

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



**IN THE MATTER OF THE APPLICATION FOR AUTHORIZATION TO PROVIDE ELECTRICITY SERVICE IN BARANGAYS CANDAWAGA AND CULASIAN, RIZAL, PALAWAN AS QUALIFIED THIRD PARTY (QTP) AND FOR ISSUANCE OF THE CORRESPONDING AUTHORITY TO OPERATE (ATO) AND FOR APPROVAL OF THE QTP SERVICE AND SUBSIDY CONTRACT (QSSC) WITH NATIONAL POWER CORPORATION (NPC), WITH PRAYER FOR ISSUANCE OF A PROVISIONAL AUTHORITY,**

**ERC CASE NO. 2015-200 RC**

**POWERSOURCE PHILIPPINES,  
INC. (PSPI),**

Applicant.

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**D O C K E T E D**

**Date: FEB. 17, 2016.**

**By: \_\_\_\_\_**

**NOTICE OF PUBLIC HEARING**

**TO ALL INTERESTED PARTIES:**

Notice is hereby given that on 12 November 2015, PowerSource Philippines, Inc. (PSPI) filed an Application for authorization to provide electricity service in Barangays Candawaga and Culasian, Rizal, Palawan as a Qualified Third Party (QTP), with request for the issuance of the corresponding Authority to Operate (ATO), and for approval of the QTP Service and Subsidy Contract (QSSC) with the National Power Corporation (NPC), with prayer for the issuance of provisional authority.

In support of said Application, PSPI alleged, among others, the following:

1. This is an Application for authorization to provide electricity service with request for the issuance of the corresponding Authority to Operate (ATO) as a Qualified Third Party (QTP) in Barangays Candawaga and Culasian, Rizal, Palawan, filed pursuant to and by virtue of the Rules for the Regulation of the Qualified Third Parties Performing Missionary Electrification in Areas Declared Unviable by the Department of Energy (ERC QTP Guidelines), as approved in ERC Resolution No. 22, Series of 2006;
2. The instant Application likewise seeks the approval of the QTP Service and Subsidy Contract (QSSC)<sup>1</sup> dated 09 October 2015, executed by and between PSPI and the NPC, including the Full Cost Recovery Rate (FCRR) provided therein. A copy of the QSSC is attached to the Application as **Annex "A"**;
3. PSPI is a corporation duly organized and existing under the laws of the Republic of the Philippines with its principal office at the 10<sup>th</sup> Floor, The Athenaeum Building, 160 Leviste Street, Salcedo Village, Makati City, Metro Manila. Copies of Applicant's relevant corporate documentation such as the Certificate of Registration with the Securities and Exchange Commission (SEC), Articles of Incorporation, latest Audited Financial Statements and latest General Information Sheet are attached to the Application as **Annexes "B", "C", "D", and "E"** respectively;
4. Applicant has the full legal, financial and technical capacity to operate. At present, the Department of Energy (DOE) still has to issue the Certificate of Endorsement stating that Applicant was prequalified in accordance with DOE Circular No. 2004-06-006 and DOE Circular 2005-12-011. A copy of the Certificate of Endorsement will be attached to the Application as **Annex "F"** once it is released by the DOE;
5. PSPI may be served with orders or other legal processes through the undersigned counsel;

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<sup>1</sup> The QTP Service and Subsidy Contract (QSSC) is the resulting legal document after combining the provisions of the QTP Service Contract (QSC) and Subsidy Disbursement Agreement (SDA).

**COMPLIANCE WITH PRE-FILING REQUIREMENTS**

6. In compliance with Rule 6 of the ERC Rules of Practice and Procedure, approved by the Commission on 22 June 2006 as Resolution No. 38, Series of 2005, PSPI has furnished the Sangguniang Bayan of the Municipality of Rizal and the Sangguniang Panlalawigan of the Province of Palawan copies of the Application with all its annexes. Copies of the certifications from the Sangguniang Bayan of the Municipality of Rizal and the Sangguniang Panlalawigan of the Province of Palawan, or their duly authorized representatives, attesting to the fact of such service, are attached as **Annex "G"** of the Application;
7. Furthermore, PSPI has caused the publication of the present Application in its entirety in a newspaper of general circulation within the Municipality of Rizal. Copies of the corresponding Affidavit of Publication and the newspaper are attached to the Application as **Annexes "H" and "H-1"**, respectively;

