

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

**IN THE MATTER OF THE
APPLICATION FOR THE
APPROVAL OF THE INTERIM
POWER SUPPLY
AGREEMENTS BETWEEN:
(A) MANILA ELECTRIC
COMPANY (MERALCO) AND
TOLEDO POWER CO. (TPC);
AND (B) MERALCO AND
PANAY POWER
CORPORATION (PPC), WITH
PRAYER FOR PROVISIONAL
AUTHORITY**

ERC CASE NO. 2016-009 RC

**MANILA ELECTRIC
COMPANY (MERALCO),
TOLEDO POWER CO. (TPC),
AND PANAY POWER
CORPORATION (PPC),
Applicants.**

D O C K E T E D
Date: MAR 16 2016
By: ll

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NOTICE OF PUBLIC HEARING

TO ALL INTERESTED PARTIES:

Notice is hereby given that on 10 February 2016, Manila Electric Company (MERALCO), Toledo Power Co. (TPC), and Panay Power Corporation (PPC), filed a Joint Application for approval of their respective Interim Power Supply Agreements (IPSA), with prayer for provisional authority.

In their Joint Application, MERALCO, TPC, and PPC alleged, among others, the following:

1. Applicant MERALCO is a private corporation existing under the laws of the Republic of the Philippines, with principal office located at Ortigas Avenue, Barangay Ugong, Pasig City. It may be served with notices and other

processes at its principal office address or through its legal counsels.

2. MERALCO has a legislative franchise to operate and maintain a distribution system within Metro Manila and in the cities and municipalities in Bulacan, Cavite, and Rizal, and certain cities, municipalities, and barangays in the Provinces of Batangas, Laguna, Quezon, and Pampanga, pursuant to Republic Act No. 9209, and is authorized to charge its customers for their electric consumption at the rates approved by the Energy Regulatory Commission (ERC).
3. Applicant TPC is a partnership duly organized and existing under the laws of the Republic of the Philippines, with principal office address at Barangay Daanlungsod, Toledo City, Cebu. TPC owns and operates a 40 MW diesel-fired power plant located in Carmen, Toledo City, Cebu. It may be served with notices and other processes through its counsels.
4. Applicant PPC is a corporation duly organized and existing under the laws of the Republic of the Philippines, with principal office address at Barangay Ingore, La Paz, Iloilo City. It owns and operates a 72 MW diesel-fired power plant located in Brgy. Ingore, La Paz, Iloilo City. It may be served with notices and other processes through its legal counsels.
5. Based on the power situation outlook for 2016, MERALCO foresees a significant capacity deficit in its portfolio, especially for the summer months of 2016. The deficit is due to the expected high demand and the scheduled maintenance shutdowns of its contracted generating units as well as possible occurrences of forced plant outage.
6. In view thereof and in order to mitigate exposure to the Wholesale Electricity Spot Market (WESM), there is a need for MERALCO to source additional capacity through short-term bilateral power supply contracts.
7. Under Section 45(b) of Republic Act No. 9136 (EPIRA), it is provided that "Distribution utilities may enter into bilateral power supply contracts subject to review by the ERC."

8. After the conduct of a competitive selection process in accordance with ERC Resolution No. 13, Series of 2015, and subsequent good faith negotiations, on 22 January 2016, MERALCO executed Interim Power Supply Agreements (IPSAs) with TPC and PPC for the energy capacities indicated below:

POWER SUPPLIER	CONTRACT ENERGY
TPC	Up to 28 MW (firm basis) from trading intervals 1000H to 2100H, Mondays to Saturdays
PPC	Up to 45 MW (firm basis) from trading intervals 1000H to 2100H, Mondays to Saturdays

9. ***The IPSA between MERALCO and TPC*** – The IPSA between MERALCO and TPC, a copy of which was attached to the Joint Application as Annex “A”, contains the following salient features:

Article 1
Term and Effectivity

1.1 Term of Agreement

1.1.1 This Agreement shall become effective immediately upon execution provided that Power Supplier’s obligation to deliver and MERALCO’s obligation to purchase Contract Energy shall commence upon Energy Regulatory Commission (ERC) Provisional Authority (PA) or Final Approval (FA) (the Commencement Date) and shall expire on 25 February 2017, unless terminated earlier in accordance with the terms of this Agreement or extended by the parties by the application of Section 1.1.2 (Term).

