

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



IN THE MATTER OF THE
APPLICATION FOR APPROVAL
OF THE POWER SUPPLY
CONTRACT (PSC) BETWEEN
CAMARINES SUR IV ELECTRIC
COOPERATIVE, INCORPORATED
(CASURECO IV) AND SAN
MIGUEL ENERGY CORPORATION
(SMEC)

ERC CASE NO. 2014-105 RC

CAMARINES SUR IV ELECTRIC
COOPERATIVE, INCORPORATED
(CASURECO IV),

Applicant.

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DOCKED
Date: MAR 24 2015
[Signature]

NOTICE OF PUBLIC HEARING

TO ALL INTERESTED PARTIES:

Notice is hereby given that on July 9, 2014, Camarines IV Electric Cooperative, Incorporated filed an application for approval of its Power Supply Contract (PSC) with San Miguel Energy Corporation (SMEC).

In the said application, CASURECO IV alleged, among others, that:

1. It 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 Tigaon, Camarines Sur. It holds a franchise to operate light and power services in the Municipalities of Caramoan, Garchitorena, Goa, Lagonoy, Ocampo, Presentacion, Sagnay, San Jose, and Tigaon, all in the Province of Camarines Sur (Franchise Area). Copies of its Articles of Incorporation, Certificate of Incorporation and Certificate of Franchise are attached to the application;

Statement of Facts

2. It has a Power Supply Agreement (PSA) with AP Renewables, Incorporated (APRI) which expired on June 25, 2013. Almost a year before the expiration of the said PSA, it invited to APRI to participate in the negotiation for its electricity requirement which the latter responded positively. A copy of the Letter of Invitation to APRI is, likewise, attached to the application. After series of negotiations, a new PSA was finalized for its renewal. However, several days before the signing of the said new PSA, Mr. Juan Miguel Gatmaitan informed CASURECO IV that APRI has no available supply. In order for it not to be exposed to the Wholesale Electricity Spot Market (WESM), it requested APRI to extend the PSA until September 26, 2013 to give it time to look for another power supplier;
3. For the immediate selection of its power supplier, on different dates, it sent Letters of Invitation to Trans-Asia Oil and Energy Development Corporation (TA-OIL) and Bac-Man Geothermal, Incorporated (BGI). Further, it made insistent follow-ups of its Letters of Invitation to AES Philippines and SMEC. Copies of the said Letters of Invitation are attached to the application;
4. Only SMEC submitted an offer in response to its invitations sent to the abovementioned power suppliers;
5. Upon evaluation of the offer of SMEC, it found the same to be reasonable and beneficial to its member-consumers. Hence, it awarded the contract for the supply of its electricity requirements to SMEC;
6. Subsequently, on August 22, 2013 it SMEC entered into and executed a PSC with SMEC, a copy of which is attached to the application;
7. The Contract shall be effective from September 26, 2013 until December 25, 2018;

ERC Case No. 2014-105 RC
NOTICE OF PUBLIC HEARING/March 16, 2015
Page 3 of 14

8. Under the PSC, SMEC shall impose the agreed Monthly Capacity and Energy Fees, as described in the table below (Annex II of the PSC):

