

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

**NOTICE OF PUBLIC HEARING**

**TO ALL INTERESTED PARTIES:**

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

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
<b>TOTAL:</b>	<b>14,540</b>	<b>10,624,320.00</b>

- 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:

<b>SIMULATION OF GENERATION RATE FOR YEAR 2015 WITHOUT LMC</b>				
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
<b>SIMULATION OF GENERATION RATE FOR YEAR 2018 WITH LMC</b>				
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
<b>Generation Rate Impact</b>		<b>(343,166)</b>		<b>(0.0020)</b>

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 SangguniangPanlalawigan 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.

The Commission has set the application 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.**

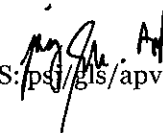
All persons who have an interest in the subject matter of the proceeding may become a party by filing, at least five (5) days prior to the initial hearing and subject to the requirements in the ERC's Rules of Practice and Procedure, a verified petition with the Commission giving the docket number and 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 7<sup>th</sup> day of June 2016 in Pasig City.

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

  
LS:psj/els/apv