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

IN THE MATTER OF THE APPLICATION FOR APPROVAL OF THE POWER SALES AGREEMENT BETWEEN ILIGAN LIGHT AND POWER, INC. (ILPI) AND SARANGANI ENERGY CORPORATION (SEC), WITH PRAYER FOR PROVISIONAL AUTHORITY

ERC CASE NO. 2014-178 RC

ILIGAN LIGHT AND POWER, INC. (ILPI) AND SARANGANI ENERGY CORPORATION (SEC),

Applicants.

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NOTICE OF PUBLIC HEARING

TO ALL INTERESTED PARTIES:

Notice is hereby given that on December 9, 2014, Iligan Light and Power, Inc. (ILPI) and Sarangani Energy Corporation (SEC) filed an application for approval of their power sales agreement, with prayer for provisional authority.

In the said application, ILPI and SEC alleged, among others, that:

1. ILPI is a private electric distribution utility (DU) organized and existing under the laws of the Republic of the Philippines, with office address at Raymond Jeffrey Road, Pala-o, Iligan City. It has a legislative franchise to distribute electricity in the City of Iligan, Province of Lanao del Norte. A copy of its Certificate of Public Convenience and Necessity (CPCN) is attached to the application as Annex "**A**";

2. SEC is a generation company duly authorized and existing under the laws of the Republic of the Philippines, with principal address at 4th Floor, Alphaland Southgate Tower, 2258 Chino Roces Avenue corner EDSA, Makati City. Copies of its Certificate of Incorporation, and Certificate of Filing of Amended Articles of Incorporation (AOI) with the attached Amended AOI issued by the Securities and Exchange Commission (SEC), By-Laws, latest General Information Sheet, and Audited Financial Statements (AFS) are attached to the application as Annex "**B**" and series;

3. ILPI and SEC may be served orders and other processes through the undersigned counsel;

NATURE OF THE APPLICATION

4. Pursuant to Rule 20 (B) of the Commission's "*Rules of Practice and Procedure*", approved by the Commission on June 22, 2006 in its Resolution No. 38, Series of 2006, the Application is submitted to the Commission for its review and approval of the Power Sales Agreement (PSA) dated July 15, 2014. A copy of the said agreement is attached to the application as Annex "**C**";

COMPLIANCE WITH PRE-FILING REQUIREMENTS

5. In compliance with Rule 6 of the Commission's *Rules of Practice and Procedure*, joint applicants have furnished the legislative bodies of each of the local government units (LGUs) where they principally operate a copy of the present application with all its annexes and accompanying documents. The corresponding proofs of receipt are attached to the application as Annex "**D**" and series;

6. Further, they have caused the publication of the present Application in its entirety, excluding its annexes, in a newspaper of general circulation within Iligan City. Copies of the newspaper and the corresponding affidavit of publication are attached to the application as Annexes "**E**" and "**E-1**", respectively;

STATEMENT OF FACTS

7. **Shortage of Power Supply in the Mindanao Grid**. The Mindanao Grid has long been suffering from a deficit in its power supply. The generating capacity in the Grid is no longer sufficient to meet the power requirements of Mindanao;

8. As a result, over the past few years, Mindanao, including Iligan City, has suffered from significant power outages, adversely affecting local businesses and the daily lives of all electricity consumers. The lack of sufficient and reliable power supply has long been a barrier to much needed capital investment that would spur the local economy, not only in Iligan City, but in greater Mindanao as well;

9. **Drastic Reduction in NPC/PSALM's Supply**. In addition, the main power supplier in Mindanao significantly reduced its allocations to DUs, further aggravating the power shortage:

    a. The Power Sector Assets and Liabilities Management Corporation (PSALM), which took over all the power generation assets of the National Power Corporation (NPC) pursuant to Republic Act No. 9136 (R.A. No. 9136), supplies the bulk of the power requirements of Mindanao. NPC/PSALM, likewise, supplies majority of ILPI's current power supply;

    b. ILPI's Contract for the Supply of Electric Energy (CSEE) with PSALM expired last December 25, 2012, and was renewed up to 2016 but with a significant reduction in contract volume by thirty-five percent (35%);

    c. As a result, it was constrained to schedule rotational brownouts and purchase supply from more expensive sources, adversely affecting its customers and local businesses;

d. Moreover, during a Customers' Forum in Davao City on August 11, 2014, PSALM presented the Mindanao Power Supply Outlook for 2015-2016. It indicated that the allocation for PSALM's customers for 2015 will be reduced by a maximum of eighteen percent (18%). A further reduction of a maximum of forty-six percent (46%) will be implemented in 2016, which would reduce ILPI's average PSALM contract allocation to only 10.9 MW;

e. Furthermore, after the expiration of ILPI's CSEE with PSALM in 2016, allocation is uncertain; and

f. **PSALM Certification**. PSALM has certified that it has insufficient capacity to supply ILPI's additional power requirements beyond the contracted energy and equivalent demand in their current power supply contract.