Period	Capacity Fee (PhP/kW-month)	Energy Fee (PhP/kWh)
September 26, 2013 to October 25, 2013	1,305.3817	2.0878
October 26, 2013 to November 25, 2013	1,313.1035	2.0878
November 26, 2013 to December 25, 2013	1,309.3189	2.0878
December 26, 2013 to January 25, 2014	1,360.3708	2.1081
January 26, 2014 to February 25, 2014	1,362.4957	2.1081
February 26, 2014 to March 25, 2014	1,347.2865	2.1081
March 26, 2014 to April 25, 2014	1,366.7682	2.1081
April 26, 2014 to May 25, 2014	1,363.1348	2.1081
May 26, 2014 to June 25, 2014	1,371.0703	2.1081
June 26, 2014 to July 25, 2014	1,367.4503	2.1081
July 26, 2014 to August 25, 2014	1,375.4022	2.1081
August 26, 2014 to September 25, 2014	1,377.5776	2.1081
September 26, 2014 to October 25, 2014	1,373.9778	2.1081
October 26, 2014 to November 25, 2014	1,381.9516	2.1081
November 26, 2014 to December 25, 2014	1,378.3672	2.1081
December 26, 2014 to January 25, 2015	1,572.8534	2.0652
January 26, 2015 to February 25, 2015	1,575.0662	2.0652
February 26, 2015 to March 25, 2015	1,560.1068	2.0652
March 26, 2015 to April 25, 2015	1,579.5133	2.0652
April 26, 2015 to May 25, 2015	1,576.0204	2.0652
May 26, 2015 to June 25, 2015	1,583.9891	2.0652
June 26, 2015 to July 25, 2015	1,580.5138	2.0652
July 26, 2015 to August 25, 2015	1,588.4960	2.0652
August 26, 2015 to September 25, 2015	1,590.7612	2.0652
September 26, 2015 to October 25, 2015	1,587.3067	2.0652
October 26, 2015 to November 25, 2015	1,595.3138	2.0652
November 26, 2015 to December 25, 2015	1,591.8732	2.0652
December 26, 2015 to January 25, 2016	1,600.4763	2.0854
January 26, 2016 to February 25, 2016	1,602.7802	2.0854
February 26, 2016 to March 25, 2016	1,593.5949	2.0854
March 26, 2016 to April 25, 2016	1,607.4066	2.0854
April 26, 2016 to May 25, 2016	1,603.9853	2.0854
May 26, 2016 to June 25, 2016	1,612.0667	2.0854
June 26, 2016 to July 25, 2016	1,608.6598	2.0854
July 26, 2016 to August 25, 2016	1,616.7571	2.0854
August 26, 2016 to September 25, 2016	1,619.1137	2.0854
September 26, 2016 to October 25, 2016	1,615.7299	2.0854
October 26, 2016 to November 25, 2016	1,623.8498	2.0854
November 26, 2016 to December 25, 2016	1,620.4823	2.0854

ERC Case No. 2014-105 RC
NOTICE OF PUBLIC HEARING/March 16, 2015
Page 4 of 14

December 26, 2016 to January 25, 2017	1,629.6159	2.1051
January 26, 2017 to February 25, 2017	1,632.0129	2.1051
February 26, 2017 to March 25, 2017	1,617.0860	2.1051
March 26, 2017 to April 25, 2017	1,636.8300	2.1051
April 26, 2017 to May 25, 2017	1,633.4734	2.1051
May 26, 2017 to June 25, 2017	1,641.6784	2.1051
June 26, 2017 to July 25, 2017	1,638.3382	2.1051
July 26, 2017 to August 25, 2017	1,646.5601	2.1051
August 26, 2017 to September 25, 2017	1,649.0119	2.1051
September 26, 2017 to October 25, 2017	1,645.6975	2.1051
October 26, 2017 to November 25, 2017	1,653.9429	2.1051
November 26, 2017 to December 25, 2017	1,650.6435	2.1051
December 26, 2017 to January 25, 2018	1,658.7273	2.1006
January 26, 2018 to February 25, 2018	1,661.2209	2.1006
February 26, 2018 to March 25, 2018	1,646.4106	2.1006
March 26, 2018 to April 25, 2018	1,666.2360	2.1006
April 26, 2018 to May 25, 2018	1,662.9833	2.1006
May 26, 2018 to June 25, 2018	1,671.2817	2.1006
June 26, 2018 to July 25, 2018	1,668.0461	2.1006
July 26, 2018 to August 25, 2018	1,676.3620	2.1006
August 26, 2018 to September 25, 2018	1,678.9145	2.1006
September 26, 2018 to October 25, 2018	1,675.7054	2.1006
October 26, 2018 to November 25, 2018	1,684.0461	2.1006
November 26, 2018 to December 25, 2018	1,680.8523	2.1006

