

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 CONTRACT (PSC)
ENTERED INTO BY AND
BETWEEN TARLAC I
ELECTRIC COOPERATIVE,
INC. (TARELCO I) AND SAN
MIGUEL ENERGY
CORPORATION (SMEC),
WITH MOTION FOR
PROVISIONAL AUTHORITY**

ERC CASE NO. 2016-034 RC

**TARLAC I ELECTRIC
COOPERATIVE, INC.
(TARELCO I) AND SAN
MIGUEL ENERGY
CORPORATION (SMEC),
Applicants.**

D O C K E T E D
Date: JUN 01 2016
By: *[Signature]*

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NOTICE OF PUBLIC HEARING

TO ALL INTERESTED PARTIES:

Notice is hereby given that on 29 March 2016, Tarlac I Electric Cooperative, Inc. (TARELCO I) and San Miguel Energy Corporation (SMEC) filed an Application for the Approval of the Power Supply Contract (PSC) with Motion for Provisional Authority.

In the said Application, TARELCO I and SMEC alleged among others, the following:

1. TARELCO I is a non-stock, non-profit electric cooperative duly organized and existing under Philippines laws, with principal address at Brgy. Amacalan, Gerona, Tarlac. TARELCO I has the

exclusive franchise to supply and distribute electricity within its franchise area comprising of the municipalities of Gerona, Paniqui, Ramos, Moncada, San Manuel, Victoria, Pura, Anao, Camiling, San Jose, Mayantoc, Sta. Ignacia, and San Clemente, Province of Tarlac and the municipalities of Nampicuan and Cuyapo, Province of Nueva Ecija; the barangays of Laoang, San Juan de Mata, Batangbatang, Bora and Sto. Domingo, all of Tarlac City in the Province of Tarlac; the barangays of Maybubon, Agcano, Bagong Barrio, Bulakid, Caingin, Tabing Ilog, Escano, San Agustin, Yuson, Lamorito and San Miguel in the municipality of Guimba, Province of Nueva Ecija and Barangay Villa Rosa in the municipality of Licab, also in the Province of Nueva Ecija. TARELCO I shall also be referred to herein as "Buyer".

2. SMEC is a corporation duly organized and existing under Philippine laws, with office address at 2nd Floor 808 Building, Meralco Ave. corner Gen. Lim St., Brgy. San Antonio, Pasig City. SMEC shall also be referred to herein as "Seller".

Nature of the Application

3. This is an application for the approval of the Power Supply Contract ("PSC") between TARELCO I and SMEC, filed pursuant to Rule 20 (B) of the Rules of Practice and Procedure before the Energy Regulatory Commission.

Statement of Facts

4. SMEC is the IPP Administrator of the 1000 MW Net Contracted Capacity of the Sual Coal-Fired Thermal Power Plant located in Brgy. Pangascasan, Sual, Pangasinan, under an IPP Administration Agreement executed between SMEC and the Power Sector Assets and Liabilities Management Corporation (PSALM). As IPP Administrator, SMEC has the right to sell, trade or otherwise dispose of the net contracted capacity of the plant for its own account and its own risk.

5. **Procurement Process.** As of Dec 25, 2013, energy was being supplied to TARELCO I by the Masinloc Power Partners Co. Ltd. (MPPCL) (14.36MW), and GNPowder Mariveles Coal Power Plant (GMCP) (20MW), with a total PSC of 34.36MW. However, due to the inflow of large industries and the steady increase of captive customers' load, there was a need to increase supply. Back then, TARELCO I's actual demand was 37.58MW (with a deficit of 3.22MW). This prompted TARELCO I to request its existing suppliers for additional/increase in contract capacity. Letters were sent to MPPCL and GMCP. However, no extra supply was available.

Thereafter, TARELCO I requested SMEC to supply the former with 5MW capacity, since SMEC was once a supplier prior to GMCP. SMEC responded and agreed to a 3-year Power Supply Agreement with 5MW baseload which started November 26, 2013, renewable yearly up to December 25, 2016.

6. **Demand-Supply Scenario.** As of December 26, 2013, TARELCO I was being supplied by GMCP and MPPCL. The contract with GMCP started on December 26, 2013, with Contract Demand of 20MW which will terminate on December 25, 2027.
7. MPPCL's Initial Contract was for 3 years which started on November 26, 2009 and later on extended for 10 years on December 26, 2013.
8. Contract Demand is increasing yearly with an average increase of 2MW yearly. TARELCO I's demand exceeded its contracted supply in 2013 by 3.22MW. With large industrial customers still being constructed, additional supply thru the 5MW PSC with SMEC is needed, and is the subject of this application. To ensure the security of supply for TARELCO I's customers, and to cater to the increasing demand of incoming big loads, TARELCO I signed a Power Supply Contract with SMCPC (San Miguel Consolidated Power Corp.-Limay Bataan-2x150MW-Coal Fired) with a 10MW baseload and is subject of a separate application with the ERC. This serves as a replacement for SMEC's expiring 5MW supply contract by December 25, 2016,

or when SMCPD becomes commercially available, then the PSC from SMEC is automatically terminated.