A copy of the relevant certification is attached to the application as Annex "**F**".

10. **Necessity for Additional Long-term Power Supply**. In order to avoid power outages, the power supply requirements within Iligan City should be adequately covered by supply contracts. In addition to the significant reduction in supply from PSALM, the power demand of Iligan City is steadily increasing. Copies of ILPI's projected Power Supply and Demand Scenario (PSDS) and Distribution Development Plan (DDP) showing its load forecast projections are attached to the application as Annexes "**G**" and "**H**";

11. The demand is also expected to increase even further as the local government of Iligan City is taking steps to rehabilitate and operate the facilities of the National Steel Corporation (NSC), one of the largest steel manufacturing plants in Asia[1]. It is imperative that ILPI, being the

[1] "Iligan City to Revive Mothballed NSC", Manila Bulletin, 17 August 2014, http://www.mb.com.ph/iligan-city-to-revive-mothballed-nsc/ (last accessed 9 September 2014)

franchised DU, prepare for the economic spur and resulting increase in power demand this could bring to its franchise area;

12. Hence, there is a need for ILPI to procure sufficient long-term power supply so that the power requirements of its customers are adequately addressed;

13. **Procurement Process for Supply**. Thus, ILPI exerted efforts to procure power supply contracts with generation companies. ILPI solicited offers from various power suppliers, and evaluated their proposals, including SEC's offer;

14. Based on its evaluation, ILPI determined that SEC's offer was competitive. Among the factors ILPI considered in selecting SEC as a supplier are: (a) the competitiveness of the generation rate offered by SEC; (b) timeliness of the availability of power supply; (c) certainty in SEC's ability to deliver supply; (d) flexibility in adjusting the contracted capacity being one of the existing power suppliers of ILPI; (e) provision for penalties to be imposed on SEC in the event of failure to deliver power as contracted; (f) availability of backup and replacement power from existing and wider portfolio of power plants; (g) availability of bridge supply for the years 2016 to 2018 prior to the entry of an embedded coal-fired generator; (h) lowest fuel consumption escalation rate of 0.5% per annum; and (i) other factors beneficial to the consumers.

    An affidavit supporting the foregoing is attached to the application as Annex "I".

15. Thus, ILPI executed the Power Sales Agreement (PSA) with SEC for the supply of baseload power over the long term;

16. Under the law, no contract for the supply of power can become legally effective unless approved by the Commission. Hence, the Joint Application;

ABSTRACT OF THE POWER SALES AGREEMENT AND RELATED INFORMATION

17. **The Generation Facilities**. To supply power under the PSA, SEC shall construct, own, operate, manage and maintain a 2 x 120 MW Circulating Fluidized Bed Combustion Boiler Coal-Fired power plant in the Municipality of Maasim, Sarangani Province (the SEC Power Station):

    a. The SEC Power Station is being implemented in two (2) phases, each for one unit with a net generating capacity of 105 MW (the SEC Phase I Plant and SEC Phase II Plant," respectively). A copy of a certification on the Power Station's heat rate is attached to the application as Annex "**J**";

    b. **Scheduled Commencement of Commercial Operations**. The SEC Phase I Plant is expected to commence commercial operations by12 December 2015; and

    c. The SEC Phase II Plant is scheduled to commence commercial operations on the earlier of (a) September 30, 2016, or (b) thirty-six (36) months from date the Commission shall have provisionally approved the PSA and the corresponding tariff, subject to certain conditions.

