

The MIEOT levels in the Nabas Power Plant (2,000,000 kWh per month or 22% of plant capacity) and in the New Washington Power Plant (2,000,000 kWh per month or 55% of plant capacity) can easily be taken by AKELCO as there is more than enough power demand in the areas where the power plants are located. It is noted that the Nabas plant will serve the Nabas-Caticlan area, including Boracay, where total demand is already about 10MW, while the New Washington plant will serve the New Washington-Kalibo area where the total demand is already more than 10MW. It was observed that the power plants were within the load centers of AKELCO, namely: Boracay; and Kalibo, where power was mostly needed.

AKELCO shall pay electricity fee to MIRANT based on the following formula:

$$\text{ELECTRICITY FEE} = E \times (\text{EFR} + \text{Fuel Cost} + \text{Lube Oil Cost})$$

Base Rate = PhP2.50/kWh

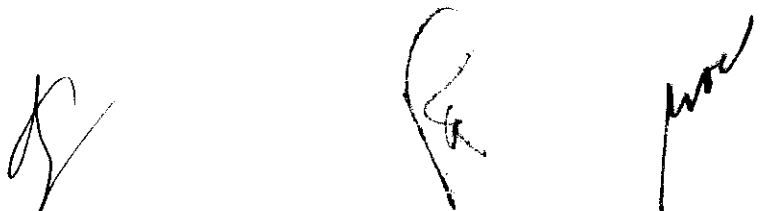
Base Rate is subject to escalation.

Fuel consumption is subject to a rate cap of 0.25918 liter/kWh.

Lube Oil consumption is subject to a rate cap of 0.00168 liter/kWh.

AKELCO and its customers are protected by the fuel and lube oil consumption rate caps. These caps ensure that Avon River maintains efficient operations. Any inefficiency beyond the caps is borne by Avon River and is not passed on to AKELCO and its end-users.

It will be noted that the tariff structure of the EPPAs between AKELCO and the Avon River-Aklan plants are completely in Philippine pesos, with escalation



pegged only to inflation. This eliminates the risks of Foreign Exchange (FOREX) fluctuations in the fees to be paid by AKELCO.

While inherently risky for Avon River, which will undoubtedly incur some dollar costs for spare parts, consumables, and repairs, it is, on the other hand, more beneficial to AKELCO and, in the long-run, the end-consumers, to escalate the same with Philippine inflation.

The 2005 Audited Financial Statement (AFS) of Avon River comprised of a bundled asset for its entire asset in Iloilo and Aklan. Thus, for the purpose of this evaluation, the Commission had to allocate the said asset based on the MW capacity to come up with the Capital Recovery Fee and the results were as follows:

	Iloilo (sunrise)		Aklan		Avon River
Capacity (MW)	20		17.5		37.5
% of Total	53.30%		46.70%		100%
Allocation	ILECO I	Merchant	Nabas	New Washington	
Capacity (MW)	10	10	12.5	5	37.5
% of Total	26.70%	26.70%	33.30%	13.30%	100%
Asset Cost (Allocation) = Total Asset Cost X % allocation					
Asset Cost (PhP)	478,751,955	478,751,955	598,439,944.00	239,375,978	1,795,319,832.00
Total Asset for Aklan					
	837,815,922				
Fixed Asset less Php35,000,000 (SC)	802,815,922				
Remaining Life	20				
Fixed Asset Value/Remaining Life	40,140,796.10				
Fixed Asset Value/Remaining Life/12	3,345,066.34				
kWh at 55% Load Factor	84,315,000				
kWh/12	7,026,250				
Capital Recovery Fee, P/kWh	0.4761				

The cost of the submarine cable was not included in this tariff evaluation as it was deducted from the total asset in Aklan. Thus, the total asset will only be PhP802,815,922.00.