Salient Features of the Power Supply Contract

9. **Power Supply Agreement.** TARELCO I and SMEC signed the PSC for TARELCO I's baseload electricity requirements beginning December 26, 2014 until the Commercial Operations Date ("COD") of the 2 x 150 MW CFB Coal Fired Plant of SMC Consolidated Power Corporation ("SCPC") in Limay, Bataan with whom TARELCO I also entered into a Power Supply Contract. The PSC has the following salient points:
 - 9.1. **Term.** The PSC shall take effect between the Parties upon signing and shall be effective until the Commercial Operations Date ("COD") of the 2x150 MW CFB Coal-Fired Power Plant in Limay, Bataan of SMC Consolidated Power Corporation ("SCPC").
 - 9.2. **Contract Capacity.** Beginning December 26, 2014 until COD, the Seller agreed to deliver and the Buyer agrees to take 5,000 kilowatts (kW) of capacity from the Plant. The Seller may allow an increase in the Contract Capacity upon application of the Buyer, and the Contract Capacity may be decreased subject to the payment of a buy-out fee.
 - 9.3. **Supply.** The supply of the Contract Capacity shall commence on December 24, 2014, with a minimum hourly nomination of 35%.
 - 9.4. **Discounts.** The Seller provides the following discounts (a) Prompt Payment Discount (PPD) – three percent (3%) of the total Capacity and Energy Charges, subject to payment conditions. Start-up charges and WESM charges, if any, shall not be subjected to PPD; and (b) Collection Efficiency Discount (CED) of up to a maximum of PhP0.20/kWh may be granted subject to compliance with certain payment requirements.

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9.5. **Outage Allowance.** For every Contract Year, the SELLER shall have Scheduled Outage Allowance of 720 cumulative outage hours and Forced Outage Allowance of 720 cumulative outage hours. Any unutilized outage allowance hours for the Contract Year shall not be carried over into the following Contract Year. The SELLER shall also have an additional Major Maintenance Outage Allowance of 720 cumulative outage hours every five (5) years beginning the first major maintenance of the Plant.

10. **Contract Charges.** Under the PSC, TARELCO I shall pay the following capacity and energy fees to SMEC:

Period Covered			CAPACITY FEES (PhP/kW-month)			ENERGY FEES (PhP/kWh)		
Contract Year 2015			Dollar Portion	Local Portion	Fixed O&M	Fuel Rate	Variable O&M (Dollar)	Variable O&M (Local)
From		To	A1	A2	B	C	D1	D2
26-Dec-14	-	25-Jan-15	435.7443	1,030.7261	106.3830	1.9943	0.0626	0.0083
26-Jan-15	-	25-Feb-15	436.5275	1,032.1557	106.3830	1.9943	0.0626	0.0083
26-Feb-15	-	25-Mar-15	437.3133	1,016.4105	106.3830	1.9943	0.0626	0.0083
26-Mar-15	-	25-Apr-15	438.1017	1,035.0286	106.3830	1.9943	0.0626	0.0083
26-Apr-15	-	25-May-15	438.8928	1,030.7446	106.3830	1.9943	0.0626	0.0083
26-May-15	-	25-Jun-15	439.6864	1,037.9197	106.3830	1.9943	0.0626	0.0083
26-Jun-15	-	25-Jul-15	440.4828	1,033.6480	106.3830	1.9943	0.0626	0.0083
26-Jul-15	-	25-Aug-15	441.2818	1,040.8312	106.3830	1.9943	0.0626	0.0083
26-Aug-15	-	25-Sep-15	442.0834	1,042.2948	106.3830	1.9943	0.0626	0.0083
26-Sep-15	-	25-Oct-15	442.8877	1,038.0360	106.3830	1.9943	0.0626	0.0083
26-Oct-15	-	25-Nov-15	443.6947	1,045.2361	106.3830	1.9943	0.0626	0.0083
26-Nov-15	-	25-Dec-15	444.5044	1,040.9858	106.3830	1.9943	0.0626	0.0083
Contract Year 2016								
26-Dec-15	-	25-Jan-16	445.3168	1,048.7765	106.3830	2.0145	0.0626	0.0083
26-Jan-16	-	25-Feb-16	446.1319	1,050.2653	106.3830	2.0145	0.0626	0.0083
26-Feb-16	-	25-Mar-16	446.9497	1,040.2622	106.3830	2.0145	0.0626	0.0083
26-Mar-16	-	25-Apr-16	447.7703	1,053.2533	106.3830	2.0145	0.0626	0.0083
26-Apr-16	-	25-May-16	448.5935	1,049.0088	106.3830	2.0145	0.0626	0.0083
26-May-16	-	25-Jun-16	449.4195	1,056.2642	106.3830	2.0145	0.0626	0.0083
26-Jun-16	-	25-Jul-16	450.2484	1,052.0284	106.3830	2.0145	0.0626	0.0083
26-Jul-16	-	25-Aug-16	451.0799	1,059.2942	106.3830	2.0145	0.0626	0.0083
26-Aug-16	-	25-Sep-16	451.9142	1,060.8165	106.3830	2.0145	0.0626	0.0083
26-Sep-16	-	25-Oct-16	452.7512	1,056.5957	106.3830	2.0145	0.0626	0.0083
26-Oct-16	-	25-Nov-16	453.5912	1,063.8756	106.3830	2.0145	0.0626	0.0083
26-Nov-16	-	25-Dec-16	454.4338	1,059.6655	106.3830	2.0145	0.0626	0.0083