18. **Salient Features of the PSA**. Under the PSA, SEC shall supply or cause to supply to ILPI the Contracted Capacity and the Dispatchable Energy, subject to the terms and conditions of the PSA:

    a. **Contracted Capacity**. Initially, the Contracted Capacity shall be fifteen (15) MW, and shall be supplied from the SEC Phase I Plant;

    b. When the SEC Phase II Plant shall become commercially operational, and subject to certain

conditions under PSA, the Contracted Capacity shall be increased to twenty-seven (27) MW, and shall henceforth be supplied from the SEC Phase II Plant;

c. The foregoing allows ILPI to obtain supply from the SEC Power Station at the soonest possible time, and avail of cheaper supply from the SEC Phase II Plant when it becomes available;

d. **Option to Reduce Contracted Capacity**. Subject to a six (6) month prior written notice, ILPI shall have the option to reduce the Contracted Capacity to either fifteen (15) MW or twenty (20) MW, subject to certain conditions of the PSA;

e. The foregoing allows ILPI flexibility if more beneficial supply options become available;

f. **Term**. The term of supply and purchase under the PSA shall be for twenty-five (25) years; and

g. **Effectiveness**. The parties' obligations under the PSA became effective as of the date of the PSA. SEC's obligation to deliver 15 MW shall be effective upon the commercial operation of SEC Power Plant I, and the entire 27 MW shall be effective upon the commencement of commercial operations of the SEC Power Plant II, among other conditions.

19. **Purchased Power Rate**. The tariff to be paid by ILPI to SEC and its corresponding adjustments are reflected in the formulas below:

1. Monthly Payments

The Monthly Payments shall be paid to the Seller on a monthly basis in accordance with the following formula:

$$Monthly\ Payments = CRF + FOMF + VOMF + AFC + SC + RCEC + BCEC + Taxes$$

where:

CRF = Capital Recovery Fees

FOMF	=	Fixed Operation and Maintenance Fee
VOMF	=	Variable Operation and Maintenance Fee
AFC	=	Actual Fuel Cost
SC	=	Start-up Costs
RCEC	=	Replacement Capacity and Energy Costs
BCEC	=	Backup Capacity and Energy Costs
Taxes	=	Value-Added Tax, other applicable taxes and government impositions, if any

1.1 CRF

CRF shall be computed as follows:

1.1.1 During the first Contract Year:

$$CRF_1 = (FCRF_1 + DCRF_1) \times CC \times F$$

where:

CRF_1	=	Capital Recovery Fee for the first Contract Year
$FCRF_1$	=	$20.32 per kW per month which shall be converted to Philippine Pesos on the Commercial Operation Date at the weighted average US Dollar to Philippine Peso exchange rate provided in Schedule I (*Power Plant Foreign Capital Recovery Fee Conversion*)
$DCRF_1$	=	PhP427.32 per kW per month
CC	=	Contracted Capacity
F	=	$\frac{ED}{TMED}$
F	=	

where:

ED	=	Electricity delivered during the billing period in kWh
TMED	=	Theoretical Maximum Energy Delivered being the Contracted Capacity multiplied by the hours in the relevant month, less any adjustments made for Allowed Outage, limitation due to dispatch order, Force Majeure of SEC Power Plant, and allowable start-up time due to period of non-generation due to a Buyer dispatch order or an Allowed Outage, and any other hours as a consequence of Buyer's failure to perform any of its obligations
F	=	1 if the foregoing formula results in F being greater than 1

1.1.2 During the second Contract Year

$$CRF_2 = (FCRF_2 + DCRF_2) \times CC \times F$$

where:

CRF_2	=	Capital Recovery Fee for the second Contract Year
$FCRF_2$	=	$23.33 per kW per month which shall be converted to Philippine Pesos on the Commercial Operation Date at the weighted average US Dollar to Philippine Peso exchange rate provided in Schedule I (*Power Plant Foreign Capital Recovery Fee Conversion*)
$DCRF_2$	=	PhP490.56 per kW per month
CC	=	Contracted Capacity
F	=	$\frac{ED}{TMED}$
F	=	$\frac{ED}{TMED}$

where:

ED	=	Electricity delivered during the billing period in kWh
TMED	=	Theoretical Maximum Energy Delivered being the Contracted Capacity multiplied by the hours in the relevant month, less any adjustments made for Allowed Outage, limitation due to dispatch order, Force Majeure of SEC Power Plant, and allowable start-up time due to period of non-generation due to a Buyer dispatch order or an Allowed Outage, and any other hours as a consequence of Buyer's failure to perform any of its obligations
F	=	1 if the foregoing formula results in F being greater than 1