Further, from the same AFS, the total long term debt and total equity are PhP759,117,647.00 and PhP651,940,643.00, respectively. Accordingly, the debt equity ratio of Avon River is 53.80:46.20. The interest for the debt of Avon River to First Metro Investment averages to 12.15% per annum. On the other hand, in the case of Panay Power Corporation (PPC), the Commission adopted the 18.32% as cost of Equity, which was taken from the cost of equity granted to other regulated entities. The same cost of equity was adopted by the Commission in the instant petition to arrive at the Weighted Average Cost of Capital (WACC) of 15% or equivalent to PhP1.4283/kWh. Below is the cost of equity simulation:

	Iloilo (Sunrise)		Aklan		Avon River
Capacity % of Total	20 53.3%		17.5 46.7%		37.5 100.0%
Allocation	ILECO -1	Merchant	Nabas	New Washington	
	10 MW	10 MW	12.5 MW	5 MW	37.5 MW
% Total	26.7%	26.7%	33.3%	13.3%	100.0%
Load Factor					55%
kWh per month					6,930,000
kWh per year					84,315,000
Long Term Debt					759,117,647
Debt Alloc. = Total Debt X % of Total			253,039,215.67	101,215,686	354,254,901.93
Total Equity					651,940,643
Equity alloc = equity value x % of Total				86,925,419	

Equity, 46.20%	46.20%			
Cost of Debt	12.15%			
Cost of Equity	18.32%			
WACC	15.00%			
WACC X Fixed Asset	120,426,723.51			
KWh at 55% Load Factor	84,315,000			
WACC (PhPkWh)	1.4283			

Considering that the power plant is not yet operational, the Avon River has a minimal operation and maintenance expense as reflected in the 2005 AFS. Thus, the Commission benchmarked Avon River's O&M with a power plant of similar technology. Accordingly, the Commission approves Avon River's O&M of PhP0.5331/kWh. Said amount is the same O&M granted to TA Oil-GUIMELCO and Avon River-ILECO I, with variance on the inflation and test periods.

To test whether the allowed base rate is reasonable, the Commission noted the comparison of Operation & Maintenance granted to other IPPs, to wit:

Power Plants	MW	Approved O & M (PhP/kWh)
1. Panay Power	72	0.8567
2. TA-Oil	3.4	0.5000
3. Avon River -ILECO 1	10	0.5000
4. BIPCOR	6	0.7500

The Base Generation Rate for the Avon River- AKELCO contract is summarized as follows.

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	ERC Computation	Proposed as per Application (PhP/kWh)
Capital Recovery Fee	0.4761	---
O & M	0.5331	---
WACC	1.4283	---
<b>Base Rate</b>	<b>2.4375</b>	<b>2.5000</b>

The Capital Recovery Fee and the WACC components of the Base Rate are fixed at Php0.4761/kwh and Php1.4283/kwh, respectively while the O&M component of the Base Rate shall be adjusted based on the determination of the Consumer Price Index (CPI) as provided in the contract with base CPI as of December 2005.

### DISPOSITION

**WHEREFORE**, the foregoing premises considered, the Commission hereby **APPROVES** the following Electric Power Purchase Agreements entered into by AKELCO, as buyer, with MIRANT, as seller, and Avon River, as the Project Company involving: (a) a 5MW Power Plant in New Washington, Aklan dated October 1, 2003, as amended on August 3, 2004; and (b) initially 7.5MW but later on increased to a 12.5MW Power Plant in Nabas, Aklan dated October 1, 2003, as amended on August 3, 2004, and restated on January 10, 2005. These EPPAs shall be subject to a base rate of **PhP2.4375/kWh**, the



O&M component of which shall be adjusted based on the determination of the Consumer Price Index (CPI) as provided in the contract with base CPI as of December 2005 and exclusive of the fuel and lube oil costs, which shall be recovered or passed on to AKELCO following the formula herein cited.

**SO ORDERED.**


Pasig City, August 2, 2006.

  
**RODOLFO B. ALBANO, JR.**  
Chairman

  
**RAUF A. TAN**  
Commissioner

  
**ALEJANDRO Z. BARIN**  
Commissioner

(Took No Part)  
**MARIA TERESA A.R. CASTAÑEDA**  
Commissioner

  
N/S/05-013RCDec.8.2.06

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