

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



**IN THE MATTER OF THE
APPLICATION FOR
APPROVAL OF THE
POWER SUPPLY
AGREEMENT (PSA)
ENTERED INTO BY AND
BETWEEN CAMARINES
NORTE ELECTRIC
COOPERATIVE, INC.
(CANORECO) AND LEVAN
MARKETING
CORPORATION (LMC),**

ERC CASE NO. 2016-076 RC

**CAMARINES NORTE
ELECTRIC COOPERATIVE,
INC. (CANORECO) AND
LEVAN MARKETING
CORPORATION (LMC),
Applicants.**

D O C K E T E D
Date: JUN 21 2016
By: [Signature]

X-----X

ORDER

On 29 April 2016, Camarines Norte Electric Cooperative, Inc. (CANORECO) and Levan Marketing Corporation (LMC) filed a joint application for approval of the their Power Supply Agreement (PSA).

In their application, CANORECO and LMC alleged the following:

THE APPLICANTS

1. CANORECO is a non-stock, non-profit electric cooperative duly organized and existing under and by virtue of the laws of the Republic of the Philippines, with principal office at J.P. Rizal St., Daet, Camarines Norte. It holds an exclusive franchise from the National Electrification Commission, to operate an electric light and power distribution service in all the municipalities of the province of Camarines Norte, namely: Basud, Daet, Labo, San Lorenzo Ruiz, San Vicente, Talisay, Jose

[Handwritten signature]

Panganiban, Vinzons, Paracale, Capalonga, Sta. Elena and Mercedes.

2. LMC is a private corporation duly organized and existing under the laws of the Republic of the Philippines, with principal office at No. 6, 3rd St., Meridian Industrial Complex, Sta. Rosa, Laguna.

NATURE OF THE APPLICATION

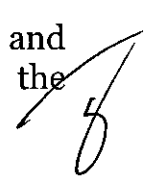
3. Pursuant to Rule 20 (B) of the ERC Rules of Practice and Procedure (“ERC Rules”), and other pertinent rules and regulations, this Application is being submitted to this Honorable Commission for its due consideration and approval of the Power Supply Agreement (“PSA”) executed by and between CANORECO and LMC.

STATEMENT OF FACTS

4. CANORECO currently sources seventy percent (70%) of its electricity requirements for distribution to its customers from the AP Renewable, Inc. (APRI) and the remaining thirty percent (30%) from the Wholesale electricity Spot Market (WESM);
5. The volatility of the prices in the sport market unduly exposes CANORECO to higher generation cost;
6. Further, it is expected that the energy requirements of CANORECO’s customers will significantly increase in the next few years as demonstrated by its Distribution Development Plan (DDP). Presented below is CANORECO’s supply-demand scenario, to wit:

	Historical			Forecasted				
	2013	2014	2015	2016	2017	2018	2019	2020
Peak Demand (KW)	25,945	27,171	27,508	27,845	28,459	29,074	29,688	30,282
Suppliers								
APRI (MWh)	97,140.59	99,665.74	103,962.56	107,800	110,900	113,900	116,800	120,400
Total Supply (MWh)	134,039.17	135,601	146,890	154,234.5	161,946.2	170,043.5	178,545.7	120,400
Deficit (MWh)	36,898.58	35,935.26	42,927.44	46,434.50	51,046.23	56,143.54	61,745.7	67,073.0

7. As such, it became imperative for CANORECO to source a supplier for its additional power supply requirements in order to ensure sufficient and reliable power supply within in its franchise area.
8. LMC on the other hand, responded to the call and motivation of the national government through the



promulgation of Republic Act No. 9513 to develop renewable energy resources as one of the country's solutions to mitigate the adverse impact of continuing increase in the prices of oil.