1.1.3 During the third Contract Year

$$CRF_3 = (FCRF_3 + DCRF_3) \times CC \times F$$

where:

CRF_3	=	Capital Recovery Fee for the third Contract Year
$FCRF_3$	=	$28.69 per kW per month which shall be converted to Philippine Pesos on the Commercial Operation Date at the weighted average US Dollar to Philippine Peso exchange rate provided in Schedule *(Power*

		Plant Foreign Capital Recovery Fee Conversion)
$DCRF_3$	=	PhP490.56 per kW per month
CC	=	Contracted Capacity
F where:	=	$\frac{ED}{TMED}$
ED	=	Electricity delivered during the billing period in kWh
TMED	=	Theoretical Maximum Energy Delivered being the Contracted Capacity multiplied by the hours in the relevant month, less any adjustments made for Allowed Outage, limitation due to dispatch order, Force Majeure of SEC Power Plant, and allowable start-up time due to period of non-generation due to a Buyer dispatch order or an Allowed Outage, and any other hours as a consequence of Buyer's failure to perform any of its obligations
F	=	1 if the foregoing formula results in F being greater than 1

1.1.4 From the fourth Contract Year up to the end of the Term

$$CRF = (FCRF + DCRF) \times CC \times F$$

where:

CRF	=	Capital Recovery Fee for the fourth Contract Year up to the end of the Term
FCRF	=	$28.69 per kW per month which shall be converted to Philippine Pesos on Commercial Operation Date at the weighted average US Dollar to Philippine Peso exchange rate provided in Schedule I *(Power Plant Foreign Capital Recovery Fee Conversion)*
DCRF	=	PhP603.37 per kW per month
CC	=	Contracted Capacity
F	=	$\frac{ED}{TMED}$

where:

ED	=	Electricity delivered during the billing period in kWh
TMED	=	Theoretical Maximum Energy Delivered being the Contracted Capacity multiplied by the hours in the relevant month, less any adjustments made for Allowed Outage, limitation due to dispatch order, Force Majeure

of SEC Power Plant, and allowable start-up time due to period of non-generation due to a Buyer dispatch order or an Allowed Outage, and any other hours as a consequence of Buyer's failure to perform any of its obligations

F = 1 if the foregoing formula results in F being greater than 1

1.2 Fixed Operation and Maintenance Fee

The Fixed Operation and Maintenance Fee covers the operating and maintenance costs of the SEC Power Plant. It shall be computed according to the following formula:

$$FOMF = OMR \times \left\{\left[\left(0.44 \times \frac{FCP_n}{FCP_0}\right) \times \frac{Fx_n}{Fx_0}\right] + \left[0.56 \times \frac{LCP_n}{LCP_0}\right]\right\} \times CC \times F$$

where:

FOMF = Fixed Operation & Maintenance Fee in Philippine Pesos

OMR = PhP333.23 per kW per month

CC = Contracted Capacity

F = $\frac{ED}{TMED}$

where:

ED = Electricity delivered during the billing period in kWh

TMED = Theoretical Maximum Energy Delivered being the Contracted Capacity multiplied by the hours in the relevant month, less any adjustments made for Allowed Outage, limitation due to dispatch order, Force Majeure of SEC Power Plant, and allowable start-up time due to period of non-generation due to a Buyer dispatch order or an Allowed Outage, and any other hours as a consequence of Buyer's failure to perform any of its obligations

F = 1 if the foregoing formula results in F being greater than 1

FCP_n = The arithmetic average of the values of the United States Consumer Price Index for all Items, as last published on or before the last day of such billing month by the International Monetary Fund; provided that if the International Monetary Fund ceases to publish such indices, the relevant indices as published by the U.S. Department of Labor Bureau of Labor Statistics shall apply.

FCP_0	=	The arithmetic average of the values as of May 31, 2011 of the United States Consumer Price Index for all Items; as published by the International Monetary Fund, provided that if the International Monetary Fund ceases to publish such indices, the relevant indices as published by the U.S. Department of Labor Bureau of Labor Statistics shall apply.
LCP_n	=	The arithmetic average of the values of the Consumer Price Index in the Philippines for all items and General Wholesale Price Index in Metro Manila for mineral fuels, lubricants and related materials, both as last published on or before the last day of such Billing Month by the National Statistics Office.
LCP_0	=	The arithmetic average of the values as of May 31, 2011of the Consumer Price Index in the Philippines for all items and General Wholesale Price Index in Metro Manila for mineral fuels, lubricants and related materials, both as published by the National Statistics Office.
Fx_n	=	Actual Philippine Peso to US Dollar exchange rate on the meter reading date as published by the BangkoSentralngPilipinas, www.bsp.gov.ph
Fx_0	=	Actual Philippine Peso to US Dollar exchange rateonMay 31, 2011as published by the BangkoSentralngPilipinas, www.bsp.gov.ph.