**STATEMENT OF FACTS**

8. Under Section 59 of Republic Act No. 9136 or the Electric Power Industry Reform Act of 2001 (EPIRA) and Rule 14 of its Implementing Rules and Regulations (IRR), the provision of electric service in remote and unviable areas that a distribution utility is unable to service shall be opened to QTP;
9. As stable and reliable supply of power is essential to economic growth and sustainability, the electricity service provided by a QTP is envisaged to spur development in an economically unviable area and, in the long term, elevate such area to a level of viability. However, the provision of electricity service in unviable areas is expectedly costly and not economically feasible. It would not be reasonable to charge consumers in rural and remote areas high cost of providing such service;
10. In accordance with Section 70 of the EPIRA, the entry of QTPs to stimulate economic growth in unviable areas is made feasible by a subsidy sourced from the Universal Charge for Missionary Electrification (UC-ME). This enables a QTP to operate viably while charging its consumers at rates that are reasonably acceptable in the area, as may be determined by the Commission;

11. Pursuant to Sections 59 and 70 of the EPIRA and its IRR, the DOE issued Department Circular No. 2004-06-006, which prescribes the qualification criteria for QTPs, and Department Circular 2005-12-011, which prescribes the guidelines for the participation of QTPs for provision of electric service in remote and unviable areas;
12. At the time when the regulatory and administrative framework for QTP projects, including mechanisms for the availment of UC-ME subsidy by QTPs, were still being developed, Applicant already commenced its operations as a QTP in Barangay Rio Tuba, Bataraza, Palawan (Rio Tuba) and in Malapascua Island, Barangay Logon, Daan Bantayan, Cebu and was about to begin its operations in Balut Island, Saranggani, Davao Occidental and in Barangays Candawaga and Culasian, Rizal, Palawan;
13. PSPI is a pioneer QTP having been issued the very first Authority to Operate as a QTP in the entire country for its Rio Tuba electrification project. This exemplifies the successful economic upliftment of a remote and unviable area through the entry of a QTP;
14. **The QTP Service Area.** Barangays Candawaga and Culasian, both located in the Municipality of Rizal in the Province of Palawan (QTP Service Area) is a remote and unviable area within the franchise area of Palawan Electric Cooperative, Inc. (PALECO);
  - 14.1. The QTP Service Area is located approximately 230 kilometers southwest from Puerto Princesa City, about 5 – 6 hours land trip. From Rizal's town center, Barangays Candawaga and Culasian are accessible via a gravel road with an approximate distance of 22 kms. A location map and description of the QTP Service Area is attached hereto as Annex "I";
  - 14.2. There is a Barangay Power Association (BAPA) located in Sitio Sicud, Candawaga and is operating a 1x100 kVA diesel genset 5-hours daily from 6pm -11 pm. While in Culasian, it was once a KEPCO recipient in the O'Ilaw Program of the government. The power plant is no longer operating since 2009 due to financial reasons (high fuel costs and low collection efficiency);

15. **Selection of Applicant as Service Provider.** In a letter dated 23 January, 2015, DOE has determined that PSPI has satisfied the qualification criteria under the DOE QTP Qualification Circular;
  - 15.1. Pursuant to a MOA and a Revised MOA (attached as Annex "J") in February 14, 2013 at Liminangcong, Taytay, Palawan, PSPI and PALECO, a cooperative duly registered under the laws of the Philippines with office address at PALECO main office, North National Road, Barangay Tiniguiban, Puerto Prinsesa City, Palawan, Philippines executed a Waiver Agreement on 11 October 2014 whereby PALECO waived in favor of PSPI all of the Provincial Government of Palawan/PALECO's right and interests to provide electricity service in the QTP Service Area;
  - 15.2. Pursuant to the Waiver Agreement, PSPI shall take over from PALECO the missionary electrification function of supplying the electricity requirements of Barangay Candawaga and Culasian, Rizal, Palawan;
  
