as Annex "I".
24. Diesel-Fueled Power Plant. The 5MW Solong Diesel Power Plant will consist of four (4) KTA50-G3 Diesel Engine plus one 600 kW diesel engine. Copies of the General Plant Description, KTA50-G3 RP Connect Price Quotation, Purchase Order No. SWC00323 issued to Bussbarr Corporation, Cummins-KTA38-AA19-GCA RP Connect Price Quotation and 750 kVA D-2 Power Genset NOVOsol Power Price Quotation are hereto attached as Annexes "J", "J-1", "J-2", "J-3" and "J-4", respectively.
25. Debt-Equity Ratio and Weighted Average Cost of Capital (WACC) - The cost of the 5MW Solong Diesel Power Plant will be funded through loans and equity. The indicative debt-equity ratio for the project is 70:30 and the Pre-tax Weighted Average Cost of Capital (WACC) is 13.23571%. A copy of the Bank Terms and Conditions, Amortization Schedule and the computation of WACC are hereto attached as Annexes "K", "K-1" and "K-2", respectively.
26. Working Capital. The working capital allotted for sixty (60) days of operation for the 5MW Solong Diesel Power Plant is P43,312,647.31. A copy of the detailed computation of the working capital is hereto attached as Annex "L".
27. Using these estimated project costs, Applicants were able to justify the Capacity Fee stipulated under the 1st Amendment. It is worthy to note that the computed Capacity Fee is higher than the

Capacity Fee stipulated under Annex "A" of the 1st Amendment. Copy of the Computation is hereto attached as Annex "M". Also, utilizing the projected Operations & Maintenance (O&M) expenses the Applicants were able to justify the stipulated Local O&M Fee (LOM) and Foreign O&M Fee (FOM) under the 1st Amendment. Copies of the computation of the LOM and FOM are hereto attached as Annexes "N" and "O", respectively.

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

Joint Applicants replead the foregoing allegations and further state that:

28. There is a paramount relevance and urgent need for additional generating capacity in the Province of Catanduanes due to insufficiency of power supply resulting in numerous forced outages, to the substantial prejudice of the consumers of FICELCO. Thus, the urgent need to implement the 1st Amendment to the ESA.
29. To prevent delay in the implementation of the 1st Amendment to the ESA, a provisional authority is respectfully prayed for. An affidavit of merit in support of the prayer for provisional authority is hereto attached as Annex "P".
30. 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 this Honorable Commission.

PRAYER

WHEREFORE, premises considered, Joint Applicants SUWECO and FICELCO respectfully pray that:

- (a) Upon filing of the instant Application, and pending hearing thereon, an Order be issued:

- (1) granting PROVISIONAL AUTHORITY to Joint Applicants for the implementation of the provisions of the 1st Amendment to the ESA; and (2) directing NPC-SPUG to pay the difference between the approved rate and the amount billed to FICELCO.

- (b) After hearing on the merits, a Decision be rendered: (1) issuing a PERMANENT APPROVAL of the said 1st Amendment to the ESA, including the rates set forth therein; and (2) directing NPC-SPUG to pay the difference between the approved rate and the amount billed to FICELCO.

The Commission has set the application for jurisdictional hearing, expository presentation, pre-trial conference and evidentiary hearing on **March 15, 2016 (Tuesday) at ten o'clock in the morning (10:00 A.M.) at FICELCO's Principal Office, Marinawa, Bato, Catanduanes.**


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.

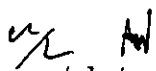
All other persons who may want their views known to the Commission with respect to the subject matter of the proceeding may file their opposition to the application or comment thereon at any stage of the proceeding before the applicant concludes the presentation of its evidence. No particular form of 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 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 a copy of the application. The applicant is 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**, **GLORIA VICTORIA C. YAP-TARUC**, **JOSEFINA PATRICIA A. MAGPALE-ASIRIT** and **GERONIMO D. STA. ANA**, Energy Regulatory Commission, this 21st day of January, 2016 at Pasig City.


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


ccr/gls/apv/FICELCO and SUWECO/2015-065 RC/nph