9. Further, the PSC provides for a cost adjustment mechanism or Adjustment Formula, that shall determine the movements, on a monthly basis, of SMEC's generation costs to reflect the changes in fuel prices, the Philippine Peso to US Dollar exchange rate fluctuations, and inflation based on Consumer Price Indices (CPI) of the United States (US) and the Philippines, as changes in these factors are beyond SMEC's control. Base Prices under this PSC are updated to September 2012 levels, though a portion of the charges are to be based in January 1994 inflationary indices. These base indices shall remain constant throughout the duration of the contract;

10. The Adjustment Formula (Annex II-B of the PSC) is as follows:

Capacity Fees

Monthly Capacity Payment (Dollar Portion converted to PhP):

$$\text{PhP/kW-month} \times \frac{\text{FOREX}_C}{\text{FOREX}_B}$$

Where:

FOREX_C = Average of the daily exchange rate of the Philippine Peso to the US Dollar, as posted by the Bangko Sentral ng Pilipinas (BSP) for the calendar month within which the start of the current Billing Period occurs

FOREX_B = 41.749 PhP/USD

Monthly Capacity Payment (Local Portion in PhP):

PhP/kW-Month = No Indexation

Monthly Fixed Operations and Maintenance:

$$\text{PhP/kW-month} \times \frac{\text{PHIL CPI}_C}{\text{PHIL CPI}_B}$$

Where:

PHIL CPI_C = Consumer Price Index (CPI) for All Income Households in the Philippines – All Items (2006 = 100), as posted by the Philippine National Statistics Office (NSO) for the calendar month within which the start of the current Billing Period occurs

PHIL CPI_B = 131.40

Energy Fees

Fuel Rate:

$$\text{PhP/kWh} \times \frac{\text{Global Coal Newcastle}_C}{\text{Global Coal Newcastle}_B} \times \frac{\text{FOREX}_C}{\text{FOREX}_B}$$

Where:

Global Coal Newcastle_C = Fuel Cost Index in USD/MT based on the Global Coal Newcastle posting representing the average index for the calendar month within which the start of the current billing Period occurs

Global Newcastle_B = 89.41 USD/MT

FOREX_C = Average of the daily exchange rate of the Philippine Peso to the US Dollar, as posted by the BSP for the calendar month within which the start of the current Billing Period occurs

FOREX_B = 41.749 PhP/USD

Variable O&M (Dollar Portion):

$$\text{PhP/kWh} \times \frac{\text{FOREX}_C}{\text{FOREX}_B} \times \text{EPI}_{\text{AVE}}$$

Where:

FOREX_C = Average of the daily exchange rate of the Philippine Peso to the US Dollar, as posted by the BSP for the calendar month within which the start of the current Billing Period occurs

$$\text{FOREX}_B = 41.749 \text{ PhP/USD}$$

$$\text{EP}_{\text{IAVE}} = \text{Average Export Price Index (EPI) for US, Japan and Europe}$$

$$= \frac{\text{JI}_C}{\text{JI}_B} + \frac{\text{USI}_C}{\text{USI}_B} + \frac{\text{EI}_C}{\text{EI}_B} / 3$$

Where:

$$\text{JI}_C = \text{Japan EPI six (6) months immediately preceding the adjustment date, taken from the International Financial Statistics (IFS) published by the International Monetary Fund (IMF)}$$

$$\text{JI}_B = 93.93$$

$$\text{USI}_C = \text{US EPI six (6) months immediately preceding the adjustment date, taken from the IFS published by the IMF}$$

$$\text{USI}_B = 91.70$$

$$\text{EI}_C = \text{EPI of a European country agreed between the IPP Counter Party and the IPP and notified to the Administrator six (6) months immediately preceding the adjustment date, taken from the IFS published by the IMF}$$

$$\text{EI}_B = 120.57$$

Variable O&M (Local Portion):

$$\text{PhP/kWh} \times \frac{\text{RPI}_C}{\text{RPI}_B}$$

Where:

RPI_C = Retail Price Index for All Items (2000=100) in Metropolitan Manila six (6) months immediately preceding the adjustment date, as published by the NSO

RPI_B = 75.90

Base Indices:

Particulars	September 2012	
	Global Coal Newcastle Price Index	USD/MT
FOREX Rate	PhP/USD	41.749
US CPI (1982-84=100)	Fixed	231.407
Philippine CPI (2006=100)	Fixed	131.40
	January 1994	
Japan EPI (2010=100)	Fixed	93.93
US EPI (2010=100)	Fixed	91.70
Europe EPI (2005=100)	Fixed	120.57
Retail Price Index – Metro Manila (2000=100)	Fixed	75.90

11. Under the PSC, CASURECO IV may avail of a Prompt Payment Discount (PPD) equivalent to three percent (3%) of the Capacity and Energy Fees components of the current power bill including Value-Added Tax (VAT), provided, that the same is paid in full within ten (10) calendar days upon receipt, but not to extend beyond the 10th day of the month following the billing month, provided further, that it has no outstanding obligation arising from previous power bills from SMEC;

12. SMEC shall grant it a Collection Efficiency Discount (CED) applicable to its entire electricity consumption, subject to compliance of the required collection efficiency levels to be supported by Audited Financial Statements (AFS) submitted to the Bureau Internal Revenue (BIR), the Monthly Financial and Statistical Report submitted to the National Electrification Administration (NEA), zero (0)-rated VAT certificates and the duly accomplished CED Availment Form. The table below (Annex IV of the PSC) contains its required collection efficiency levels from its

member-consumers and the levels of discount (in PhP/kWh) that may be granted by SMEC:

Collection Efficiency Levels	Discount (PhP/kWh)
Below 65%	None
66% to 75%	0.0500
76% to 85%	0.1000
86% to 95%	0.1500
96% and above	0.2000

Rate Impact

13. The rate impact of the PSC is as follows:

Comparative Average (PhP/kWh)			
NPC	APRI	SMEC	Increase/(Decrease)
5.2420	4.4511	4.8570	(0.03849)

14. As can be gleaned from the table above, the overall rate impact is a decrease of PhP0.3849/kWh using CASURECO IV's actual load profile and prevailing financial indices;
15. In compliance with Rule 20B of the Commission's Rules of Practice and Procedure, copies of the foregoing are attached as annexes to the instant application:

Annex	Description
A	Articles of Incorporation of SMEC
B	Letters of Invitation
C	PSC between CASURECO IV and SMEC; Letter of Agreement
D	Certificate of Registration of SMEC issued by the Securities and Exchange Commission
D-1	Latest General Information Sheet (GIS) of SMEC
E	SMEC's Application for registration with the Board of Investment (BOI)
F	Environmental Compliance Certificate (ECC) issued by the Department of Environment and Natural Resources (DENR) to the Sual Coal Fired Power Project of the Pangasinan Electric Corporation

G	Contract between CASURECO IV and APRI
H	Details of the PSC – Executive Summary
I	Purchased Power Rates; Sample Computation
J	SMEC's Cash flow indicating initial costs and operating and maintenance expenses (sealed and attached to the application filed with the Commission)
K	Details of procurement process of fuel
L	Transmission Service Agreement (TSA) between CASURECO IV and the National Grid Corporation of the (NGCP)
M	Certificate of Compliance (COC) issued by the Commission
N to N-1	Certification issued by the Local Government Units Legislative Bodies of the Tigaon and the Province of Camarines Sur
O	Newspaper where the application was published
O1	Affidavit of Publication

16. In compliance with Article VI, Sections 1 and 2 of the Commission's Guidelines for the Recovery of Costs for the Generation Component of the Distribution Utilities' Rates, copies of the following are, likewise, attached as annexes to the instant application:

Annex	Description
P	CASURECO IV Board Resolution approving the PSC with SMEC
Q	CASURECO IV Board Resolution approving the filing for approval of the PSC with the Commission
R	Details regarding the transmission projects or grid connection projects
S	Statement of Consistencies between the existing generation capacity and the Department of Energy's (DOE) Philippine Power Development Plan (PPD)
T	CASURECO IV Load Forecast Projections
U	CASURECO IV Demand Side Management (DSM) Program
V	CASURECO IV latest AFS, balance sheet and cash flow
W	SMEC's latest AFS, balance sheet and cash flow
X	Rate Impact Computation