1.1.2 The Term shall be automatically extended for an additional period of one (1) year under the same terms and conditions set forth in this Agreement, unless terminated by either Party

by sending written notice to the other Party ninety (90) days prior to the expiration of the Term. In no case shall the automatic extension of this Agreement exceed four (4) years.

1.2 ERC Approval

- 1.2.1.** Within five (5) days after the date of this Agreement, the Parties shall file a joint application with the ERC for the approval of this Agreement, including the Contract Price as detailed in Appendix "A" (ERC Application).
- 1.2.2.** If the ERC PA or FA requires any portion of any sum that has been paid by MERALCO to Power Supplier to be adjusted, the Power Supplier shall make the necessary adjustments in accordance with the direction of the ERC. In the event of any disallowance in the Contract Price, the same shall be for the account of Power Supplier.
- 1.2.3.** If the ERC FA requires an amendment of any provision herein, including provisions on amounts payable under this Agreement, or subjects such approval to any material term or condition that is not acceptable to either Party, acting reasonably (ERC Conditional Approval), the Parties shall cooperate in good faith to resolve the required ERC amendment(s) or to address the material term or condition. The Parties shall agree to:
 - (a)** Within fifteen (15) days after the receipt by the Parties of the ERC Conditional Approval, seek a reconsideration of the ERC Conditional Approval. During the period that the motion for reconsideration is pending, Power Supplier shall make available the Contract Energy following the rate in the ERC Conditional Approval, subject to the ERC's Final Approval; and/or

- (b) If necessary, within thirty (30) days after receipt by the Parties of the ERC Conditional Approval, revise and file an amended Agreement for approval by the ERC; provided that if the motion for reconsideration is denied by the ERC, or if the Parties fail to agree on the amendment of this Agreement within the period prescribed in Section 1.2.3 (b), or the amended Agreement is disapproved by the ERC, or approved by the ERC but still with any material term or condition that is not acceptable to either Party, acting reasonably, the Agreement can be terminated by any Party by giving a thirty (30)-day prior written notice of such termination to the other Party.

Article 2

Sale and Purchase of Contract Energy

2.1. Supply of Power

Subject to the terms and conditions of this agreement:

- 2.1.1 Immediately upon the approval by the ERC of this Agreement, Power Supplier shall make available, sell, and deliver to MERALCO and MERALCO shall purchase from Power Supplier the Contract Energy at the Contract Price as detailed in Appendix "A". The Parties agree that Power Supplier shall have no obligation to supply more than the Contract Energy.
- 2.1.2 Subject to Section 2.1.3, Power Supplier shall not, without MERALCO's prior written consent, sell, divert, transfer, dedicate, reserve, or assign all or any portion of the Contract Energy to any Person other than MERALCO.
- 2.1.3 Power Supplier shall, under certain conditions, trade in the WESM any portion of

the Contract Energy that is not taken by MERALCO. The Parties acknowledge and agree that any trading of this energy shall be for the sole benefit of MERALCO. Except for the market participation fees of Power Supplier, any and all costs, taxes, fees, and charges imposed by the Market Operator with respect to such energy traded in the WESM for the portion of the Contract Energy not taken by MERALCO, including the proportionate billing adjustments in relation thereto, such as, but not limited to price substitution mechanism adjustments, shall be for the sole account of MERALCO. MERALCO hereby authorizes Power Supplier to offset any and all of the foregoing amounts against the revenues derived from the trading of the portion of the Contract Energy not taken by MERALCO, in accordance with formula E. (Net WESM Sales) as detailed in Appendix A.

2.1.4 On a day-after and month-after basis, in the event that the WESM line rental charges exceed PhPo.30/kWh in any trading interval, MERALCO shall have the option to not take the Contract Energy for such trading interval. If MERALCO exercises such option, it shall not be required to make any Capacity Payment and Fixed O&M Payment with respect to Contract Energy that is not taken by MERALCO.

2.1.5 Power Supplier shall not be entitled to any planned/scheduled or forced outage allowances. In case of any such outage, Power Supplier shall procure replacement energy and MERALCO shall pay for the same at the Contract Price.