9. As a noble and immediate action thereto, LMC undertook the initiative to develop the San Pascual Mini-Hydro Power Project, a Run-Of-River Scheme, located in the Caayunan River, Municipality of Basud, Camarines Norte. It offered to build, construct, install, and operate the mini- hydro power plant and sell all the energy output of the plant to CANORECO;
10. Finding the offer of LMC advantageous to its customers, CANORECO accepted the same and on 03 December 2015, the parties executed the Power Supply Agreement ("PSA") subject of the instant application.

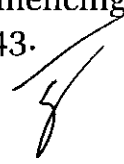
SALIENT FEATURES OF THE PSA

11. The PSA between CANORECO and LMC contains the following salient terms and conditions, to wit:
 - 11a. **Scope and Term of Contract.** The plant shall commence commercial operation on or before second quarter of 2018. The PSA shall have a term of twenty five (25) years and shall remain in full force and effect from June 19, 2018 to June 19, 2043, unless extended.
 - 11b. **Contract Energy.** CANORECO shall buy all the energy generated from the San Pascual Mini Hydro Power Plant (SPMHPP), and agrees to pay for all energy generated and delivered to it from the plant as measured at the delivery point. Below is the indicative monthly energy generation of the plant in Megawatt.

MONTH	CAPACITY, (MW)	MONTHLY AVERAGE GENERATION (kWh)
January	1,210	900,240.00
February	1,080	725,760.00
March	1,040	773,760.00
April	990	712,800.00
May	1,020	758,880.00
June	1,060	763,200.00
July	1,140	848,160.00
August	1,090	810,960.00

September	1,170	842,400.00
October	1,500	1,116,000.00
November	1,600	1,152,000.00
December	1,640	1,220,160.00
TOTAL:	14,540	10,624,320.00

- 11c. **Availability of Supply.** SPMHPP shall supply the Contracted Energy in compliance with appropriate rules and regulations such as the Philippine Grid and Distribution Code. The supply of energy shall be available except for interruption or reduction due to:
- a) Causes beyond the control of SPMHPP despite the exercise of due care;
 - b) Distribution interruption due to causes that are beyond the control of CANORECO;
 - c) Maintenance to ensure system stability and safety reasons as maybe provided by laws, rules or regulations.
- 11d. **Charges and Adjustments.** For all the energy delivered from SPMHPP, CANORECO shall pay at a price of Five Pesos & Eighty Centavos (**Php5.80**) per kilowatt-hour for the first ten years, subject for negotiation, and upon the approval of the PSA by the Energy Regulatory Commission (ERC).
- 11e. **Prompt Payment Discount.** Provided CANORECO has no overdue obligation with LMC, the latter shall grant CANORECO a prompt payment discount of **Php.05/kWh** if payment is made within ten (10) days upon receipt of Billing Statement.
- 11f. **Provisional Authority and Approval.** Provisional approval granted by the ERC on the PSA shall not be subject to any condition other than the final approval of the ERC, which shall be applied in satisfying the conditions under this issue, during the respective effectivity of the Provisional and Final Authority regardless of the stipulated rates in the PSA.
- 11g. **Initial Term.** The term of this PSA shall be for a period of 25 years commencing on June 19, 2018 and ending on June 2043.



11h. **Renewable Term.** Any party shall give notice of its intention to renew the PSA by giving written notice thereof not later than **90 days** prior to the expiration of the initial term subjected to new terms of negotiation.

11i. **Distribution Grid Synchronization Testing.** LMC shall conduct a Distribution Grid Synchronization Testing for a month prior to commercial operation. The Twenty days Distribution Grid Synchronization Testing's kWh generated shall be free of charge for CANORECO.