16. **PALECO's Waiver of Service and Declaration of QTP Service Area as a Remote & Unviable Area.** On 10 January 2005, PALECO issued Board Resolution No. 001, Series of 2005, formally waiving its franchise to operate in several barangays including Barangay Candawaga and, thereafter, Culasian, Rizal, Palawan. A copy of the said Board Resolution is attached to the application as hereto as **Annex "K"**;
  - 16.1. Following the issuance of the PALECO Board Resolution, PALECO and PSPI executed on 01 October 2014, a Waiver Agreement, whereby PALECO waived in its favor the right to provide electricity service in the QTP Service Area. A copy of the Waiver Agreement is attached to the application as hereto as **Annex "L"**;
  
17. **QTP Operations.** Prior to PSPI's entry in the QTP Service Area, based on actual survey conducted by its staff, the average monthly electricity expense of residents in Barangay Candawaga is approximately PhP 378.20 while the average monthly electricity expense of residents in Barangay Culasian is approximately PhP1,084.24;

- 17.1. Based on an extensive house-to-house customer load surveys and projected small loads of electricity on off-peak hours which will likely be experienced in the early years of Project Development, PSPI will install a very modular, flexible and highly redundant diesel generating plant based on 2 units of small high speed gensets, 1 x 48 kW and 1 x 80 kW on the first year of operation. This ensures modest capital cost and maximum operating flexibility in the early years of operation;
- 17.2. PSPI's project is aimed to be a realization of the goal of the QTP program to stimulate economic progress in remote and unviable areas through electrification. The beneficial impact of stable and reliable electricity service to the economy of the local community in the QTP Service Area as well as the daily lives of the consumers cannot be overstated;
18. **Formation of Project Company for Candawaga and Culasian Project.** Similar to its plans in the Rio Tuba Project and Malapascua Project, PSPI intends to incorporate a project company with local investment for the purpose of providing electricity service and performing the functions of a QTP in the QTP Service Area to which it will assign its ATO as a QTP and transfer its rights and interests in the QTP project as well upon the approval of the present Application;

**SIGNIFICANT ASPECTS OF THE PROJECT  
AND THE QTP SERVICE AND SUBSIDY CONTRACT**

19. Under the QSSC, PSPI shall provide 24-hour electricity service in the QTP Service Area for a term of fifteen (15) years. In order to ensure that PSPI will be able to viably serve the QTP Service Area, it may be allowed to avail of the UC-ME Subsidy;
- 19.1. **The Generation Facilities.** In Barangays Candawaga and Culasian, PSPI will install a 1 x 48 kW and 1 x 80 kW in the first. Additional 1 x 140 kW in the Second Year. Nonetheless, should there be a massive increase in load growth as foreseen by it, the latter reserves the right to request for the adjustment of the FCRR to include a new generator set and its relevant components in the computation;

- 19.2. The relevant Environment Compliance Certificate (ECC) issued by the Department of Environment and Natural Resources (DENR) and Certificate of Compliance (COC) issued by the Commission covering the diesel generating units will be obtained prior to Commercial Operations Date;
- 19.3. In line with legislative and regulatory policies on the promotion of renewable sources of energy, PSPI intends to comply with the Renewable Portfolio Standards (RPS), sourcing a certain percentage of its power supply from a renewable energy technology. It shall conduct resource assessment and determine the optimal integration of renewable energy in the distribution system;
- 19.4. **Distribution System and related operations.** PSPI will rehabilitate and upgrade the existing distribution network in Rizal. It will also plan for an expansion of the existing grid based on the high load growth potential. For the term of the Project, PSPI will strive to maintain on the average 11% system loss;
- 19.5. The operations and maintenance of the distribution system, as well as billing and collection, will be performed by PSPI. This fee is incorporated as a flat rate in the Full Cost Recovery Rate;
- 19.6. **Availment of UC-ME Subsidy.** The QSSA provides the terms and conditions governing PSPI's availment of the UC-ME Subsidy. For the provision of electricity service, it shall charge and collect from its end users the SARR. Should the FCRR be higher than the SARR, PSPI shall be entitled to recover the difference from the UC-ME Subsidy through the mechanism provided in the QSSC;
20. **Financial Plans.** PSPI intends to enter into a long-term lease agreement with a credible generator set leasing company to minimize generation cost of the electricity provided. A long-term lease reduces the up-front capital required and ensures optimal genset operation. In the long-term lease agreement, the genset leasing company guarantees the necessary genset performance metrics including fuel efficiency, plant availability

and fixed and variable costs thereby creating an additional layer of power supply stability.