1.3 Variable Operation and Maintenance Fee

The Variable Operation and Maintenance Fee covers the cost of the use of, among other items, chemicals, lubricants, spare parts, that are directly related to the generation of the SEC Power Plant. It shall be computed according to the following formula:

$$VOMF = VOMR \times \left\{ \left[\left(0.35 \times \frac{PPP_n}{PPP_0} \right) \times \frac{Fx_n}{Fx_0} \right] + \left(0.65 \times \frac{LCP_n}{LCP_0} \right) \right\} \times ED$$

where:

VOMF	=	Variable Operation & Maintenance Fee in Pesos
VOMR	=	PhP0.3070 per kWh
ED	=	Electricity delivered during the billing period in kWh
PPP_n	=	The arithmetic average of the values of the United States Producers' Price Index for industrial goods; as last published on or before the last day of such billing month by the International Monetary Fund; provided that if the International Monetary Fund ceases to publish such indices, the relevant indices as published by the U.S. Department of Labor Bureau of Labor Statistics shall apply.
PPP_0	=	The arithmetic average of the values as of May 31, 2011of the United States Producers' Price Index for

industrial goods; as published by the International Monetary Fund, provided that if the International Monetary Fund ceases to publish such indices, the relevant indices as published by the U.S. Department of Labor Bureau of Labor Statistics shall apply.

LCP_n = The arithmetic average of the values of the Consumer Price Index in the Philippines for all items and General Wholesale Price Index in Metro Manila for mineral fuels, lubricants and related materials, both as last published on or before the last day of such Billing Month by the National Statistics Office.

LCP_0 = The arithmetic average of the values as of May 31, 2011of the Consumer Price Index in the Philippines for all items and General Wholesale Price Index in Metro Manila for mineral fuels, lubricants and related materials, both as published by the National Statistics Office.

Fx_n = Actual Philippine Peso to US Dollar exchange rate on the meter reading date as published by the BangkoSentralngPilipinas, www.bsp.gov.ph.

Fx_0 = Actual Philippine Peso to US Dollar exchange rate on May 31, 2011as published by the BangkoSentralngPilipinas, www.bsp.gov.ph.

1.4 Actual Fuel Cost

The Actual Fuel Cost is the fee paid to the Seller as payment for the procurement and delivery of the coal used in the operation of the SEC Power Plant. The Actual Fuel Cost shall be computed as follows:

$$Actual\ Fuel\ Cost = \left(\frac{FOB\ Coal\ Price + TC + Other\ Charges}{\frac{1{,}000kg}{ton}} \right) \times Consumption\ Rate \times Forex \times ED$$

where:

FOB Coal Price = $\text{FOB Base Price} \times \frac{\text{Calorific Value}}{\text{GCN Calorific Value}} \times F$

where:

FOB Base Price = The price expressed in US Dollars applicable for all Shipments for which the Bill of Lading Date falls within the period from and including the date of this Agreement until and including the last day of the Quarter in which the date of this Agreement occurs (the "**FOB Base Price**"), shall be equal to the globalCOAL Newcastle Index (which is

		the coal price per ton, FOB Newcastle, stated in USD, as published by globalCOAL on www.globalcoal.com under the heading "Weekly Index; NEWC Index" (or under such other replacement heading under which such prices are published by globalCOAL) with calorific value basis of 6,000 kcal/kg net as received) for the week immediately preceding the week in which the date of signing of this Agreement occurs. The FOB Base Price shall be reset every Quarter following the Quarter in which the date of this Agreement occurs, and such FOB Base Price applicable for all Shipments for which the B/L Date falls within and including the first day and the last day of such Quarter shall be equal to the arithmetic average of the globalCOAL Newcastle Index for the immediately preceding Quarter.
Calorific Value_n	=	Average calorific value of the coal used in the billing period
F	=	Discount or premium applied to the coal used during the billing period
TC	=	Actual transport cost, including transshipment cost of the coal used during the billing period in USD per metric ton
Other Charges	=	Actual insurance cost and port charges (all charges incurred by a vessel at a loading port and discharge port including towage, pilotage, light dues, moor or unmoor, berthing and deberthing, assist tugs, wharfage, tonnage dues and sundries, including agent's fees, communications charges and other miscellaneous expenses customarily regarded as port charges) and applicable customs duties and import taxes of the coal used during the billing period
Consumption Rate	=	0.7kg/kWh, escalated at 0.5% annually
Forex	=	Actual Philippine Peso to US Dollar exchange rate on the date the Seller makes payment to the fuel supplier
ED	=	Electricity delivered during the billing period in kWh