RATE IMPACT

12. An analysis was conducted to determine the impact of the implementation of the PSA on CANORECO's generation cost. The following table summarizes expected rate impact in the event that CANORECO procures power from LMC when the SPMHPP commences commercial operations in 2018 vis-à-vis other suppliers of electricity in its franchise area:

SIMULATION OF GENERATION RATE FOR YEAR 2015 WITHOUT LMC				
Power Supplier	kWh Purchased	Generation Cost	Percent Share	Average Rate
APRI	113,900,000	524,729,725	65.08%	4.6069
WESM	61,122,000	356,481,841	34.92%	5.8323
Total	175,022,000	881,211,566	100.00%	5.0349
SIMULATION OF GENERATION RATE FOR YEAR 2018 WITH LMC				
Power Supplier	kWh Purchased	Generation Cost	Percent Share	Average Rate
APRI	113,900,000	524,729,725	65.08%	4.6069
LMC	10,624,320	61,621,056	6.07%	5.8000
WESM	50,497,680	294,517,619	28.85%	5.8323
Total	175,022,000	880,868,400	100.00%	5.0329
Generation Rate Impact		(343,166)		(0.0020)

The total kWh purchased presented in the simulation above is based on the projected energy requirements for year 2018. APRI's supply is the maximum contracted energy and the imbalances are sourced from WESM. Considering the additional supply from LMC at Php5.80/kWh and using APRI and WESM average rates for the billing month of June 25, 2015 resulted to a reduction in generation rate of Php0.0020/kWh or a decrease in power cost amounting to Php343,166.00.

RELATED INFORMATION

13. In support of the instant application and in compliance with the documentary requirements of the Honorable Commission as provided under Article VI, Section 2 of the "Guidelines for the Recovery of Costs for the Generation Component by Distribution Utilities" as well as the pre-filing requirements mandated under Rule 6, Sections 2 to 4 of the ERC Rules of Practice and Procedure, Applicants are submitting the attached documents which are made integral parts hereof, as follows:

ANNEX	NATURE OF DOCUMENT
A to A-1	CANORECO's Articles of Incorporation and By-Laws
B	CANORECO's Certificate of Franchise issued by the National Electrification Commission (NEC)
C	LMC's Certificate of Registration with the SEC
D	LMC's Articles of Incorporation and By-Laws
E	LMC's Latest General Information Sheet
F	LMC's Latest Audited Financial Statements
G	LMC's Hydro-Power Plant Description
H	LMC's Undertaking to register with the BOI
I	LMC's application for Environmental Compliance Certificate (ECC) with the DENR
J	LMC's Application for DOE Endorsement
K	Power Supply Agreement (PSA) between CANORECO and LMC
L	CANORECO Board Resolution approving the PSA with LMC
M	LMC Board Resolution approving the PSA with CANORECO
N	LMC's Summary of Project Cost
O	LMC's Sources of Funds/Financial Plans
P	LMC's Basis of Purchased Power Rates
Q	LMC's Cash Flow
R	CANORECO's DDP Summary
S	CANORECO's Average Daily Load

	Curve
T	CANORECO's Procurement Process
U	Transmission Supply Agreement between CANORECO and NGCP
V	CANORECO's Latest Audited Financial Statements
W	Rate Impact Analysis
X	Alternative Demand Side Management Program that could be implemented by CANORECO if approved by the ERC
Y and series	Proof of furnishing copies of the Application to the Sangguniang Panlalawigan of Camarines Norte, Sangguniang Bayan of Daet and Sangguniang Panlungsod of Sta. Rosa
Z and series	Publication of the Application in a newspaper of general circulation in CANORECO's franchise area or where it principally operates, with Affidavit of Publication

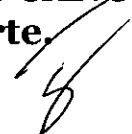
14. **Certificate of Compliance ("COC")**. Pursuant to ERC Resolution No. 9, series of 2010, LMC shall file the necessary application for a COC no later than three (3) months prior to the commencement of commercial operations of the SPMHPP.

PRAYER

WHEREFORE, in view of all the foregoing, it is most respectfully prayed of this Honorable Commission that after due notice and hearing, the Power Supply Agreement dated 03 December 2015 between CANORECO and LMC, including the rates as set out therein, be approved accordingly.

Applicants likewise pray for such other reliefs that may be just and equitable under the premises.

