

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



IN THE MATTER OF THE APPLICATION FOR APPROVAL OF THE ELECTRIC POWER PURCHASE AGREEMENT (EPPA) BETWEEN ILOILO III ELECTRIC COOPERATIVE, INCORPORATED (ILECO III) AND PANAY ENERGY DEVELOPMENT CORPORATION (PEDC), WITH PRAYER FOR PROVISIONAL AUTHORITY

ERC CASE NO. 2015-154 RC

ILOILO III ELECTRIC COOPERATIVE, INCORPORATED (ILECO III) AND PANAY ENERGY DEVELOPMENT CORPORATION (PEDC),

Applicants.

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DOCKETS
Date: NOV 06 2015
By: *M*

NOTICE OF PUBLIC HEARING

TO ALL INTERESTED PARTIES:

Notice is hereby given that on August 14, 2015, Iloilo III Electric Cooperative, Incorporated (ILECO III) and Panay Energy Development Corporation (PEDC) filed an application for approval of their Electric Power Purchase Agreement (EPPA), with prayer for provisional authority.

In the said application, ILECO III and PEDC alleged, among others, that:

Parties to the Case

1. ILECO III is an electric cooperative duly organized and existing under and by virtue of the laws of the Republic of the Philippines, with principal office address at Barangay Preciosa, Sara, Iloilo. It is a franchised electric utility

servicing its member-consumers in certain Municipalities of the Province of Iloilo, namely: Ajuy, Anilao, Balasan, Banate, Barotac Viejo, Batad, Carles, Concepcion, Estancia, Lemery, San Dionisio, San Rafael, and Sara;

2. PEDC is a corporation duly organized and existing under the laws of the Republic of the Philippines with principal office address at Barangay Ingore, La Paz, Iloilo City. It owns and operates a 2 x 82 MW coal-fired power plant (the Existing Plant) located in Barangay Ingore, La Paz, Iloilo City. It has embarked on an expansion project through the construction of a 1 x 150 MW coal-fired power plant (the Expansion Plant) in the same location;

Statement of Facts and of the Case

3. Pursuant to Rule 20 (B) of the 2006 ERC Rules of Practice and Procedure, the application is submitted to the Commission for its review and approval of the EPPA dated April 2015 between ILECO III as the Buyer and PEDC as Seller;
4. Under the EPPA, PEDC agreed to supply and deliver, and ILECO III agreed to take and pay for electricity supplied by PEDC at a contracted capacity of 3 MW (the Contracted Capacity), at one hundred percent (100%) load factor, commencing on the Commercial Operation Date of the Expansion Plant (i.e., the date when the Expansion Plant has been completed, inspected, tested, and is ready to commence operation as confirmed in a written communication from Seller to Buyer, which date should not be later than July 26, 2016 or such later date as the parties may agree upon in writing), at an Electricity Fee (Schedule 4 of the EPPA) computed as follows:

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$$\begin{aligned}
 \text{Load Factor} & : \quad \underline{100\%} \\
 \text{Electricity Fee} & = \text{Energy Fees} + \text{Fuel Cost} \\
 \text{Energy Fees} & = \text{Tariff Fee} \times E \\
 \text{Tariff Fee} & = \text{CRF} + \left[\text{PhpO\&M} \times \frac{\text{PhCPI}_c}{\text{PhCPI}_b} \right] + \\
 & \quad \left[\text{USDO\&M} \times \frac{\text{USCPI}_c}{\text{USCPI}_b} \times \text{Forex} \right] \\
 \text{Fuel Cost} & = \frac{\text{Cost of Coal}}{1,000} \times \text{Consumption Rate} \times \text{Forex} \times \text{En} \\
 \text{Cost of Coal} & = \left[\text{Base Coal Price} \times \frac{\text{Newcastle}_c}{\text{Newcastle}_b} \right] + \text{Transport Cost}
 \end{aligned}$$

Where:

CRF	=	Capital Recovery Fee	=	Php 2.3096 per kWh
PhpO&M	=	Peso-based O&M Fee	=	Php 0.2736 per kWh
PhCPI _c	=	Philippine Consumer Price Index (CPI) for all items for the Current month as published by the National Statistics Coordination Board, www.nscb.gov.ph		
PhCPI _b	=	Base Philippine CPI	=	138.30 May-14
USDO&M	=	USD-based O&M Fee	=	\$ 0.0092 per kWh
USCPI _c	=	US Consumer Price Index (CPI) for all items for the Current Month as published		
USCPI _b	=	Base US CPI	=	237.07 May-14
Forex	=	Reference exchange rate (in Php per USD) on the meter reading date, as		
E	=	in kWh, Minimum Contracted Energy (MCE) or Actual Energy Delivered,		
Base Coal Price	=	Base reference coal price	=	\$ 56.33 USD per MT
Newcastle _c	=	Preceding quarter's average coal price for 6,700kcal/kg ADB per the Global Coal Newcastle Physical Trading Index, www.globalcoal.com (in USD/MT)		
Newcastle _b	=	Base Newcastle Index	=	\$ 77.31 USD per MT
Transport Cost	=	Cost of freight, insurance, brokerage, taxes, and other costs in USD per MT		
Consumption Rate	=	0.68kg/kWh, escalated at a rate of 1.5% per year or actual, whichever is lower		
En	=	Nominated Energy of Buyer to Seller in kWh		

5. In addition, subject to availability of capacity, PEDC is given priority to supply ILECO III any additional capacity requirements it may have, subject to mutually acceptable terms and conditions. The power to be supplied will be sourced from the Expansion Plant;
6. The Contracted Capacity shall be delivered to ILECO III at the delivery points designated in the EPPA (Schedule 3 of the EPPA) beginning on the Commercial Operation Date;

7. Nonetheless, during the Testing and Commissioning of the Expansion Plant, PEDC will deliver to ILECO III on a non-firm basis electric power, subject to the payment of Electricity Fees for actual energy taken by ILECO III computed as follows:

Testing and Commissioning at 100% Load Factor

$$\begin{aligned}
 \text{Electricity Fee} &= \text{Energy Fees} + \text{Fuel Cost} \\
 \text{Energy Fees} &= 50\% \times \text{Tariff Fee} \times E \\
 \text{Tariff Fee} &= \text{CRF} + \left(\text{PhpO\&M} \times \frac{\text{PhCPI}_c}{\text{PhCPI}_b} \right) + \\
 &\quad \left(\text{USDO\&M} \times \frac{\text{USCPI}_c}{\text{USCPI}_b} \times \text{Forex} \right) \\
 \text{Fuel Cost} &= \frac{\text{Cost of Coal}}{1,000} \times \text{Consumption Rate} \times \text{Forex} \times \text{En} \\
 \text{Cost of Coal} &= \left(\text{Base Coal Price} \times \frac{\text{Newcastle}_c}{\text{Newcastle}_b} \right) + \text{Transport Cost}
 \end{aligned}$$

Where:

CRF	= Capital Recovery Fee	= Php 2.3096 per kWh
PhpO&M	= Peso-based O&M Fee	= Php 0.2736 per kWh
PhCPI _c	= Philippine Consumer Price Index (CPI) for all items for the Current month as published by the National Statistics Coordination Board, www.nscb.gov.ph	
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Forex	= Reference exchange rate (in Php per USD) on the meter reading date, as	
E	= in kWh, Minimum Contracted Energy (MCE) or Actual Energy Delivered,	
Base Coal Price	= Base reference coal price	= \$ 56.33 USD per MT
Newcastle _c	= Preceding quarter's average coal price for 6,700kcal/kg ADB per the Global Coal Newcastle Physical Trading Index, www.globalcoal.com (in USD/MT)	
Newcastle _b	= Base Newcastle Index	= \$ 77.31 USD per MT
Transport Cost	= Cost of freight, insurance, brokerage, taxes, and other costs in USD per MT	
Consumption Rate	= 0.68kg/kWh, escalated at a rate of 1.5% per year or actual, whichever is lower	
En	= Nominated Energy of Buyer to Seller in kWh	