Y	Certification dated October 8, 2010 issued by the Power Sector Assets and Liabilities Management Corporation (PSALM)
Z	Actual Net Plant Heat Rate of the Sual Coal Fired Thermal Power Plant as of Calendar Years 2010 and 2011, in kcal/kWh and in Btu/kWh
AA	Breakdown of Capacity/Sale into Bilateral Contract Quantities (BCQ) and WESM Sales

17. Further, the instant application is being filed in line with the first (1st) and fifth (5th) "whereas clauses" of the DOE Circular No. 2003-12-11, which are quoted hereunder:

"WHEREAS, Section 2 of Republic Act No. 9136, also known as the Electric Power Industry Reform Act of 2001 or EPIRA, declared as a policy of the State, among others, [to ensure the quality, reliability, security and affordability of the supply of electric power;" (first "whereas clause", Department of Energy Circular No. 2003-12-11. Underscoring supplied);

"WHEREAS, pursuant to Section 23 of EPIRA, all distribution utilities, as defined in the law, SHALL HAVE THE OBLIGATION TO SUPPLY ELECTRICITY IN THE LEAST COST MANNER TO ITS CAPTIVE MARKET subject to the collection of retail rate duly approved by the Energy Regulatory Commission;" (fifth "whereas clause", *ibid.* Underscoring supplied);

18. Moreover, Section 1 of the same DOE Circular declares as State policy, that:

"All distribution utilities must henceforth take cognizance and assume full responsibility to forecast, assure and contract for the supply of electric power in the respective franchise areas to meet their obligations as a distribution utility." (Underscoring supplied);

19. By way of emphasis, Resolution No. 21, Series of 2005 of the Commission dated October 19, 2005 had directed all distribution utilities “to enter into future bilateral power supply contract with power producers to be subjected to a review by the Commission.” (*Underscoring supplied*);
20. In the interest of the public, considering that SMEC was the only supplier which expressed interest in supplying its power requirements, and in view of the expiration of its PSA with APRI, there is an urgent necessity for the approval of the instant application in order that there will be no undue disruption in the power supply and its member-consumers shall, at the soonest possible time, benefit from the lower generation cost as can be gleaned from the proposal of SMEC;
21. Notwithstanding the suspension of the amendment to the Commission’s Guidelines on the Recovery of Costs for the Generation Component of the Distribution Utilities’ Rates in 2004 by virtue of Resolution No. 21, Series of 2006 dated May 10, 2006 which has not been lifted up to the present, the award of the power supply contract to SMEC was made after it has not received any response from the invited power suppliers except for the Proposal of SMEC. After through study of SMEC’s pricing structure and other favorable terms of its contract, which will redound to the benefit CASURECO IV and its member-consumers in terms of reliable and affordable power supply, the award of the power supply contract was given to SMEC; and

Prayer

22. Thus, it prays, that:
 - 22.1 Upon initial review of the instant application, the Commission set the same for public hearing as soon as possible;
 - 22.2 After notice and public hearing, the Commission approve the instant application and allow it to pass on the generation rate and applicable adjustments under the PSC; and

22.3 The Commission authorize it to pass on to its member-consumers fifty percent (50%) of the PPD and CED availed from SMEC.

The Commission has set the application for initial hearing, expository presentation, pre-trial conference and evidentiary hearing on **April 29, 2015 (Wednesday) at two o'clock in the afternoon (2:00 P.M.) at the Center for Human Resource Development (CHRD), PDA Compound, Tigaon, Camarines Sur.**

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 Chairperson, **ZENAIDA G. CRUZ-DUCUT**, and the Honorable Commissioners, **ALFREDO J. NON**, **GLORIA VICTORIA C. YAP-TARUC**, and **JOSEFINA PATRICIA A. MAGPALE-ASIRIT**, Energy Regulatory Commission, this 16th day of March, 2015 at Pasig City.


ATTY. FRANCIS SATURNINO C. JUAN
Executive Director III