10.1. **Other Charges.** BUYER shall bear all other costs and charges incurred after the Delivery Point, including but not limited to transmission line losses, any interconnection charges and site specific loss adjustments, among others.

10.2. **Taxes.** All applicable taxes as well as other future taxes, except corporate income tax, that may be imposed by the government in connection with the SELLER's performance of its obligation under this Contract, including any increase or adjustment thereon, shall be for the account of the BUYER.

10.3. **Adjustment Formula.** The capacity and energy fees are subject to monthly adjustment based on the following formula and indices:

I. CAPACITY FEES

A1. Monthly Capacity Payment
(Dollar Portion converted to PhP)

$$PhP/kW-Mo. \quad X \quad \frac{FOREX_C}{FOREX_B}$$

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 for the calendar month within which the start of the current Billing Period occurs.
 $FOREX_B$ = 41.749 PhP/USD

A2. Monthly Capacity Payment -
(Local Portion in PhP)

$$PhP/kW-Mo. \quad = \quad NO \text{ INDEXATION}$$

B. Monthly Fixed Operations and Maintenance

$$PhP/kW-Mo \quad X \quad \frac{PHIL \text{ CPI}_C}{PHIL \text{ CPI}_B}$$

Where:

$PHIL \text{ CPI}_C$ = Consumer Price Index for All Income Households in the Philippines – All Items (2006 = 100) as posted by the Philippine National Statistics Office for the calendar month within which the start of the current Billing Period occurs
 $PHIL \text{ CPI}_B$ = 131.40

II. ENERGY FEES

C. Fuel Rate

$$\text{PhP/kWh} \quad X \quad \frac{\text{GLOBAL COAL NEWCASTLE}_c}{\text{GLOBAL COAL NEWCASTLE}_B} \quad X \quad \frac{\text{FOREX}_c}{\text{FOREX}_B}$$

Where:

$\text{GLOBAL COAL NEWCASTLE}_c$ = 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

$\text{GLOBAL COAL NEWCASTLE}_B$ = 89.41 USD/MT

FOREX_c = Average of the daily exchange rate of the Philippine Peso to the US Dollar as posted by the BangkoSentral ng Pilipinas for the calendar month within which the start of the current Billing Period occurs.

FOREX_B = 41.749 PhP/USD

D1. Variable O&M (Dollar Portion)

$$\text{PhP/kWh} \quad X \quad \frac{\text{FOREX}_c}{\text{FOREX}_B} \quad X \quad \text{EPI}_{AVE}$$

Where:

FOREX_c = Average of the daily exchange rate of the Philippine Peso to the US Dollar as posted by the BangkoSentral ng Pilipinas for the calendar month within which the start of the current Billing Period occurs.