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4.2 Payments

4.2.1 Each Final Invoice shall be due and payable not later than the last day of the calendar month following the month in which the end

of the Billing Period for such Final Invoice relates; provided, that if such day is not a business day, then the Final Invoice shall be due and payable on the next succeeding business day (Payment Date); provided further that in the event that the Final Invoice is not received by MERALCO within the time set forth in Section 4.1.6, the payment shall be due and payable on the due date for the subsequent Billing Period; provided finally, that MERALCO shall not be required to make payment on any Final Invoice that is manifestly in error, apparently invalid, or not in the form or substance contemplated by this Agreement.

- 4.2.2 If MERALCO disputes all or any portion of a Final Invoice for a reason other than a manifest error in or the patent invalidity or incorrect form or substance of such Final Invoice, MERALCO shall, nonetheless, pay the full amount of such Invoice. Any payment by MERALCO under this Section is without prejudice to MERALCO's right at a later date to dispute, protest, or question any amount so paid.

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Article 5

Taxes, Fees and Costs

5.1 Responsibility for Taxes, Fees and Costs

- 5.1.1. Power Supplier shall be responsible for and shall make timely payment of the following amounts:
- (a) WESM costs attributable to Power Supplier;
 - (b) Benefits to host communities charges; and
 - (c) VAT on the foregoing amounts, if any.

Power Supplier shall also be liable for the payment of all other existing taxes, fees, charges, and costs, including penalties, arising from this Agreement that properly pertain to the business of Power Supplier.

5.1.2. The following amounts that MERALCO is responsible for paying to third parties shall form part of the price that MERALCO will charge to its customers:

- (a) VAT on Contract Energy in accordance with Bureau of Internal Revenue (BIR) Memorandum Circular No. 61-2005 and ERC Resolution No. 20-2005, except in respect of any portion thereof that applies to VAT zero-rated and VAT-exempt customers of MERALCO;
- (b) WESM line rental charges associated with the declaration of Bilateral Contract Quantities from the Plant to MERALCO's WESM Node, subject to adjustments provided for in Section 2.1.4. and Appendix "A"; and
- (c) NGCP charges.

Notwithstanding this Section, MERALCO shall, at all times, be liable for payment of all other existing taxes, fees, charges, and costs, including penalties, arising from this Agreement that properly pertain to the business of MERALCO.

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Article 9 Termination

9.1 If for any reason, except as provided in Article 7, there is an actual failure on the part of Power Supplier to deliver the Contract Energy to MERALCO for a period of ten (10) days, MERALCO shall send written notice to Power Supplier stating that such a breach has occurred.

- 9.2 If within thirty (30) days after receipt from MERALCO of such written notice (the Curing Period) the actual failure on the part of Power Supplier to deliver the Contract Energy to MERALCO has not been remedied by Power Supplier, MERALCO may terminate this Agreement and pursue any remedy available to it under this Agreement, at law or in equity.
- 9.3 MERALCO shall, from and after the occurrence of a breach under Section 9.1 and even during the Curing Period, be entitled to source energy from the WESM or other parties and Power Supplier shall be liable to pay MERALCO the difference between the amount MERALCO actually paid for such energy and the Contract Price.
- 9.4 Upon the early termination of this Agreement due to: (i) an actual failure on the part of Power Supplier to deliver the Contract Energy to MERALCO, or (ii) the failure of MERALCO to pay for the Contract Price under the terms and conditions of this Agreement that results in the early termination of this Agreement, and without prejudice to any other provisions of this Agreement prior to such early termination, the Party in breach shall pay liquidated damages in an amount equivalent to the present value of the Capacity Recovery Fees for the remaining Term discounted at twelve percent (12%).
- 9.5 Either Party shall have the right to terminate this Agreement by serving thirty (30)-day advance written notice to the other due to violation of any of the provisions hereof or any of the grounds provided for herein; Provided, that the termination under this Section shall not prejudice the right of the aggrieved Party to liquidated damages under Section 9.4.
- 9.6 Subject to seven (7) days prior written notice to MERALCO, Power Supplier may terminate this Agreement if:
- (a) After forty (40) days from filing of the ERC Application for approval of this Agreement, no ERC approval has been issued; or

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(b) If ERC PA or FA has been issued, Power Supplier is not amenable to any changes in the terms and conditions of the PSA, including the rate, as may be provided in the ERC PA or FA.

9.7 In the event of pre-termination of this Agreement on grounds as provided in this Agreement, MERALCO shall purchase energy from the WESM.

