

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 (PSA)
BETWEEN ZAMBOANGA DEL
SUR II ELECTRIC
COOPERATIVE, INC.
(ZAMSURECO II) AND KING
ENERGY GENERATION, INC.
(KEGI), WITH PRAYER FOR
THE ISSUANCE OF A
PROVISIONAL AUTHORITY**

ERC CASE NO. 2015-172 RC

**ZAMBOANGA DEL SUR II
ELECTRIC COOPERATIVE,
INC. (ZAMSURECO II) and
KING ENERGY GENERATION,
INC. (KEGI),**

Applicants.

X-----X

D O C K E T E D
Date: FEB 17 2016
By: [Signature]

NOTICE OF PUBLIC HEARING

TO ALL INTERESTED PARTIES:

On 30 September 2015, Zamboanga del Sur II Electric Cooperative, Inc. (ZAMSURECO II) and King Energy Generation, Inc. (KEGI) filed their joint Application for approval of their Power Sales Agreement (PSA), with prayer for the issuance of provisional authority.

In support of said Application, ZAMSURECO II and KEGI alleged, among others, the following:

1. Applicant ZAMSURECO II is a non-stock, non-profit electric cooperative existing pursuant to law (P.D. 269), as amended, with postal address at Ipil, Zamboanga Sibugay province, where

it may be served with processes of this Commission through its Board President, MR. RALPH J. ALBANO, whose authority to file this Application and represent the Applicant is authorized by the Board of Directors of the Applicant pursuant to Board Resolution No. 072, Series of 2015. The said Board Resolution is attached as Annex "A" of the Application.

2. Joint Applicant KEGI is a domestic corporation organized and existing under the laws of the Republic of the Philippines with postal address at Misamis Oriental Power Plant (MOPP₁), Brgy. San Luis, Gingoog City, and represented in the Application by its President, MR. EDGARDO L. SALVAME, whose authority to represent KEGI is embodied in Board Resolution No. 0074, Series of 2015 (attached as Annex "B" of the Application).
3. The instant Application is filed pursuant to Rule 20 (B) of the Commission's Rules of Practice and Procedure and other pertinent rules and regulations.
4. In Compliance with Rule 6 of the said Rules, ZAMSURECO II served copies of the Application together with all of its Annexes to the legislative bodies of the Provinces, Cities, and Municipalities where it principally operates. The certifications attesting receipts are attached as Annexes "C" to "C-2" of the Application.
5. It likewise caused the publication of the entire Application in Gold Star Daily, a newspaper of general circulation within ZAMSURECO II's franchise area, which is comprised of the following: Municipalities of Alicia, Buug, Diplahan, Imelda, Ipil, Kabasalan, Mabuhay, Malangas, Naga, Olutanga, Payao, Roseller T. Lim, Siay, Talusan, Titay, and Tungawan, all in the Province of Zamboanga Sibugay; Municipalities of Baliguian, Sibuco, Siocon, and Sirawai, all in the Province of Zamboanga Del Norte; Municipalities of Bayog, Kumalarang, and Lakewood, in the Province of Zamboanga Del Sur; and the district of Vitali, in the City of Zamboanga. The Affidavit of Publication and the newspaper where said Application was published are attached to the Application as Annex "D" to "D-2".

STATEMENT OF FACTS

6. **Shortage of Power Supply in the Mindanao Grid.** The Mindanao Grid has long been suffering from a deficit in its

supply. The Generating capacity in the Grid is no longer sufficient to meet the power requirements of Mindanao.