8. Moreover, upon completion of the commissioning of the Expansion Plant, ILECO III shall take the proportionate net electrical output of the Expansion Plant delivered by PEDC during the Pre-Commercial Operation Period on a firm basis, subject to the payment of Electricity Fees computed as follows:

Pre-Commercial Operations at 100% Load Factor

$$\begin{aligned}
 \text{Electricity Fee} &= \text{Energy Fees} + \text{Fuel Cost} \\
 \text{Energy Fees} &= 75\% \times \text{Tariff Fee} \times E \\
 \text{Tariff Fee} &= \text{CRF} + \left(\text{PhpO\&M} \times \frac{\text{PhCPI}_c}{\text{PhCPI}_b} \right) + \\
 &\quad \left(\text{USDO\&M} \times \frac{\text{USCPI}_c}{\text{USCPI}_b} \times \text{Forex} \right) \\
 \text{Fuel Cost} &= \frac{\text{Cost of Coal}}{1,000} \times \text{Consumption Rate} \times \text{Forex} \times \text{En} \\
 \text{Cost of Coal} &= \left(\text{Base Coal Price} \times \frac{\text{Newcastle}_c}{\text{Newcastle}_b} \right) + \text{Transport Cost}
 \end{aligned}$$

Where:

CRF	=	Capital Recovery Fee	=	Php 2.3096 per kWh
PhpO&M	=	Peso-based O&M Fee	=	Php 0.2736 per kWh
PhCPI _c	=	Philippine Consumer Price Index (CPI) for all items for the Current month as published by the National Statistics Coordination Board, www.nscb.gov.ph		
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Consumption Rate	=	0.68kg/kWh, escalated at a rate of 1.5% per year or actual, whichever is lower		
En	=	Nominated Energy of Buyer to Seller in kWh		

9. The EPPA thus proposes separate rates on the power delivered by PEDC to ILECO III, depending on the stage of the plant development (i.e., during Testing and Commissioning, during the Pre-Commercial Operation Period, or on Commercial Operation Date);
10. It should be noted that the cost of testing and commissioning the Expansion Plant was not included in the rate for power delivered upon Commercial Operation Date, and the rate to be charged during Testing and Commissioning is intended to compensate PEDC for the commissioning cost of the Expansion Plant. Moreover, it should be stressed that the commissioning cost was not included in the rate for commercial operation because commissioning power was intended to be sold by PEDC;
11. The EPPA shall have a term of twenty-five (25) years commencing on the Commercial Operation Date and ending on the 25th anniversary of such commencement date, unless sooner terminated pursuant to the terms thereof (the Cooperation Period);
12. The foregoing agreed terms, among others, are embodied in the EPPA, a copy of which is attached to the application as Annex "A" and made an integral part thereof;
13. Should the Commission approve the Electricity Fees under the EPPA, there will be a decrease in generation cost of PhP0.20/kWh on the Commercial Operation Date;

Allegations in Support of the Prayer for Provisional Authority

14. The current demand of ILECO III is 14 MW. To meet this demand, it sources 4 MW of its electric power requirements from PEDC's Existing Plant and 5.5 MW from Green Core Geothermal, Incorporated (GCGI). It also sources about 4.5 MW from the Wholesale Electricity Spot Market (WESM) during peak hours;
15. It is expected that ILECO III's current demand will increase to over 15 MW by 2016 and 16 MW by 2017 based on its load forecast;