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10. Based on simulations, the effective delivered price under the IPSA between Applicants MERALCO and TPC for the supply month of May 2016 is PhP8.2706 per kWh, as shown in the sample calculation below:

TPC IPSA - Sample Calculation

May 2016

BILLING COMPONENT	UNIT	BILLING RATE	CPI Adj Factor	BILLING DETERMINANT		AMOUNT (PHP)
A. Capital Recovery Payment						
Peso Portion	(Php/kW-mo)	153.7340		28,000	(kW)	5,145,952.00
B. Fixed O&M Payment						
Peso Portion	(Php/kW-mo)	396.2160	1.032656	29,000	(kW)	11,456,335.49
C. Variable O&M Payment						
Peso Portion	(Php/kWh)	0.2349	1.032656	7,168,000	(kWh)	1,738,748.21
D. Fuel Payment						
Peso Portion	(Php/kWh)	4.9130		7,168,000	(kWh)	35,216,634.52
TOTAL PAYMENT	(Php)					53,557,670.22
Effective Rate at Plant Gate	(Php/kWh)					7.4718
WESM Line Rental Rate⁽²⁾	(Php/kWh)					0.7989
Delivered Rate	(Php/kWh)					8.2706
Effective Cost at WESM Price⁽³⁾	(Php/kWh)					13.2424
Increase / (Decrease) over WESM Price	(Php/kWh)					(4.9717)
Meralco Captive Energy Demand⁽⁴⁾	(kWh)					2,861,523,324
Increase / (Decrease) in Generation Cost	(Php)					(35,637,282.44)
Increase / (Decrease) in Generation Cost	(Php/kWh)					(0.0125)

Assumptions:

(1) CPI Adj for Fixed O&M and Variable O&M based on FH CPI (2006=100) = 142.30, Dec 2015, base PH CPI (2006=100) = 137.8, Feb 2014

(2) Estimated TPC line rental rate based on actual Apr - Jul 2014 average line rental of TPC

(3) Cost if equivalent volume of TPC was sourced instead from the WESM based on May 2016 forecast hourly prices

(4) Meralco Captive Energy Demand based on May 2016 forecast

11. The simulated delivered price for the duration of the term of the IPSA between Applicants MERALCO and TPC would result in an overall savings of PhPo.0003 per kWh, as seen in the rate impact below:

Impact to MERALCO Generation Charge

	Generation Charge PHP/kWh
	Mar 2016 - Feb 2017 Overall
Without Toledo Interim PSA	4.5328
With Toledo Interim PSA	4.5325
<i>inc / -dec, P/kWh</i>	<i>-0.0003</i>
<i>inc / -dec, Million PhP</i>	<i>-7.82</i>

12. In addition to such overall savings, the IPSA between Applicants MERALCO and TPC provides for a WESM rebate mechanism wherein TPC shall, under certain conditions, trade in the WESM any portion of the Contract Energy not taken by MERALCO. Such trading shall be for the sole benefit of MERALCO and shall redound to the benefit of its customers.

13. ***The IPSA between MERALCO and PPC*** – The IPSA between MERALCO and PPC, a copy of which was attached to the Application as Annex “B”, contains the following salient features:

Article 1
Term and Effectivity

1.1. Term of Agreement

- 1.1.1 This Agreement shall become effective immediately upon execution, provided that Power Supplier’s obligation to deliver and MERALCO’s obligation to purchase Contract Energy shall commence upon Energy Regulatory Commission (ERC) Provisional Authority (PA) or Final Approval (FA) (the Commencement Date) and shall expire on 25 February 2017, unless terminated earlier in accordance with the terms of this Agreement or extended by the parties by the application of Section 1.1.2 (Term).

- 1.1.2 The Term shall be automatically extended for an additional period of one (1) year under the same terms and conditions set forth in this Agreement, unless terminated by either Party by sending written notice to the other Party ninety (90) days prior to the expiration of the

Term. In no case shall the automatic extension of this Agreement exceed four (4) years.