7. **Power Suppliers of ZAMSURECO II.** ZAMSURECO II is heavily dependent on Hydro-powered electricity from NPC-PSALM. Its Contract for the Supply of Electric Energy (CSEE) covers a period of four (4) years from 26 December 2012 to 25 December 2016 (attached as Annexes "E" to "E-19" of the Application), the average contracted capacity of which is 6.3 MW.
 - 7.1 ZAMSURECO II also contracted 4.0 MWs with Therma Marine, Inc. (TMI), which will last from 2015 to 2018 and 10.0 MW with Therma South, Inc. (TSI), from 2015 to 2035. However, TSI is unable to deliver its contracted capacity to ZAMSURECO II due to some technical problems in its power plant. This resulted to a massive capacity deficiency of ZAMSURECO II.
8. **Drastic Reduction in NPC-PSALM's Supply.** PSALM also reduced its allocations to distribution utilities, further aggravating the power shortage.
 - 8.1 Recently, NPC-PSALM reduced its firm supply commitments to distribution utilities in Mindanao, including ZAMSURECO II, by about thirty percent (30%) annually. ZAMSURECO II's CSEE with NPC-PSALM will expire in December 2016, after which any allocation is uncertain.
9. **PSALM Certification.** PSALM certified that it has insufficient capacity to supply the additional power requirements of ZAMSURECO II beyond the contracted energy and equivalent demand in their current power supply contract. A copy of the said certification is attached as Annex "F" of the Application.
10. **Necessity for Long-term Power Supply.** It is necessary for a distribution utility like ZAMSURECO II to ensure that the power supply requirements within its franchise area are adequately covered by supply contracts.
11. Due to sustained and increasing load requirement of ZAMSURECO II, as shown in the table below, coupled with its generation constraints, it was compelled to negotiate and

contract with KEGI, for a three megawatt (3.0 MW) demand capacity with a minimum 700,000 kWh monthly contracted energy, for the first three (3) years, and two megawatts (2.0 MW) in the last two (2) years with a minimum 400,000 kWh monthly contracted energy. This is to insure adequacy, quality and reliability of electric supply to its member-consumers within its franchise area.

12. The Capacity and Energy Demand of ZAMSURECO II for 2014 to 2024 is projected as follows (all in Megawatts hours-MWh):