Fuel supply shall be arranged through a purchase contract considering the current fuel provider of NPC. The fuel supply contract shall be established mutually to ensure continuous plant operations. A detailed discussion of the funding/financial aspects of the project is attached to the Application as **Annex "M"**;

**20.1. Project Cost.** The total capital cost for the Generation Facilities amounts to Twenty-Three Million One Hundred Ninety-One Thousand Three Hundred Ninety-Two Pesos (PhP23,191,392.00) consisting of the costs of the plant equipment, buildings, capitalized expenses and working capital for initial stocks of fuels and lubes and mobilization during plant trials and personnel training. A summary of the project cost components is contained in **Annex "N"** of the Application;

**20.2. Debt/Equity Ratio.** The debt-equity ratio for the capital cost of the Generation Facilities shall be 67:33;

**20.3. Computation of Return on Investment/Weighted Average Cost of Capital.** The Weighted Average Cost of Capital ("WACC") for the project is 11% p.a. This was obtained considering a minimum desired return of 14% p.a. on equity capital and an interest of 9.5% p.a. on debt capital;

**20.4.** The minimum desired return for equity capital for the project and the cost of debt capital are placed at 14% p.a. and 9.5% p.a., respectively, to reflect the significantly higher risks associated with providing electricity service in a remote and unelectrified rural community without an offtake guaranteed by a contractual counter-party. A computation of the above WACC is contained in **Annex "O"**;

**21. Purchased Power Rate.** The Full Cost Recovery Rate (FCRR) consists of a levelized base rate of PhP34.08/kWh, which shall be automatically adjusted for each billing period based on Philippine and US consumer price indices as well as actual fuel costs, in accordance with the adjustment



mechanisms in the QSSA. In accordance with the ERC QTP Guidelines, PSPI shall charge and collect from the end-users SARR. Should the FCRR be higher than the SARR, PSPI shall be entitled to recover the difference from the UC-ME Subsidy. A detailed discussion on the FCRR, including its breakdown and the rationale supporting the indexation, is attached to the Application as **Annex “P”**;

**22. Cash Flow.**

**22.1 Initial Costs, Operating and Maintenance Expenses.** The initial capital cost for the project consists of diesel plant costs amounting to Twenty-Three Million One Hundred Ninety-One Thousand Three Hundred Ninety-Two Pesos (PhP23,191,392.00). The capital costs for the first five (5) years, as well as the breakdown of the operating and maintenance expenses for the fifteen (15) year term of the QSSC are shown in Annex “R”;

**23. Projected Demand.** Considering the nature of the project, there is no minimum energy off-take, as the sale of power is based on actual energy consumed by each end-user consumer. The FCRR is determined based on an assumed annual increase in energy demand of four percent (4%). A detailed discussion on the projected demand is contained in **Annex “S.”** A survey study was commissioned by PSPI on the QTP Service Area. The results of the survey were considered and used as the assumption for the load demand and load growth in the Financial Model. The survey summary report is attached as **Annex “T”**;

**24. Procurement of Fuel.** PSPI is sourcing and will source its future diesel fuel supply from potential suppliers willing to deliver fuel to the site. It will procure fuel from the least expensive supplier should additional suppliers become available. It will source its biomass fuel from local farmers and it will also develop its own plantation to produce such fuel;

**RATE IMPLICATIONS OF THE QTP SERVICE  
AND SUBSIDY CONTRACT**

**25.** The grant of an Authority to Operate and the approval of the QSSC, along with the corresponding subsidy support, will enable PSPI to operate viably and, at the same time, charge a

lower tariff on its customers in the QTP Service Area. In the absence of an ERC-approved SARR, the tariff to be charged by it shall be equivalent to the ERC-approved retail rate of PALECO, in accordance with Section II, Article IV of the ERC QTP Guidelines.