1.2. ERC Approval

- 1.2.1 Within five (5) days after the date of this Agreement, the Parties shall file a joint application with the ERC for the approval of this Agreement, including the Contract Price as detailed in Appendix "A" (ERC Application).
- 1.2.2 If the ERC PA or FA requires any portion of any sum that has been paid by MERALCO to Power Supplier to be adjusted, the Power Supplier shall make the necessary adjustments in accordance with the direction of the ERC. In the event of any disallowance in the Contract Price, the same shall be for the account of Power Supplier.
- 1.2.3 If the ERC FA requires an amendment of any provision herein, including provisions on amounts payable under this Agreement, or subjects such approval to any material term or condition that is not acceptable to either Party, acting reasonably (ERC Conditional Approval), the Parties shall cooperate in good faith to resolve the required ERC amendment(s) or to address the material term or condition. The Parties shall agree to:
 - (a) Within fifteen (15) days after the receipt by the Parties of the ERC Conditional Approval, seek a reconsideration of the ERC Conditional Approval. During the period that the motion for reconsideration is pending, Power Supplier shall make available the Contract Energy following the rate in the ERC Conditional Approval, subject to the ERC's Final Approval; and/or
 - (b) If necessary, within thirty (30) days after receipt by the Parties of the ERC Conditional Approval, revise and file an amended Agreement for approval by the

ERC; Provided that if the motion for reconsideration is denied by the ERC, or if the Parties fail to agree on the amendment of this Agreement within the period prescribed in Section 1.2.3 (b), or the amended Agreement is disapproved by the ERC, or approved by the ERC but still with any material term or condition that is not acceptable to either Party, acting reasonably, the Agreement can be terminated by any Party by giving a thirty (30)-day prior written notice of such termination to the other Party.

Article 2

Sale and Purchase of Contract Energy

2.1. Supply of Power

Subject to the terms and conditions of this Agreement:

- 2.1.1 Immediately upon the Commencement Date, Power Supplier shall make available, sell, and deliver to MERALCO and MERALCO shall purchase from Power Supplier the Contract Energy at the Contract Price as detailed in Appendix "A". The Parties agree that Power Supplier shall have no obligation to supply more than the Contract Energy.
- 2.1.2 Subject to Section 2.1.3, Power Supplier shall not, without MERALCO's prior written consent, sell, divert, transfer, dedicate, reserve, or assign all or any portion of the Contract Energy to any Person other than MERALCO.
- 2.1.3 Power Supplier shall, under certain conditions, trade in the WESM any portion of the Contract Energy that is not taken by MERALCO. The Parties acknowledge and agree that any trading of this energy shall be for the sole benefit of MERALCO. Except for the market participation fees of Power Supplier, any and all costs, taxes, fees, and charges, imposed by the Market Operator with respect to such energy

traded in the WESM for the portion of the Contract Energy not taken by MERALCO, including the proportionate billing adjustments in relation thereto, such as but not limited to price substitution mechanism adjustments, shall be for the sole account of MERALCO. MERALCO hereby authorizes Power Supplier to offset any and all of the foregoing amounts against the revenues derived from the trading of the portion of the Contract Energy not taken by MERALCO, in accordance with formula E, (Net WESM Sales) as detailed in Appendix A.

- 2.1.4 On a day-after and month-after basis, in the event that the WESM line rental charges exceed PhPo.30/kWh in any trading interval, MERALCO shall have the option not to take the Contract Energy for such trading interval. If MERALCO exercises such option, it shall not be required to make any Capacity Payment and Fixed O&M Payment with respect to Contract Energy that is not taken by MERALCO.
- 2.1.5 Power Supplier shall not be entitled to any planned/scheduled or forced outage allowances. In case of any such outage, Power Supplier shall procure replacement energy and MERALCO shall pay for the same at the Contract Price.

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4.2. Payments

- 4.2.1. Each Final Invoice shall be due and payable not later than the last day of the calendar month following the month in which the end of the Billing Period for such Final Invoice relates; provided, that if such day is not a business day, then the Final Invoice shall be due and payable on the next succeeding business day (Payment Date); provided further, that in the event that the Final Invoice is not received by MERALCO within the time set forth in Section 4.1.6, the payment shall be due and payable on the due date for the subsequent Billing Period; provided

finally, that MERALCO shall not be required to make payment on any Final Invoice that is manifestly in error, apparently invalid or not, in the form or substance contemplated by this Agreement.

4.2.2. If MERALCO disputes all or any portion of a Final Invoice for a reason other than a manifest error in, or the patent invalidity or incorrect form or substance of such Final Invoice, MERALCO shall, nonetheless, pay the full amount of such Invoice. Any payment by MERALCO under this Section is without prejudice to MERALCO's right at a later date to dispute, protest, or question any amount so paid.