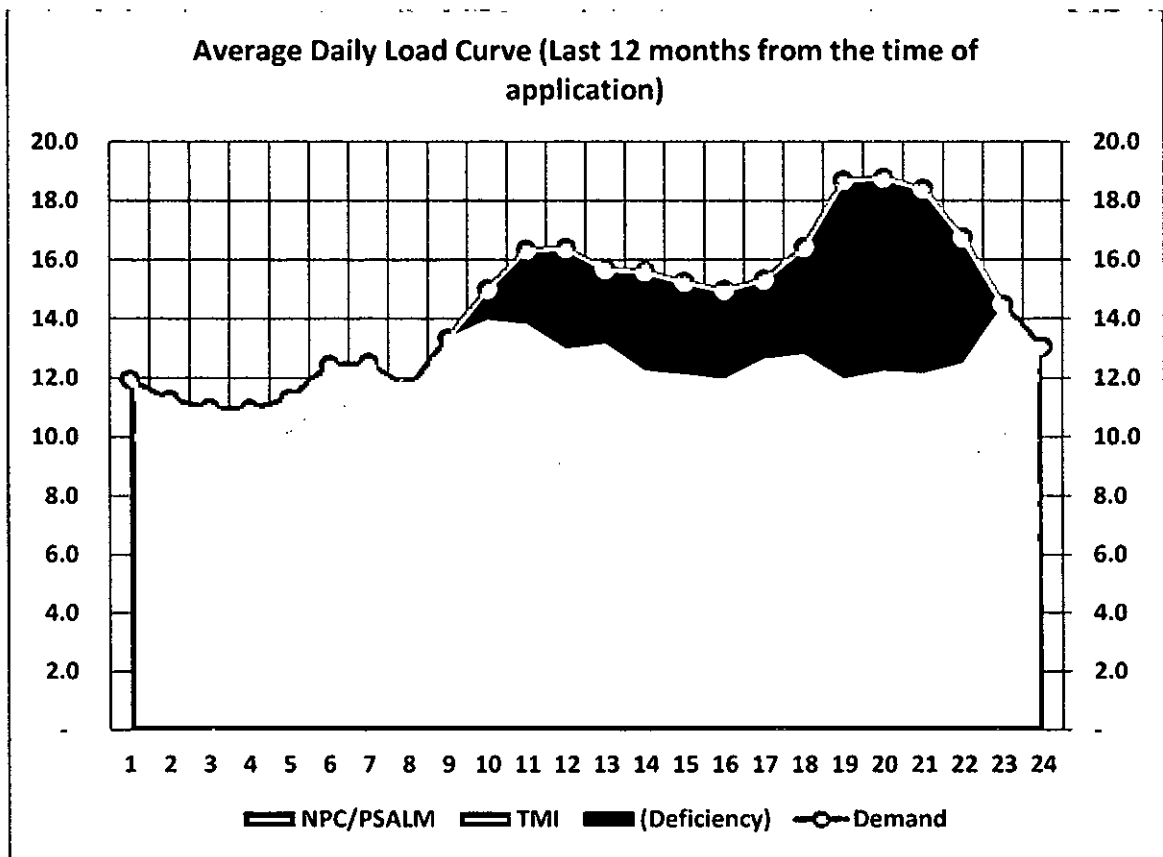
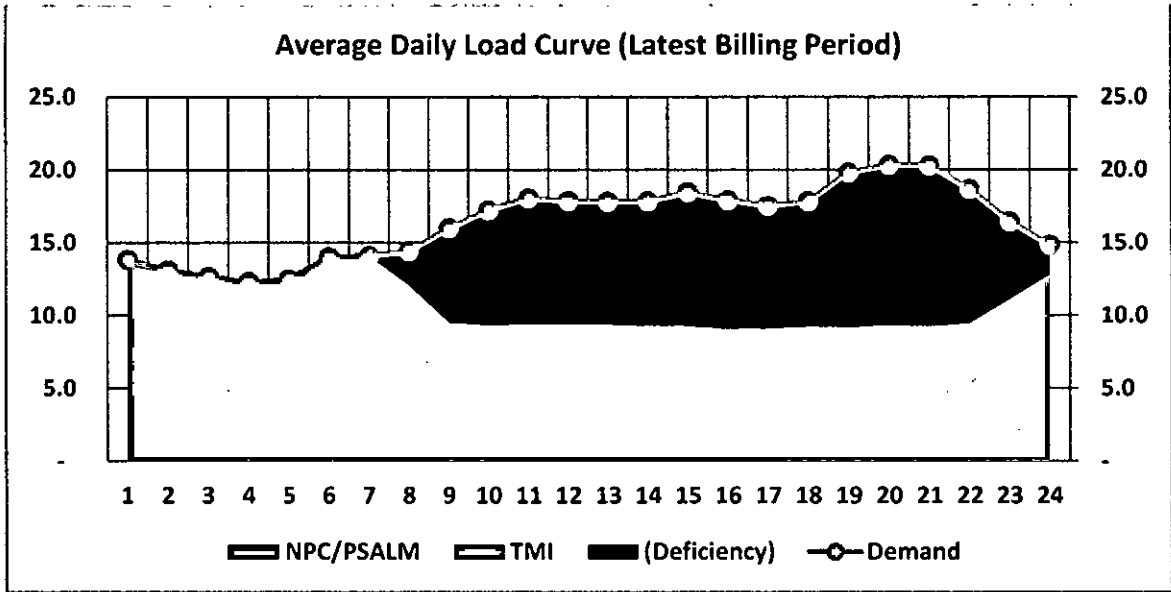
Year	2015	2016	2017	2018	2019
Demand (MW) ¹	22.81	24.00	25.13	26.23	27.28
Energy required (MWh) ²	94,434	99,183	103,568	108,136	112,706