The following table shows the impact of the QSSC on the electricity rates:

	<b>Before ERC approval</b>	<b>After ERC Provisional Authority or Final Approval</b>
True cost of electricity service (FCRR)	P 34.08/kWh*	P 34.08/kWh*
Rate paid by consumers	P [X]/kWh	P 8.5/kWh**
Subsidy requirement	none provided	P25.58/kWh

\* Subject to periodic adjustments based on consumer price indices, foreign exchange rate, and actual costs.

\*\* In the absence of an ERC-approved SARR, the retail rate of PALECO shall be applied. Once the ERC approves an SARR, the SARR shall apply.

26. The subsidy component necessary for the continued supply of electricity that will sustain the economic growth of the QTP Service Area results in an impact on the Universal Charge in the amount of Php25.58/kWh;
27. PSPI respectfully submits that the aforementioned amount is more than reasonable considering the 24-hour, enterprise level service provided under the QSSC that directly results in the significant economic upliftment and improvement in the quality of life in the QTP Service Area which is beyond anything possible in the traditional 6 to 12 hour rural electrification systems;

**ARGUMENTS IN SUPPORT OF  
REQUEST FOR INTERIM RELIEF & PROVISIONAL  
AUTHORITY (PA) TO OPERATE IN THE QTP AREA**

28. Rule 14 of the Commission's Rules of Practice and Procedure authorizes the issuance of a PA and/or an interim relief prior to a final decision, provided that the facts and circumstances warrant the issuance thereof;
29. In the case of PSPI, it must be noted that the PA is necessary for the execution of its agreement with NPC which will embody

the seamless phase-in of its operation, and the eventual phase-out of NPC's generating function, in the QTP area;

30. Furthermore, the PA will be submitted by PSPI to its prospective lenders as a requirement for the grant of loans, necessary to finance the project;
31. Moreover, it must be emphasized that PSPI has already secured offers from third parties for the lease of the rights to the generation and distribution facilities for the project. Applicant is, therefore, constrained to request for the issuance of the PA before the expiration of the aforesaid offers;
32. In the matter of interim relief, PSPI is seeking to collect a lower rate through the Subsidized Approved Retail Rate (SARR) instead of the Full Cost Recovery Rate (FCRR) as ordered by the ERC in consideration of the limited paying capacity of its consumers. The electrification of the QTP Service Area will not be possible if consumers were charged at true cost;
33. Finally, the success of this project with the regulatory imprimatur of this Commission will pave way for further investment by PSPI in more projects designed to spur economic growth in remote and unviable areas through the provision of a 24-hour reliable electricity service. Applicant's interest in other project sites will be dependent on the success of the present Application, particularly on the availment of the necessary subsidy support under the QTP program. With such support, PSPI looks forward to replicating the success of this project in other areas;

#### **PRAYER**

34. PSPI prays that, at the soonest possible time, the Commission grants it provisional and interim relief as follows:
  - 34.1. Authority to Operate as a Qualified Third Party under the ERC QTP Guidelines;
  - 34.2. A Provisional Authority to Operate in the QTP Area be immediately issued in its favor pending ERC Resolution;

- 34.3. The QTP Service Contract, including the Full Cost Recovery Rate therein, be approved;
- 34.4. Authority to charge its customers a tariff equivalent to the ERC-approved retail rate of PALECO, in accordance with Section II, Article IV of the ERC QTP Guidelines; and
- 34.5. Permission to recover from the UC-ME Subsidy the difference between the FCRR and rate charged by it to its consumers; and to this end, NPC be directed to release to PSPI such subsidy in accordance with the terms of the QTP Service Contract.

The Commission has set the Application for jurisdictional hearing, expository presentation, pre-trial conference and evidentiary hearing on **15 March 2016 (Tuesday) at ten o'clock in the morning (10:00 A.M.) at the Barangay Gymnasium in Candawaga, Rizal, Palawan.**

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 wish to have a copy of the Application may request from the Applicant that they be furnished with the same, prior to the date of the initial hearing. The Applicant is 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**, **JOSEFINA PATRICIA A. MAGPALE-ASIRIT** and **GERONIMO D. STA. ANA**, **Energy Regulatory Commission**, this 9<sup>th</sup> day of February 2016 at Pasig City.

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

  
LBB/APV