Note: In the event that the Seller procures coal from multiple suppliers, the weighted average of the relevant values above shall be used.

1.5 Start-Up Costs

The Buyer shall pay the Seller Start-Up Costs for the cost of starting up the SEC Power Plant after a period of shutdown due to any reason attributable to the Buyer. The Start-Up Costs shall be paid in accordance with the following schedule:

Type of Synchronization	Cost per Event (PhP)
Cold Start-up to Synchronization	4,209,906
Warm Start-up to Synchronization	2,872,221
Hot Start-up to Synchronization	1,227,515

1.6 Replacement Capacity and Energy Cost

The Buyer shall pay the Seller Replacement Capacity and Energy Cost in accordance with the invoice provided by the supplier of Replacement Capacity and Energy.

1.7 Backup Capacity and Energy Cost

The Buyer shall pay the Seller Backup Capacity and Energy Cost equivalent to the Monthly Payment had there been no Forced Outage.

2. Commissioning Output Charge

The Buyer shall pay the Seller the Commissioning Output Charge for electricity supplied prior to the Commercial Operation Date. The Commissioning Output Charge shall be computed as follows:

$$COC = FOMF + VOMF + ACF + Taxes$$

where:

COC	=	Commissioning Output Charge
FOMF	=	Fixed Operation & Maintenance Fee computed in accordance with Item 1.2 of this Schedule B
VOMF	=	Variable Operation & Maintenance Fee computed in accordance with Item 1.3 of this Schedule B
ACF	=	Actual Cost of Fuel computed in accordance with Item 1.4 of this Schedule B

3. Interconnection Capital Recovery Fee

The Buyer shall pay the Seller the Interconnection Capital Recovery Fee as payment for the Interconnection Facilities in accordance with the following formula:

$$ICRF = [(FIFCRF + DIFCRF)\, x\, CC] + Taxes$$

where:

FIFCRF	=	Foreign Interconnection Capital Recovery Fee of $2.85 per kW per month which shall be converted to Philippine Pesos on the Commercial Operation Date at the weighted average US Dollar to Philippine Peso exchange rate provided in Schedule K *(Foreign Interconnection Capital Recovery fee Conversion)*
DIFCRF	=	Domestic Interconnection Capital Recovery Fee of PHP122.55/kW/month
CC	=	Contracted Capacity (15,000 kW)
Taxes	=	Value-Added Tax, other applicable taxes, and government impositions, if any

For reference, a sample computation of the generation rate is contained in Schedule C of the PSA.

The Interconnection Capital Recovery Fee (ICRF) shall apply only when power supply to ILPI is served by SEC Power Plant I, and shall cease on 30 September 2016 or once the SEC Power Plant II becomes operational, whichever comes earlier:

a. **Lower Tariff for Phase II Supply.** The tariff for supply from the SEC Phase II Plant is more favorable to ILPI than the tariff for supply from the SEC Phase I Plant;

b. For supply from the SEC Phase II Plant, SEC will not charge the Interconnection Capital Recovery Fee, resulting in a lower charge to ILPI;

   Discussions on the difference in the tariff and on the basis for the tariff for supply from the SEC Phase II Plant are attached to the application as Annexes "**K**" and "**K-1**", respectively.

c. **Basis for indexation**. As indicated in the formulae above, the monthly fees to be paid by ILPI are subject to adjustments based on various indices or factors;

d. The foreign currency denominated components of the CRF and the ICRF are fixed and subject only to a one-time conversion to Philippine Pesos on Commercial Operation Date at the weighted average exchange rate as computed in accordance with the PSA. This will ensure that ILPI does not carry a long-term foreign exchange exposure on the said components; and

e. The components of the Operation and Maintenance Fees representing dollar-denominated costs are adjusted based on the foreign exchange rate and the US Consumer Price and Producer Price indices; those representing local costs are adjusted based on the local Consumer Price Index. The Actual Fuel Costs vary based on actual costs as well as the foreign exchange rate and on the Global Coal Newcastle index.