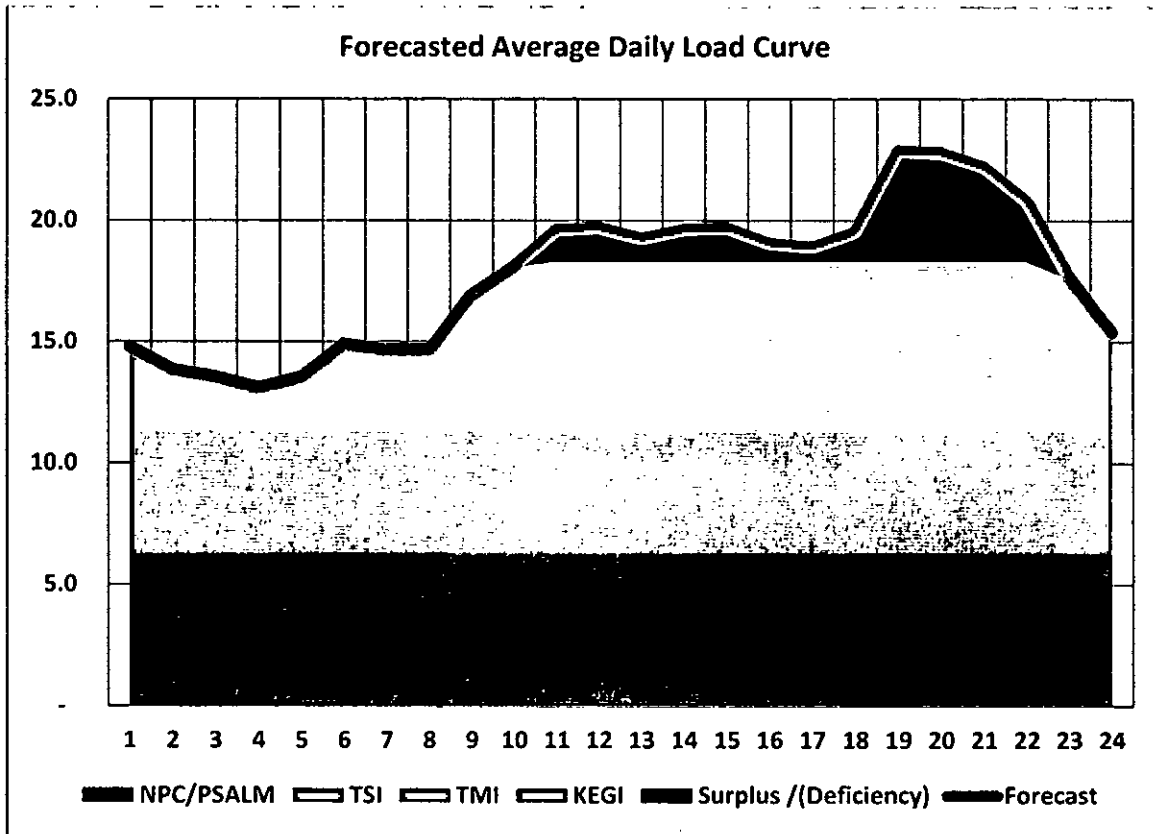
Year	2020	2021	2022	2023	2024
Demand (mW)	28.30	29.29	30.24	31.16	32.04
Energy required (mWh)	117,273	121,842	126,409	130,978	135,544

13. Based on the peak demand of ZAMSURECO II, the average shortage is 6.8 MWs in 2015, 4.4 MWs in 2016, and 7.8 MWs in 2017. Presently, the energy shortage resulted to sustained massive rotating blackouts in the franchise area of ZAMSURECO II by about 8 to 10 hours daily. Shown hereunder, in graphical form, are the average daily load curves for the latest billing and for the last twelve months, including the forecasted average daily load curve of ZAMSURECO II:

¹ Based on ZAMSURECO II's coincident peak demand marked as Annex "G"

² Based on ZAMSURECO II's Distribution Development Plant (DDP) marked as Annexes "H" to "H-24"





14. **Procurement Process for the selection of KEGI.** Even with the renewal of the CSEE with PSALM from 26 December 2012 to 25 December 2016, the latter unilaterally reduced the contracted capacity by about thirty percent (30%) annually as it was selling its generation assets. Due to such reduction and even with the 4.0 MWs Electricity Supply Agreement with TMI, only about seventy percent (70%) of the demand is delivered by ZAMSURECO II to its members consumers. Hence, this resulted in rotational brown-outs within its franchise area.