16. Considering that ILECO III is in need of additional supply of power beginning 2016, it is imperative that it obtain the Commission's approval of the EPPA with PEDC;
17. The supply of additional 3 MW from the Expansion Plant to ILECO III (and ultimately, to its member-consumers) will not only secure the power requirements of ILECO III but also lessen its exposure to the volatility of the WESM prices and reduce its dependence on the Negros-Panay submarine cable;
18. Under the terms of the EPPA, among the conditions precedent to the performance by ILECO III and PEDC of their respective obligations thereunder is the approval of the application by the Commission;
19. Thus, for PEDC to be able to deliver and ILECO III to be able to receive power from PEDC as early as the Testing and Commissioning and the Pre-Commercial Operation Period of the Expansion Plant, it is imperative that a provisional authority be granted for the EPPA to allow PEDC to deliver and ILECO III to receive power during these periods;
20. Should the Commission grant a provisional authority for PEDC to deliver and ILECO III to receive power during the Testing and Commissioning, there will be a net reduction in its generation cost of PhP0.66/kWh during this period. Should a provisional authority be given for the Pre-Commercial Operation Period, there will be a net reduction in its generation cost of PhP0.43/kWh during this period;

Compliance with Pre-Filing Requirements

21. They manifest their compliance with the pre-filing requirements mandated under Rule 3, Section 4(e) of the Implementing Rules and Regulations (IRR) of Republic Act No. 9136, otherwise known as the Electric Power Industry Reform Act of 2001 or the EPIRA, and Rule 6 of the 2006 ERC Rules of Practice and Procedures, as evidenced by the following attachments:

- 21.1 Affidavit of Service re: service of the application with annexes to the *Sangguniang Panlungsod* of Iloilo City;
- 21.2 Affidavit of Service re: service of the application with annexes to the *Sangguniang Bayan* of Sara, Iloilo;
- 21.3 Affidavit of Service re: service of the application with annexes to the *Sangguniang Panlalawigan* of the Province of Iloilo;
- 21.4 Affidavit of Publication stating that the application had been published in a newspaper of general circulation;
- 21.5 Newspaper issue where the application appeared, as published;
- 21.6 A copy of the Board Resolution authorizing ILECO III to jointly file the application with PEDC;
- 21.7 A copy of the Board Resolution authorizing PEDC to jointly file the application with ILECO III; and
- 21.8 Proof of payment of filing fees;

Prayer

22. Thus, they pray, that the Commission:
 - 22.1 Upon initial review of the application and pending trial on the merits, issue a provisional authority for the terms of the April 2015 EPPA between ILECO III and PEDC, thereby authorizing PEDC to charge and collect from ILECO III the respective Electricity Fees corresponding to the (a) Testing and Commissioning, (b) Pre-Commercial Operation Period, and (c) Commercial Operation Date, and authorizing ILECO III to pass the full amount thereof to its member-consumers; and

22.2 After trial on the merits, issue a permanent approval of the terms of the April 2015 EPPA between ILECO III and PEDC, thereby authorizing PEDC to charge and collect from ILECO III the respective Electricity Fees corresponding to the (a) Testing and Commissioning, (b) Pre-Commercial Operation Period, and (c) Commercial Operation Date, and authorizing ILECO III to pass the full amount thereof to its member-consumers.

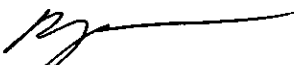
The Commission has set the application for initial hearing, expository presentation, pre-trial conference and evidentiary hearing on **November 27, 2015 (Friday) at nine o'clock in the morning (9:00 A.M.) at ILECO III's Main Office, Barangay Preciosa, Sara, Iloilo.**

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 wish to have a copy of the application may request from the applicants that they be furnished with the same, prior to the date of the initial hearing. The applicants are 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 standard office hours.

WITNESS, the Honorable Chairman, **JOSE VICENTE B. SALAZAR**, and the Commissioners, **ALFREDO J. NON**, **GLORIA VICTORIA C. YAP-TARUC**, **JOSEFINA PATRICIA A. MAGPALE-ASIRIT**, and **GERONIMO D. STA. ANA**, Energy Regulatory Commission, this 29th day of October, 2015 at Pasig City.


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