20. **Prompt Payment Discount.** ILPI shall be entitled to discount of 1.5% on the payment in full of the Capital Recovery Fees, including the Interconnection Capital Recovery Fee, in case of prompt payment;

21. **Sources of Funds/Financial Plans**. The SEC Phase I Plant is being financed through loans and equity with a debt-equity ratio of 70:30. The SEC Phase II Plant will also be financed through loans and equity, with an indicative debt-equity ratio of 70:30;

    a. **Project Cost**. Breakdowns of the project costs of both phases of the SEC Power Station, including the cost of their respective interconnection facilities, are attached to the application as Annexes "**L**" and "**L-1**";

    b. **Annual Interest**. For the SEC Phase I Plant, the annual interest thereon shall be a fixed rate per annum based on the higher of: (i) the sum of the Applicable Spread and the Benchmark Rate, or (ii) the Minimum Interest Rate. For the Phase II Plant, SEC is currently discussing with prospective lenders the terms and conditions of the project financing;

c. **Computation of Weighted Average Cost of Capital**. Consistent with previous rulings of the Commission, the nominal pre-tax Weighted Average Cost of Capital (WACC) for each phase is 13.59%;

A computation of the WACC is shown in Annex "**M**" of the application.

22. Cash Flow:

a. **Breakdown of Operating and Maintenance Expenses**. A breakdown of the operating and maintenance expenses which form the basis of the tariff is attached to the application as Annex "**N**". In this regard, it bears noting that the operations and maintenance fees in the PSA correspond to fees already approved and used as benchmarks by the Commission to evaluate the tariffs of other coal-fired power plants;

b. **Offtake Arrangement**. Under the PSA, SEC shall make available, reserve, guarantee, and deliver to ILPI the Contracted Capacity, and ILPI shall pay for such quantity of electric power. SEC shall utilize such Contracted Capacity to generate energy for ILPI; and

c. There is no minimum energy offtake under the PSA. As SEC will dedicate capacity to ILPI, the Capital Recovery and the Fixed Operations and Maintenance Fees are computed based the contracted capacity, and on the proportion of actual energy delivered to the energy that could have been delivered.

23. **Fuel procurement**. An international public tender for the supply of coal was conducted for purpose of procuring fuel for the SEC Phase I and Phase II Plant. The conduct of the tender and the fuel procurement process undertaken for both plants is summarized in Annexes "**O**" and "**O-1**";

24. The conduct of international public tender assures ILPI of the best available cost of fuel supply. It must be stressed

that SEC derives no revenue whatsoever from the fuel supply;

25. **Environmental Compliance Certificate**. The Department of Environment and Natural Resources (DENR) has issued Environmental Compliance Certificate (ECC) Ref. No. 0901-001-4021 for the SEC Power Station;

    A copy of the ECC is attached to the application as Annex "**P**".

26. **DOE Certification**. The Department of Energy has certified that the both phases of the SEC Power Station are consistent with the Power Development Plan of the government;

    Copies of the relevant Certificates of Endorsement are attached to the application as Annex "**Q**" and "**Q-1**".

27. **Certificate of Compliance**. As construction and commissioning of the SEC Power Station has not yet been completed, it is not yet covered by a Certificate of Compliance (COC). In accordance with the Commission's Resolution No. 9, Series of 2010, SEC shall file the necessary application for a COC no later than three (3) months before the commencement of commercial operations;

RATE IMPLICATIONS OF THE POWER SALES AGREEMENT

28. In order to determine the impact of the implementation of the PSA on ILPI's generation costs, an analysis was conducted taking into consideration the expected supply from its contracted suppliers. A copy of the said analysis is attached to the application as Annex "**R**";

29. The results of the said analysis, most notably on the effect of supply from SEC commencing on 2016, are summarized in the tables below:

	2015	2016 (Jan-Sept.)	2016 (Oct-Dec.)	2017	2018	2019	2020
Effective Blended Generation Rate without SEC *(P/kWh)*	6.33	7.15	7.07	7.18	7.29	7.34	7.41
Effective Blended Generation Rate with SEC *(P/kWh)*	6.33	5.81	5.13	5.27	5.51	5.68	5.61
Rate Impact	-	1.34	1.94	1.91	1.79	1.66	1.80