14.1 ZAMSURECO II has also contracted with TSI for 10 MWs, but is unable to deliver the same to ZAMSURECO II due to damage to TSI power plant. So at present, only 6.3 MWs is supplied by PSALM and 4.0 MWs by TMI. On the other hand, peak demand is about 22 MWs.

14.2 Considering the above scenario, ZAMSURECO II decided to contract with KEGI for 3.0 MW from 2015 to 2017 and 2.0 MW from 2018 to 2020 (a copy of the procurement process is attached to the Application as Annex "I").

15. KEGI will construct a new power plant to be located in Jimenez, Misamis Occidental to supply the power requirements of ZAMSURECO II with a total project cost of Php787,371,285.58, inclusive of the civil works, electro mechanical, site development, and other related costs. A copy of the detailed project cost, which is prayed to be treated as **confidential information** pursuant to ERC's Rules of Procedure, is attached as **Annex "J"** of the Application.

16. For the **Fixed Operating and Maintenance Expenses (FOM)**, KEGI has budgeted a total annual expense of Php34,170,159.00, the details of which is attached to the Application as **Annex "K"**, which is likewise prayed to be treated as **confidential information**;

17. For the **Variable Operating and Maintenance Expenses (VOM)**, KEGI has determined that the annual variable expense is Php22,428,260.00, the details of which is attached as **Annex "L"** of the Application and is also prayed to be treated as **confidential information**.

**ABSTRACT OF THE POWER SUPPLY AGREEMENT (PSA)³
AND OTHER RELEVANT INFORMATION**

18. **Executive Summary.** The Contract Capacity to be made available by **KEGI** to **ZAMSURECO II** shall be Three Thousand Kilowatts (3,000 kW) with Seven Hundred Thousand kilowatt hours (700,000 kWh) energy to be delivered per month. These shall be delivered in accordance with the Schedule of Contract Energy which is fixed on a daily and hourly basis for the first three (3) years and Two Thousand Kilowatts (2,000 kW) with Four Hundred Thousand kilowatt hours (400,000 kWh) for the succeeding two (2) years. The PSA provides that KEGI and ZAMSURECO II shall be excused from their respective obligation to deliver and receive energy during the occurrence of scheduled or unscheduled outages, in which case, the contract energy for the affected billing period may be adjusted pro rata or as agreed upon by the parties. KEGI has the option to supply ZAMSURECO II all or a portion of the contract energy and additional energy, if applicable, during the occurrence of scheduled or unscheduled outages, from its back-up facility and/or from third party in accordance with Sec. 2 of the PSA. For the portion of the contract energy and additional

³Annex "I"

energy provided by KEGI from the Generator Set, ZAMSURECO II shall pay the Contract Energy Fee in the form of Load Curtailment Adjustment in lieu of the Capacity Fee.