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Article 5 Taxes, Fees, and Costs

5.2 Responsibility for Taxes, Fees, and Costs

5.1.1. Power Supplier shall be responsible for and shall make timely payment of the following amounts:

- (a) WESM costs attributable to Power Supplier;
- (b) Benefits to host communities charges; and
- (c) VAT on the foregoing amounts, if any.

Power Supplier shall also be liable for the payment of all other existing taxes, fees, charges, and costs, including penalties, arising from this Agreement that properly pertain to the business of Power Supplier.

5.1.2. The following amounts that MERALCO is responsible for paying to third parties shall form part of the price that MERALCO will charge to its customers:

- (a) VAT on Contract Energy in accordance with Bureau of Internal Revenue (BIR) Memorandum Circular No. 61-2005 and ERC Resolution No. 20-2005, except in respect of any portion thereof that applies to VAT zero-rated and VAT-exempt customers of MERALCO;
- (b) WESM line rental charges associated with the declaration of Bilateral Contract Quantities from the Plant to MERALCO's WESM Node, subject to adjustments provided for in Section 2.1.4. and Appendix "A"; and
- (c) NGCP Charges.

Notwithstanding this Section, MERALCO shall, at all times, be liable for payment of all other existing taxes, fees, charges, and costs, including penalties, arising from this Agreement that properly pertain to the business of MERALCO.

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Article 9

Termination

- 9.1. If for any reason, except as provided in Article 7, there is an actual failure on the part of Power Supplier to deliver the Contract Energy to MERALCO for a period of ten (10) days, MERALCO shall send written notice to Power Supplier stating that such a breach has occurred.
- 9.2. If within thirty (30) days after receipt from MERALCO of such written notice (the Curing Period) the actual failure on the part of Power Supplier to deliver the Contract Energy to MERALCO has not been remedied by Power Supplier, MERALCO may terminate this Agreement and pursue any remedy available to it under this Agreement, at law or in equity.

- 9.3. MERALCO shall, from and after the occurrence of a breach under Section 9.1 and even during the Curing Period, be entitled to source energy from the WESM or other parties and Power Supplier shall be liable to pay MERALCO the difference between the amount MERALCO actually paid for such energy and the Contract Price.
- 9.4. Upon the early termination of this Agreement due to: (i) an actual failure on the part of Power Supplier to deliver the Contract Energy to MERALCO or (ii) the failure of MERALCO to pay for the Contract Price under the terms and conditions of this Agreement that results in the early termination of this Agreement, and without prejudice to any other provisions of this Agreement prior to such early termination, the Party in breach shall pay liquidated damages in an amount equivalent to the present value of the Capacity Recovery Fees for the remaining Term discounted at twelve percent (12%).
- 9.5. Either Party shall have the right to terminate this Agreement by serving thirty (30)-day advance written notice to the other due to violation of any of the provisions hereof or any of the grounds provided for herein; Provided, that the termination under this Section shall not prejudice the right of the aggrieved Party to liquidated damages under Section 9.4.
- 9.6. Subject to seven (7) days prior written notice to MERALCO, Power Supplier may terminate this Agreement if:
- (a) After forty (40) Days from filing of the ERC Application for approval of this Agreement, no approval has been issued; or
 - (b) If ERC PA or FA has been issued, Power Supplier is not amenable to any changes in the terms and conditions of the PSA, including the rate, as may be provided in the ERC PA or FA.
- 9.7. In the event of pre-termination of this Agreement on grounds as provided in this Agreement, MERALCO shall purchase energy from the WESM.

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14. Based on simulations, the effective delivered price under the IPSA between MERALCO and PPC for the supply month of May 2016 is PhP5.6754 per kWh, as shown in the sample calculation below:

PPC IPSA - Sample Calculation

May 2016

BILLING COMPONENT	UNIT	BILLING RATE	CPI Adj Factor	BILLING DETERMINANT		AMOUNT (PHP)
A. Capital Recovery Payment						
Peso Portion	(Php/kW-mo)	161.1100		45,000	(kW)	7,249,950.00
B. Fixed O&M Payment:						
Peso Portion	(Php/kW-mo)	418.8600	1.032656	45,000	(kW)	19,464,223.58
C. Variable O&M Payment						
Peso Portion	(Php/kWh)	0.3449	1.032656	13,410,000	(kWh)	4,776,146.67
D. Fuel Payment						
Peso Portion	(Php/kWh)	3.2121		13,410,000	(kWh)	43,074,571.44
TOTAL PAYMENT	(Php)					74,564,891.69
Effective Rate at Plant Gate	(Php/kWh)					5.5604
WESM Line Rental Rate⁽²⁾	(Php/kWh)					0.1151
Delivered Rate	(Php/kWh)					5.6754
Effective Cost at WESM Price⁽³⁾	(Php/kWh)					11.9620
Increase / (Decrease) over WESM Price	(Php/kWh)					(6.2866)
Meralco Captive Energy Demand⁽⁴⁾	(kWh)					2,861,523,324
Increase / (Decrease) in Generation Cost	(Php)					(84,302,973.11)
Increase / (Decrease) in Generation Cost	(Php/kWh)					(0.0295)

Assumptions:

- (1) CPI Adj for Fixed O&M and Variable O&M based on PH CPI (2006=100) = 142.30, Dec 2015, base PH CPI (2006=100) = 137.9, Feb 2014
 (2) Estimated PPC line rental rate based on actual Apr - Jul 2014 average line rental of PPC
 (3) Cost if equivalent volume of PPC was sourced instead from the WESM based on May 2016 forecast hourly prices
 (4) Meralco Captive Energy Demand based on May 2016 forecast

15. The simulated delivered price for the duration of the term of the IPSA between MERALCO and PPC would result in an overall savings of PhP0.0074 per kWh, as seen in the rate impact below:

Impact to MERALCO Generation Charge

	Generation Charge PHP/kWh
	Mar 2016 - Feb 2017 Overall
Without Panay Interim PSA	4.5328
With Panay Interim PSA	4.5254
<i>inc / -dec, P/kWh</i>	<i>-0.0074</i>
<i>inc / -dec, Million PhP</i>	<i>-229.03</i>

16. In addition to such overall savings, the IPSA between MERALCO and PPC provides for a WESM rebate mechanism wherein PPC shall, under certain conditions, trade in the WESM any portion of the Contract Energy not taken by MERALCO. Such trading shall be for the sole

benefit of MERALCO and shall redound to the benefit of its customers.

17. ***Allegations in Support of the Prayer for Provisional Authority*** – Based on the supply-demand outlook for 2016, MERALCO foresees a significant capacity deficit in its portfolio, especially for the summer months. The deficit is due to expected high demand and scheduled maintenance shutdowns of its contracted generating units as well as possible occurrences of forced plant outage.
18. Applicants alleged that if the IPSAs are not implemented during said period, Applicant MERALCO will be constrained to source from the WESM, where prices are volatile, especially during the summer months. This can be further aggravated and would likely result in higher WESM prices. The higher prices can be attributed the very tight supply under thin reserve margin conditions during said period.
19. Applicants, thus, argued that there is a paramount necessity for the timely approval of the Joint Application and for the issuance of a provisional authority. The timely approval and issuance would enable MERALCO to immediately implement the IPSAs allowing it to reduce its purchases from WESM. This in turn would protect MERALCO's customers from forecasted high WESM prices, helping ensure reasonable prices for such customers especially during the summer months of 2016.
20. In support of the Joint Application, the Judicial Affidavit of Mr. Ciprinilo C. Meneses, Head of MERALCO's Energy Sourcing Office, was attached as Annex "C".
21. Applicants MERALCO, TPC, and PPC prayed for the following:
 - a. Issuance of an Order, after initial review of the Joint Application and pending hearing on the merits, approving provisionally the implementation of the IPSAs between: (a) MERALCO and TPC; and (b) MERALCO and PPC, thereby authorizing TPC and PPC to charge and collect from MERALCO electricity fees based on rates that the Commission may provisionally approve, and authorizing

Applicant MERALCO to pass the full amount thereof to its customers.

- b. Issuance of a Decision, after trial on the merits, approving the IPSAs, thereby authorizing TPC and PPC to charge and collect from MERALCO the electricity fees based on the final rates approved by the Commission, and authorizing MERALCO to pass the full amount thereof to its customers.
- c. Allowing TPC and PPC to recover from MERALCO the rate difference, and authorizing MERALCO to pass the full amount thereof to its customers, in the event that the rate provisionally approved is lower than the rate finally approved.
- d. Granting of such other reliefs, just and equitable, under the circumstances.