Finding the said application to be sufficient in form and in substance with the required fees having been paid, the same is hereby set for determination of compliance with the jurisdictional requirements, expository presentation, pre-trial conference, and presentation of evidence on **11 August 2016 (Thursday) at ten o'clock in the morning (10:00 A.M.) at the CANORECO Main Office, J.P. Rizal St., Daet, Camarines Norte.**



CANORECO and LMC are hereby directed to cause the publication of the attached Notice of Public Hearing in two (2) newspapers of general circulation in the Philippines at their own expense, twice (2x) within (2) successive weeks, the dates of publication not being less than seven (7) days apart, with the date of last publication made not later than ten (10) days before the date of the scheduled initial hearing. They are also directed to inform the consumers within the franchise area of CANORECO by any other means available and appropriate, of the filing of the Joint Application, its reasons therefor, and of the scheduled hearing thereon.

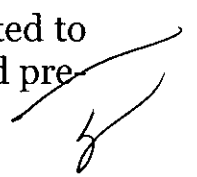
Let copies of the Application, this Order, and the attached Notice of Public Hearing be furnished the Office of the Solicitor General (OSG), the Commission on Audit (COA), and the Committees on Energy of both Houses of Congress. They are hereby requested, if they so desire, to send their duly authorized representatives at the scheduled hearing.

Likewise, let copies of this Order and the attached Notice of Public Hearing be furnished the Offices of the Provincial Governors and the Mayors and Local Legislative Unit (LGU) Legislative Bodies of the Municipalities within CANORECO's franchise area for the appropriate posting thereof on their respective bulletin boards.

CANORECO and LMC are hereby directed to furnish all those making requests therefor with copies of the application and its attachments, subject to reimbursement of reasonable photocopying costs.

On the date of the initial hearing and pre-trial conference, CANORECO and LMC must submit to the Commission their written Compliance with the jurisdictional requirements attaching therewith, methodically arranged and duly marked, the evidence of the actual posting and publication of the Notice of Public Hearing consisting of certifications issued to that effect, signed by the aforementioned Governor, Mayor, and LGU Legislative Bodies, or their duly authorized representatives, bearing the seals of their offices, and the affidavits of the Editors or Business Managers of the newspapers where said Notice of Public Hearing were published together with the complete issues of the said newspapers, and such other proofs of compliance with the requirements of the Commission.

CANORECO and LMC, and all interested parties are directed to submit, at least five (5) days before the date of initial hearing and pre-



trial conference, their respective Pre-Trial Briefs containing, among others:

- (a) A summary of admitted facts and proposed stipulation of facts;
- (b) The issues to be tried or resolved;
- (c) The documents or exhibits to be presented, stating the purposes thereof and proposed markings therefore; and
- (d) The number and names of the witnesses, with their written testimonies in an individual affidavit form, to be attached to the Pre-Trial Brief.

Failure of CANORECO and LMC to submit the required Pre-Trial Brief and Judicial Affidavits of their witnesses within the prescribed period shall be a ground for cancellation of the scheduled hearing, and the resetting of which shall be six (6) months from said date of cancellation.

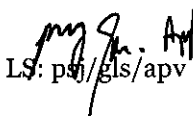
As part of the pre-trial conference, CANORECO and LMC must also be prepared to make an expository presentation of their Joint Application, aided by whatever communication medium that they may deem appropriate for the purpose, in order to put in plain words and explain, for the benefit of the consumers and other concerned parties, what the Joint Application is all about and the reasons and justifications being cited in support thereof.

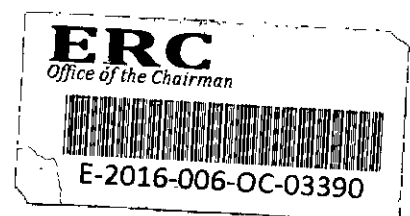
SO ORDERED.

Pasig City, 7 June 2016.