19. Salient Features of the PSA.

- a. Term.** The PSA shall have a contract period of five (5) years from effective date (upon signing of the Agreement), subject to automatic renewal for another five (5) years pursuant to Sec. 1.4 of the PSA. Closing Date means the time KEGI is obligated to deliver the contract capacity and contract energy to ZAMSURECO II, provided these conditions are satisfied: (1) Receipt of KEGI of a certificate executed by the corporate secretary of ZAMSURECO II adopting the resolutions (1.1) authorizing ZAMSURECO II to execute, enter into, and deliver the PSA and perform its obligation under the PSA, and (1.2) designating the person authorized to execute the PSA in behalf of ZAMSURECO II; (2) Receipt by KEGI of the security deposit pursuant to Art. 3.2 of the PSA; and (3) receipt of the ERC- approved PSA (including the Provisional Authority).
- b. Contract Energy.** KEGI shall deliver the Contract Capacity and Contract Energy at the Metering Points⁴ at the Rates Schedule⁵ specified under the PSA. On the other hand, to make available for delivery, the contract energy shall be based on the schedule of Contract Energy attached to the PSA.
- c. Rates Schedule.** The basic components of the Electricity Fee are as follows:

Capacity Fee (CF)	Php 1,328.00 per kW per month
Fixed Operating and Maintenance Fee (FOM)	Php 401.00 per kW per month
Variable Operating and Maintenance Fee (VOM)	Php 1.1285 per kWh
Billing Capacity	• 3,000 kW for the first 3 years

⁴Annex "A" of the PSA

⁵Annex "B" of the PSA

	<ul style="list-style-type: none"> • 2,000 kW for the succeeding 4th and 5th years
Operating Schedule	8 hours a day

d. Contract Energy Fee per month

$$\begin{aligned} \text{CEF} &= \text{FC} + \text{VC} \\ \text{FC} &= [\text{CF} + (\text{FOM} \times \text{IFf})] \times \text{BC} \\ \text{VC} &= (\text{VOM} \times \text{IFv} + \text{FL}) \times \text{ED} \end{aligned}$$

Where:

- BC = Billing Capacity in kW whichever is higher between the contracted demand in kW or actual highest demand in kW during the contracted month
- FC = Fixed charge per month in Php in kW
- VC = Variable charge per month in Php in kWh
- ED = Energy delivered in kWh
- CEF = Contract Energy Fee in Php
- VOM= Variable Operating & Maintenance Fee per month in Php in kWh
- CF = Capacity Fee in Php per month in kW
- FOM= Fixed Operating & Maintenance Fee per month in Php in kW
- IFf = Inflation factor fixed
- IFv = Inflation factor variable
- FL = Fuel and Lube oil in Php/kWh (pass through subject to heat rate schedule I of Annex "B")

e. Inflation factor

Inflation factor for fixed O & M

$$\text{IF (f)} = 1 (\text{P CPI m} / \text{P CPI b})$$

Inflation factor for variable O & M

$$\text{IF (v)} = 0.0222 \times (\text{P CPI m} / \text{P CPI b}) + 0.9778 \times (\text{P EX m} / \text{P EX b})$$

Where:

- P CPI m = Philippine CPI of the current billing month
- P CPI b = Philippine CPI on the effectivity month of the PSA
- P EX m = Peso to Euro exchange rate at the end of the current billing month
- P Ex b = Peso to Euro exchange rate on the effectivity month of the PSA

CPI = Consumer Price Index

f. Computation of Fuel and Lube Oil Rate

FL = HFOCR x Actual Heavy Fuel cost per liter

Where:

HFOCR = Heavy fuel oil consumption rate in liters/kWh
=.026L/kWh (based on the actual Load Factor per Schedule I)

g. Testing and Commissioning Fee

Only actual fuel cost and variable Operating and Maintenance expenses

h. Start-up Fee

Actual cost of additional start-up and shutdown with documents (Schedule 1 of the PSA)

i. Additional Energy Fee in excess of eight (8) running hours per day

AEF = AC x BC x h + (VOM + FL) x EE

Where:

AEF = Additional Energy Fee in Php
AC = Additional cost (0.78 Php/kw/h) in excess of eight (8) running hours per day
BC = Billing Capacity
H = Excess hours per day
VOM = Variable O & M
FL = Fuel and lube oil
EE = Energy delivered in excess of eight hours