Notes and Assumptions:

a. The average generation rate charged by ILPI to its customers for the nine-month period January to September 2014 is PhP4.0031/kWh. This generation rate is relatively lower mainly due to higher PSALM allocation brought about by the temporary energy assignment obtained by ILPI from Treasure Steel Corp, which is good only until December 2014. Without this energy assignment, the effective generation rate would have been PhP6.11/kWh.

b. Effective blended rate for 2015 of PhP6.33/kWh considers the following:

1. The energy assignment from Treasure Steel Corp. is not extended beyond December 2014; and

2. Beginning January 2015, ILPI's deficiency requirements will be served by MPC and MEGC, both diesel-fired power plants, which could result to higher blended generation rates.

c. SEC Phase I supply to ILPI to commence in January 2016; SEC Phase II supply to ILPI to commence in October 2016.

d. For the blended rates without SEC, the assumptions are the following:

1. ILPI will not contract supply from SEC Phase I or II;
2. ILPI will contract additional 10 MW from MPC starting 2016-2017; and
3. ILPI will contract addition 2-5 MW from MPC from 2018 onwards.

ALLEGATIONS IN SUPPORT OF THE MOTION FOR PROVISIONAL AUTHORITY

30. As discussed above, ILPI's forecasted demand is expected to increase steadily in the coming years;

31. Moreover, NPC/PSALM, which supplies the majority of ILPI's current power requirements, has already reduced its firm supply commitments to ILPI by about one-third;

32. Furthermore, PSALM indicated during the Customers' Forum on August 11, 2014 that the allocations for PSALM's customers in 2015 will be reduced by a maximum of eighteen percent (18%). The allocation would be further reduced to a maximum of forty-six percent (46%) in 2016;

33. As a result, ILPI's average contract allocation from PSALM for 2016 will be decreased to only 10.9 MW. ILPI's current contract with PSALM will expire in December, 2016, after which any allocation from PSALM to ILPI is uncertain;

34. Hence, the need for ILPI to secure additional long-term power supply. Otherwise, ILPI will not have sufficient power supply to the detriment of the residents and enterprises in Iligan City;

35. Under the PSA, SEC is expected to start supplying power to ILPI in December 2015. Without supply from SEC, ILPI's available supply in the coming years will be insufficient to meet its increasing demand;

36. The additional power supply should also be made available in a timely manner. Otherwise, ILPI may be constrained to procure more expensive power from diesel or bunker-fired power plants in order to address the supply shortfall;

37. Moreover, the provisional approval of the instant Application is necessary for SEC to secure, in a timely manner, the necessary financing needed for the SEC Phase II Power Plant. The project of developing, constructing and operating the said Plant is capital-intensive. Consequently, obtaining financing in a timely manner is critical to complete the said Plant;

38. Thus, the issuance of a provisional approval will enable SEC to complete the project and, consequently, provide the power needed by ILPI under the PSA in a timely manner;

39. Hence, they move for the provisional approval of the instant Application pursuant to Rule 14 of the Commission's Rules of Practice and Procedure. Copies of sworn statements supporting the said motion are attached to the application as Annexes "**S**" and "**T**"; and

PRAYER

40. They pray that the Commission immediately issue an Order provisionally approving the PSA subject of the instant Joint Application, as well as the generation rate and adjustment mechanisms indicated therein and, after due hearing, render judgment making such provisional approval permanent.

The Commission has set the application for jurisdictional hearing, expository presentation, pre-trial conference and evidentiary hearing on **March 27, 2015 (Friday) at nine o'clock in the morning (9:00 A.M.) at the Fontina Restaurant, Tibanga, Iligan City, Lanao del 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 joint application or comment thereon at any stage of the proceeding before the applicants conclude the presentation of their 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 joint application may request the applicants, prior to the date of the initial hearing, that they be furnished with a copy of the joint application. The applicants are hereby directed to furnish all those making a request with copies of the joint application and its attachments, subject to reimbursement of reasonable photocopying costs. Likewise, any such person may examine the joint 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 23rd day of February 2015 at Pasig City.

ATTY. FRANCIS SATURNINO C. JUAN
Executive Director III