

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  
AGREEMENT (IPSA)  
BETWEEN MANILA  
ELECTRIC COMPANY  
(MERALCO) AND 1590  
ENERGY CORPORATION  
(1590 EC), WITH PRAYER  
FOR PROVISIONAL  
AUTHORITY**

**ERC CASE NO. 2016 - 010 RC**

**MANILA ELECTRIC  
COMPANY (MERALCO)  
AND 1590 ENERGY  
CORPORATION (1590 EC),  
Applicants.**

**D O C K E T E D**  
Date: APR 15 2016  
By: M

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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) and 1590 Energy Corporation (1590 EC), filed a Joint Application for approval of their Interim Power Supply Agreement (IPSA), with prayer for provisional authority.

In their Joint Application, Applicants MERALCO and 1590 EC 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 through its counsels.

2. MERALCO has a legislative franchise to operate and maintain a distribution system within Metro Manila and the cities and municipalities in Bulacan, Cavite, and Rizal, and certain cities, municipalities, and barangays in Batangas, Laguna, Quezon, and Pampanga, pursuant to Republic Act No. 9209, and is authorized to charge all its customers for their electric consumption at the rates approved by the Energy Regulatory Commission (ERC).
3. Applicant 1590 EC is a corporation duly organized and existing under the laws of the Republic of the Philippines, with office address at 107 Midland Condominium, Gamboa Street, Legaspi Village, Makati City, Metro Manila. It may be served with notices and other processes through its counsels.
4. 1590 EC operates and manages the energy output of a 215 MW bunker oil-fired diesel engine power plant located at Bauang, La Union (Plant).
5. Based on its power supply-demand outlook for 2016, MERALCO foresees a significant capacity deficit in its portfolio for the period of March to October, 2016. The deficit is due to 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 19 January 2016, MERALCO executed an Interim Power Supply Agreement (IPSA) with 1590 EC for the energy capacity indicated below:

CAPACITY	TRADING INTERVAL	PERIOD
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170 MW (firm)	1000H – 2100H, Mondays to Saturdays	26 February 2016 – 25 July 2016
Up to 170 MW (non-firm)	1000H – 2100H Mondays to Saturdays	26 July 2016 – 25 February 2017

9. The IPSA, a copy of which was attached 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 upon the provisional approval (Provisional Approval) or final approval (Final Approval) of the Energy Regulatory Commission (ERC) (Commencement Date), and shall expire on 25 February 2017, unless terminated earlier in accordance with Article 9 of this Agreement or extended 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 two (2) 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 Provisional Approval or Final Approval 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 Final Approval 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 (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 receipt by the Parties of the Conditional Approval, seek a reconsideration of the Conditional Approval. During the period that the motion for reconsideration is pending, Power Supplier shall make available the Contract Capacity and Associated Energy following the rate in the Conditional Approval, subject to the Final Approval; and/or

(b) Within thirty (30) days after receipt by the Parties of the 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 Capacity and**  
**Associated 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 Capacity and Associated Energy at the Contract Price determined in accordance with Appendix A.

2.1.2. Power Supplier shall not, without MERALCO's prior written consent, sell, divert, transfer, dedicate, reserve, or assign all or any portion of the firm Contract Capacity and Associated Energy to any person other than MERALCO.

2.1.3. Power Supplier shall not be entitled to any planned/scheduled or forced outage allowances.

**Article 4**  
**Billing and Payment**

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4.2. Payments

4.2.1. Provided that MERALCO receives the Final Invoice within the time set forth in Section 4.1.6, each Final Invoice shall be due and payable not later than the twenty-fifth (25th) 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 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 – 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 to third parties in connection with the purchase of Contract Capacity and Associated Energy shall form part of the price that MERALCO will charge to its customers:

- (a) VAT on Contract Capacity and Associated Energy in accordance with Bureau of Internal Revenue (BIR) Revenue 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) All fees and charges imposed by WESM to MERALCO, which include the following:
  - (i) line rental charges for the transmission of Associated Energy from the Plant to the delivery point;
  - (ii) Must Run Unit Adjustments;
  - (iii) Price Substitution Mechanism; and
  - (iv) Net Settlement Surplus; 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 8 Termination**

- 8.1. If for any reason, except as provided in Article 6, there is an actual failure on the part of Power Supplier to make available the Contract Capacity and deliver to MERALCO the Associated Energy for a period of ten (10) days, MERALCO shall send written notice to Power Supplier stating that such a breach has occurred.
- 8.2. 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 make available the Contract Capacity and deliver to MERALCO the Associated Energy 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.
- 8.3. MERALCO shall, from and after the occurrence of a breach under Section 8.1 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.
- 8.4. Upon the early termination of this Agreement due to (i) an actual failure on the part of Power Supplier to make available the Contract Capacity and deliver to MERALCO the Associated Energy, or (ii) the failure of MERALCO to pay the Contract Price under the terms and conditions 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 Capital Recovery Fees for the remaining Term discounted at twelve percent (12%).