FOREX_B = 41.749 PhP/USD

EPI_{AVE} = Average Export Price Index for US, Japan and Europe
 $[(JI_c/JI_B) + (USI_c/USI_B) + (EI_c/EI_B)]/3$

Where:

JI_c = Japan Export Price Index six (6) months immediately preceding the adjustment date, taken from the International Financial Statistics published by the International Monetary Fund

JI_B = 136.24

USI_c = US Export Index six (6) months immediately preceding the adjustment date, taken from the International Financial Statistics published by the International Monetary Fund

USI_B = 79.59

EI_c = Export Price Index 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 International Financial Statistics published by the International Monetary Fund

EI_B = 120.57

D2. Variable O&M (Local Portion)

$$\text{PhP/kWh} \quad X \quad \frac{\text{RPI}_c}{\text{RPI}_B}$$

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 National Statistics Office

RPI_B = 75.90

The Parties agree to adopt changes in any of the fuel and inflationary indices subject to the prior notification by the SELLER to the BUYER for the occurrence of any of the following events: a) shift made in the base year and other adjustment(s) to such index made by the relevant authorized entity, or b) any of the indices (i) becomes unavailable or (ii) is replaced by a new benchmark rate as determined by the relevant authorized entity, or (iii) ceases to exist or (iv) in the reasonable determination of either Party, fails to reflect the real costs and forms an integral part of this price adjustment formula.

BASE INDICES:

	September 2012	
Global Coal Newcastle Price Index	USD/MT	89.41
FOREX Rate	PhP/USD	41.749
US Consumer Price Index (1982-84=100)	Fixed	231.407
Philippine Consumer Price Index (2006=100)	Fixed	131.40
	January 1994	
Japan Export Price Index (2010=100)	Fixed	136.24
US Export Price Index (2010=100)	Fixed	79.59
Europe Export Price Index (2005=100)	Fixed	120.57
Retail Price Index – Metro-Manila (2000=100)	Fixed	75.90

Rate Impact on TARELCO I

11. The charges on Capacity and Energy Fees and rate discounts and adjustments under Annex II – A and Sections 9.1 & 9.2 of Article 9 of the PSC will result to lower generation cost charges of TARELCO I. Shown in the Tables below is the rate impact summary. The tables show TARELCO I’s suppliers based on May 26, 2015 to June 25, 2015 billing period.

TABLE I. Power supply allocation with SMEC’s PSC and resulting rate.

- Actual Billing month – May 26 to June 25, 2015
- Actual Coincident peak = 42,210KW
- WESM Rate is actual for TARELCO1 purchase on May 26-June 25, 2015 Billing period.

Supplier	Percent Share		MW (Max)	Capacity Factor	KWh Purchased	Amount	Rate
	Coincident Peak (42,210KW)	Energy (KWh)					
GMCP	47.38%	65.58%	20,000.00	93%	13,899,361.01	54,992,739.01	3.9565
MPPCL	33.77%	15.36%	14,256.28	(TOU Rate)	3,254,340.00	15,091,869.57	4.6375
SMEC	11.85%	17.24%	5,000.00	100%	3,653,000.00	15,200,240.94	4.1610
WESM	7.00%	1.83%	Imbalance		386,998.99	5,232,588.30	13.5209
TOTAL	100.00%	100.00%			21,193,700.00	90,517,437.82	4.2710

TABLE II. Power supply allocation with current suppliers without SMEC’s PSC and resulting rate.

- Actual Billing month – May 26 to June 25, 2015
- Actual Coincident peak = 42,210KW
- Imbalances are sourced from WESM
- WESM Rate is actual for TARELCO1 purchase on May 26-June 25, 2015 Billing period.
- Maximum Contract Energy for MPPCL is purchased using average MPPCL TOU rate.

Supplier	Percent Share		MW (Max)	Capacity Factor	KWh Purchased	Amount	Rate
	Coincident Peak (42210KW)	Energy (KWh)					
GMCP	47.38%	65.58%	20,000.00	93%	13,899,361.01	54,992,739.01	3.9565
MPPCL	33.77%	15.36%	14,256.28	(TOU Rate)	6,548,193.14	31,642,779.16	4.8323
WESM	18.84%	49.77%	Imbalance		746,145.85	10,088,563.36	13.5209
TOTAL	100.00%	100.00%			21,193,700.00	96,724,081.53	4.5638

Note: There will be an increase in rate had TARELCO I had not contracted with SMEC. The resulting rate increase would be from Php 4.2710/Kwh to Php 4.5638/Kwh.

With the 5MW supply from SMEC, there is a total of Php 0.2928/Kwh reduction in blended generation rate, or Php 6,206,643.71 reduction to power cost.