The Commission has set the said Joint Application for determination of compliance with the jurisdictional requirements, expository presentation, pre-trial conference, and presentation of evidence on **05 April 2016 at ten o'clock in the morning (10:00 A.M.), at the ERC Hearing Room, 15th Floor, Pacific Center Building, San Miguel Avenue, Pasig City.**

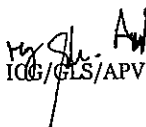
All persons who have an interest in the subject matter of the proceeding may become a party by filing, at least five (5) days prior to the initial hearing and subject to the requirements in the ERC's Rules of Practice and Procedure, a verified petition with the Commission giving the docket number and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


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


ICG/CLS/APV

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Copy Furnished:

1. **Attys. Francis Dino S. Antonio, Carmen Grace S. Ramos, Katherine Mari S. Garcia-Moreno, and Raymond B. Yap**
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2. **Attys. Amanda R. Abrera Bengson, Rogelio D. Puno, Jr, and Mark Jorel O. Calida**
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3. **Toledo Power Company (TPC)**
Barangay Daanlungsod, Toledo City, Cebu
4. **Panay Power Corporation (PPC)**
Barangay Ingore, La Paz, Iloilo City
5. **Office of the Solicitor General**
134 Amorsolo Street, Legaspi Village
Makati City, Metro Manila
6. **Commission on Audit**
Commonwealth Avenue
Quezon City, Metro Manila
7. **Senate Committee on Energy**
GSIS Bldg. Roxas Blvd., Pasay City
Metro Manila
8. **House Committee on Energy**
Batasan Hills, Quezon City, Metro Manila
9. **Philippine Chamber of Commerce and Industry (PCCI)**
Campus Avenue corner Park Avenue,
McKinley Town Center, Fort Bonifacio, Taguig City
10. **The City Mayor**
City of Manila
11. **The City Mayor**
Quezon City
12. **The City Mayor**
City of Caloocan
13. **The City Mayor**
City of Makati
14. **The City Mayor**
City of Malabon
15. **The City Mayor**
City of Mandaluyong
16. **The City Mayor**
City of Muntinlupa

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City of San Jose del Monte, Bulacan
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Pasay City
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Trece Martirez City
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Las Piñas City
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San Juan City
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Lucena City
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Batangas City
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San Pablo City, Laguna
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City of Marikina
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Antipolo City, Rizal
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Tagaytay City, Cavite
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Calamba, Laguna
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Sta. Rosa, Laguna
34. **The City Mayor**
Biñan, Laguna
35. **The City Mayor**
Navotas, Metro Manila

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36. **The Municipal Mayor**
Taguig, Metro Manila
37. **The Municipal Mayor**
Pateros, Metro Manila
38. **The Municipal Mayor**
General Aguinaldo, Cavite
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Magallanes, Cavite
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Amadeo, Cavite
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Mendez, Cavite
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Gen. Trias, Cavite
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Rosario, Cavite
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Tanza, Cavite
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Dasmariñas, Cavite
55. **The Municipal Mayor**
Gen. Mariano Alvarez, Cavite

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Carmona, Cavite
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Cainta, Rizal
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Doña Remedios Trinidad, Bulacan
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Plaridel, Bulacan
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San Rafael, Bulacan
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San Miguel, Bulacan
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San Ildefonso, Bulacan
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Victoria, Laguna

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Magdalena, Laguna
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Los Baños, Laguna
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Cabuyao, Laguna
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Bay, Laguna
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Dolores, Quezon
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Sampaloc, Quezon
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Pagbilao, Quezon
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Lucban, Quezon
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Tayabas, Quezon
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Candelaria, Quezon
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Sariaya, Quezon
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- San Antonio, Quezon
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117. **The Municipal Mayor**
Majayjay, Quezon
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Luisiana, Quezon
119. **The Municipal Mayor**
Sto. Tomas, Batangas
120. **The Municipal Mayor**
San Pascual, Batangas
121. **The Municipal Mayor**
Candaba, Pampanga
122. **The Municipal Mayor**
San Simon, Pampanga
123. **The Municipal Mayor**
Apalit, Pampanga
124. **Office of the Governor**
Province of Rizal
125. **Office of the Governor**
Province of Laguna
126. **Office of the Governor**
Province of Batangas
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Province of Bulacan