**IMPACT ON ZAMSURECO II'S OVERALL
GENERATION RATE**

20. The determination of the generation rate impact is based on the blended generation rates of ZAMSURECO II, to wit:

Year	average blended Generation Rate Without KEGI	Generation Rate With KEGI	Difference Increase(Decrease)
2015	4.625	5.201	0.5756
2016	5.124	5.674	0.5500
2017	5.455	5.982	0.5266
2018	5.677	6.233	0.5552
2019	5.694	6.228	0.5334

**ALLEGATIONS IN SUPPORT OF THE MOTION FOR
ISSUANCE OF A PROVISIONAL AUTHORITY**

21. The demand for power supply of ZAMSURECO II's franchise area is steadily increasing. Further, NPC-PSALM, the supplier of the bulk of ZAMSURECO II's requirement has significantly reduced its supply commitments by about thirty percent (30%). This is aggravated by the inability of TSI to supply the 10 MWs which it had contracted with ZAMSURECO II. Due to sustained massive rotating blackouts (averaging 8 to 10 hours daily) within the franchise area of ZAMSURECO II, its management wrote two (2) letters to the Commission, seeking temporary relief allowing KEGI to immediately supply its power requirements pending the filing of the joint application.
22. The timely implementation of the subject PSA will ensure that the rotating blackouts in ZAMSURECO II's franchise area will be reduced. This will greatly benefit all its electricity consumers.
23. In view of the foregoing, joint Applicants move for the provisional approval of the instant Application pursuant to Rule 14 of the Commission's Rules of Practice and Procedure. Copy of the sworn statement/Affidavit of Merit supporting the said motion is attached to the Application as Annex "M".

**OTHER DOCUMENTS IN SUPPORT OF THE
JOINT APPLICATION**

24. Applicants have attached the following documents in support of their Application: SEC registration of KEGI (Annex "N"), Audited Financial Statements of KEGI (Annex "O"), Business Permit (Annex "P"), Certificate of Public Convenience [COC] (Annex "Q"), Environmental Compliance Certificate issued by

the Department of Environmental and Natural Resources [DENR] (Annex "R"), Memorandum of Agreement with the Department of Energy [DOE] (Annex "S"), Local Government Endorsement (Annex "T"), and Generation Rate Computation (Annex "U").

PRAYER

ZAMSURECO II and KEGI pray that the Commission grants the following:

1. An Order provisionally approving the PSA subject of their Application, as the same is necessary in order that the latter can immediately dispatch the needed energy requirement of the former, in the meantime that the construction of additional capacity is in progress and pending evaluation by the Commission of the final authority on the generation rate being applied. This will insure that upon completion of the additional capacity, Applicant KEGI can sustain the delivery of the contracted energy requirement.
2. The proposed generation rate subject matter of this Application be approved as follows:
 - a. Capacity Fee (CF) equivalent to PhP 1,328.00/ kW/ month
 - b. Fixed Operating and Maintenance Fee (FOM) in the amount of PhP 401.00/ kW/ month
 - c. Variable Operating and Maintenance Fee (VOM) equivalent to PhP 1.1285/ kWh
 - d. Passed on fuel charge based on PhP 0.26 L/kWh

The Commission has set the Application for initial hearing, expository presentation, pre-trial conference, and presentation of evidence on **09 March 2016 (Wednesday) at ten o'clock in the morning (10:00 A.M.) at ZAMSURECO II Main Office, Barangay Pangi, Ipil, Zamboanga Sibugay.**

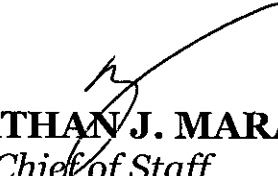
All persons who have an interest in the subject matter of the proceeding may become a party by filing, at least five (5) days prior to the initial hearing and subject to the requirements in the ERC's Rules of Practice and Procedure, a verified petition with the Commission giving the docket number and 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. 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 the standard 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 10th day of February 2016 in Pasig City.


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