Compliance with ERC Rules

12. In support of the instant application and in compliance with the ERC Guidelines for the Recovery of Costs for the Generation Component of the Distribution Utilities' (DUs) Rates as well as Rule 20(B) of the ERC Rules of Practice and Procedure, the parties are submitting herewith the following documents, attached hereto and made integral parts hereof as annexes to this Application, to wit:

ANNEX	NATURE OF DOCUMENT
A	TARELCO I Certificate of Franchise issued by the National Electrification Commission (NEC)
B	TARELCO I Certificate of Registration issued by the National Electrification Administration (NEA)
C to C-1	TARELCO I Articles of Incorporation and By-Laws
D	SMEC Certificate of Registration with the SEC
E to E-1	SMEC Articles of Incorporation and By-Laws
F	SMEC Latest General Information Sheet filed with SEC
G	Board of Investment (BOI) Certificate of Registration
H	Environmental Compliance Certificate (ECC)
I	Certificate of Compliance (COC) issued by the ERC
J	Power Supply Contract (PSC) between SMEC and TARELCO I
K	Executive Summary of the PSC
L	TARELCO I Board Resolution approving the PSC with SMEC
M	SMEC Board Resolution approving the PSC with TARELCO I
N	Details of the PSC's power rate calculations (confidential)
O	Details of the Procurement Process of Fuel
P	Relevant technical and economic characteristics of the Generation Capacity; Installed Capacity; Mode of Operation; Dependable Capacity
Q	SMEC's Latest Audited Financial Statement, Balance Sheet and Statement of Cash Flow
R	TARELCO I's DDP Summary
S	Demand Side Management (DSM) program that could be implemented by TARELCO I if approved by the ERC
T	Transmission Service Agreement between TARELCO I and NGCP
U	Rate Impact; Purchased Power Rates; sample computation; comparison between existing and proposed rates

V	TARELCO I's Latest Audited Financial Statement, Balance Sheet and Statement of Cash Flow
W	TARELCO I Board Resolution approving the filing for approval of the PSC with the ERC
X	Demand Supply Scenario
Y	SMEC Board Resolution approving the filing for approval of the PSC with the ERC
Z	Judicial Affidavit in Support of the Motion for Provisional Authority
AA to AA-1	Proof of furnishing copies of the Application to the Sangguniang Bayan of Gerona and Sangguniang Panlalawigan of Tarlac
BB and series	Newspaper publication of the Application, with Affidavit of Publication

**MOTION FOR CONFIDENTIAL TREATMENT
OF INFORMATION**

13. Invoking the provisions of Rule 4 of the ERC Rules of Practice and Procedure, SMEC respectfully requests for the confidential treatment of the information contained in Annex "N" (Details of the PSA's Power Rate Calculations).

14. SMEC is part of a group of companies which considers the exploration of several potential projects all over the Philippines for the operation, maintenance or administration of power plants similar to the plant involved in the instant application. As such, it has valuable proprietary interest in securing the confidentiality of the foregoing information particularly from existing and potential competitors in the power generation sector. Public exposure of these sensitive information/data, particularly the full details thereof, could give these parties a competitive advantage over SMEC as they would have the opportunity and ability to utilize the ingenuity involved in the computations in arriving at the data/information sought to be protected.

**ALLEGATIONS IN SUPPORT FOR THE
MOTION FOR PROVISIONAL AUTHORITY**

15. Applicants replead the above allegations in support of their prayer for the immediate issuance of the provisional authority, for the reason that without the supply of SMEC, TARELCO I will be exposed to the unpredictable and

expectedly higher prices in the WESM or worse, be unable to supply the required energy to its franchise area resulting in total blackout.

16. In the interest of the public, there is a necessity for the immediate and provisional approval of the instant application in order that there will be no undue disruption in the power supply to the customers of TARELCO I.
17. TARELCO I and SMEC prayed that the Commission will:
 - a. Issue an Order treating Annex "N" and the information contained therein as confidential pursuant to Rule 4 of the ERC Rules, and prescribing the guidelines for the protection thereof;
 - b. Issue a Provisional Authority in accordance with the ERC Rules of Practice and Procedure, allowing TARELCO I to implement the PSC;
 - c. After notice and hearing, Approve with Finality the Power Supply Contract between SMEC and TARELCO I, and allowing TARELCO I to pass on the cost of such purchased power to its customers.
 - d. Applicants likewise pray for such other reliefs that may be just and equitable under the premises.

The Commission has set the application for initial hearing, expository presentation, pre-trial conference and evidentiary hearing on **06 July 2016 (Wednesday) at one o'clock in the afternoon (1:00 P.M.) at TARELCO's principal office, Brgy. Amacalan, Gerona, Tarlac.**

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**, **GLORIA VICTORIA C. YAP-TARUC**, **JOSEFINA PATRICIA A. MAGPALE-ASIRIT**, and **GERONIMO D. STA. ANA**, **Energy Regulatory Commission**, this 4th day of May, 2016 at Pasig City.


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