FOR AND BY AUTHORITY
OF THE COMMISSION:


JOSE VICENTE B. SALAZAR
Chairman and CEO

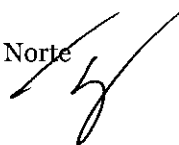

LS: psj/gls/apv



ERC Case No. 2016-076 RC
ORDER /7 June 2016
Page 10 of 11

Copy furnished:

1. **Atty. Nelson V. Evangelista**
Counsel for Applicants CANORECO and LMC
Dechavez & Evangelista Law Offices
Units 1609-1610, Tycoon Centre
Pearl Drive, Ortigas Center,
Pasig City 1605
2. **Camarines Norte Electric Cooperative, Inc. (CANORECO)**
J.P. Rizal St., Daet, Camarines Norte.
3. **Levan Marketing Corporation (LMC)**
No. 6, 3rd St., Meridian Industrial Complex,
Sta. Rosa, Laguna
4. **Office of the Solicitor General**
134 Amorsolo Street, Legaspi Village
Makati City, Metro Manila
5. **Commission on Audit**
Commonwealth Avenue
Quezon City, Metro Manila
6. **Senate Committee on Energy**
GSIS Building, Roxas Boulevard
Pasay City, Metro Manila
7. **House Committee on Energy**
Batasan Hills
Quezon City, Metro Manila
8. **Office of the Municipal Mayor**
Municipality of Basud, Camarines Norte
9. **Office of the LGU Legislative Body**
Municipality of Basud, Camarines Norte
10. **Office of the Municipal Mayor**
Municipality of Daet, Camarines Norte
11. **Office of the LGU Legislative Body**
Municipality of Daet, Camarines Norte
12. **Office of the Municipal Mayor**
Municipality of Labo, Camarines Norte
13. **Office of the LGU Legislative Body**
Municipality of Labo, Camarines Norte
14. **Office of the Municipal Mayor**
Municipality of San Lorenzo Ruiz, Camarines Norte
15. **Office of the LGU Legislative Body**
Municipality of San Lorenzo Ruiz, Camarines Norte
16. **Office of the Municipal Mayor**
Municipality of San Vicente, Camarines Norte
17. **Office of the LGU Legislative Body**
Municipality of San Vicente, Camarines Norte
18. **Office of the Municipal Mayor**
Municipality of Talisay, Camarines Norte



ERC Case No. 2016-076 RC
ORDER /7 June 2016
Page 11 of 11

19. **Office of the LGU Legislative Body**
Municipality of Talisay, Camarines Norte
20. **Office of the Municipal Mayor**
Municipality of Jose Panganiban, Camarines Norte
21. **Office of the LGU Legislative Body**
Municipality of Jose Panganiban, Camarines Norte
22. **Office of the Municipal Mayor**
Municipality of Vinzons, Camarines Norte
23. **Office of the LGU Legislative Body**
Municipality of Vinzons, Camarines Norte
24. **Office of the Municipal Mayor**
Municipality of Paracale, Camarines Norte
25. **Office of the LGU Legislative Body**
Municipality of Paracale, Camarines Norte
26. **Office of the Municipal Mayor**
Municipality of Capalonga, Camarines Norte
27. **Office of the LGU Legislative Body**
Municipality of Capalonga, Camarines Norte
28. **Office of the Municipal Mayor**
Municipality of Sta. Elena, Camarines Norte
29. **Office of the LGU Legislative Body**
Municipality of Sta. Elena, Camarines Norte
30. **Office of the Municipal Mayor**
Municipality of Mercedes, Camarines Norte
31. **Office of the LGU Legislative Body**
Municipality of Mercedes, Camarines Norte
32. **Office of the Provincial Governor**
Province of Camarines Norte
33. **Office of the LGU Legislative Body**
Province of Camarines Norte
34. **Office of the City Mayor**
City of Sta. Rosa, Laguna
35. **Office of the LGU Legislative Body**
City of Sta. Rosa, Laguna
36. **Standards & Compliance Monitoring Division,
Regulatory Operations Service**
Energy Regulatory Commission,
Pacific Center Building, San Miguel Avenue,
Ortigas Center 1600, Pasig City