- 8.5. Either Party shall have the right to terminate this Agreement by serving thirty (30)-day advance written notice to the other:
- (a) Due to violation of any of the provisions hereof or any of the grounds provided for herein;
  - (b) If the Parties fail to agree on the amendment of this Agreement within the period prescribed in Section 1.2.3;
  - (c) If 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 pursuant to Section 1.2.3; or
  - (d) If the Parties fail to agree on a Price Adjustment, pursuant to Section 9.4, within thirty (30) days from notice by Power Supplier to MERALCO of a Change in Law;

Provided, that the termination under this Section shall not prejudice the right of the aggrieved Party to liquidated damages under Section 8.4.

- 8.6. Subject to seven (7) days prior written notice to MERALCO, this Agreement may be terminated by Power Supplier if:
- (a) After forty (40) days from filing of the ERC Application for the approval of this Agreement, no approval has been issued;
  - (b) A Provisional Approval or Final Approval has been issued and Power Supplier is not amenable to any changes in the terms and conditions of this Agreement, including the Contract Price, as approved in the Provisional Approval or Final Approval.

- (c) After thirty (30) days from due date, MERALCO fails to pay any undisputed amount in the Final Invoice;
- (d) For any reason, the Power Supplier's lease on the Plant is terminated or not renewed by the government.

8.7. In the event of pre-termination of this Agreement on grounds as provided in this Agreement, MERALCO shall be allowed to purchase energy from the WESM until such time it is able to source available replacement capacity through a competitive selection process as required by the ERC.

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10. Based on simulations, the effective delivered price under the IPSA for the supply month of May 2016 is PhP7.0869 per kWh, as shown in the sample calculation below:

**1590EC 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)	366.6700		170,000	(kW)	€2,333,900.00
B. Fixed O&M Payment						
Peso Portion	(Php/kW-mo)	348.3300	1.000000	170,000	(kW)	59,216,100.00
C. Variable O&M Payment						
Peso Portion	(Php/kWh)	0.4000	1.000000	46,920,000	(kWh)	18,768,000.00
D. Fuel Payment						
MFO Payment: Peso Portion	(Php/kWh)	3.5823		46,920,000	(kWh)	168,080,957.08
LO Payment: Peso Portion	(Php/kWh)	0.1786		46,920,000	(kWh)	8,381,231.39
LFO Payment: Peso Portion	(Php/start-up)	104,853.40		41	(no. of start-up)	4,299,184.40
<b>TOTAL PAYMENT</b>	(Php)					<b>321,078,782.87</b>
<b>Effective Rate at Plant Gate</b>	(Php/kWh)					<b>6.8431</b>
<b>WESM Line Rental Rate<sup>(1)</sup></b>	(Php/kWh)					<b>0.2438</b>
<b>Delivered Rate</b>	(Php/kWh)					<b>7.0869</b>
<b>Effective Cost at WESM Price<sup>(2)</sup></b>	(Php/kWh)					<b>12.6213</b>
<b>Increase / (Decrease) over WESM Price</b>	(Php/kWh)					<b>(5.5344)</b>
<b>Meralco Captive Energy Demand<sup>(4)</sup></b>	(kWh)					<b>2,861,523,324</b>
<b>Increase / (Decrease) in Generation Cost</b>	(Php)					<b>(259,673,983.10)</b>
<b>Increase / (Decrease) in Generation Cost (Php/kWh)</b>						<b>(0.0907)</b>

**Assumptions:**

- (1) CP Adj for Fixed O&M and Variable O&M based on PH CP: (2008=100) = 142.30, Dec 2015, base PH CP: (2008=100) = 142.30, Dec 2015  
(2) Estimated 1590EC line rental rate based on actual Jan - Jun 2015 average line rental of 1590EC  
(3) Cost if equivalent volume of 1590EC was sourced instead from the WESM based on May 2016 forecast hourly prices  
(4) Meralco Captive Energy Demand based on May 2016 forecast

11. As seen in the above table, the simulated delivered price for the duration of the term (firm) of the IPSA would result in an overall savings of PhP0.0541 per kWh.

Impact to MERALCO Generation Charge

	Generation Charge PHP/kWh
	Mar - Jul 2016 Overall
Without Bauang Interim PSA	4.8721
With Bauang Interim PSA	4.8180
<i>inc / -dec, P/kWh</i>	-0.0541
<i>inc / -dec, Million PhP</i>	-732.08

12. ***Allegations in Support of the Prayer for Provisional Authority*** – Based on the power supply-demand outlook for 2016, MERALCO foresees a significant capacity deficit in its portfolio for the period of March to October 2016. The deficit is due to scheduled maintenance shutdowns of its contracted generating units as well as possible occurrences of forced plant outage.
13. Applicants alleged that if the IPSA is not implemented during the 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 to the very tight supply under thin reserve margin conditions during said period.
14. 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 IPSA allowing it to reduce its purchases from WESM. This in turn would protect its customers from forecasted high WESM prices, helping ensure reasonable prices of electricity for such customers, especially during the critical period of 26 February 2016 to 25 July 2016.
15. 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 "B".
16. Applicants MERALCO and 1590 EC prayed that the Commission would:

- a. Issue an Order, after initial review of the Joint Application and pending hearing on the merits, provisionally approving the implementation of the IPSA between MERALCO and 1590 EC, thereby authorizing 1590 EC to charge and collect from MERALCO electricity fees based on rates that the Commission may provisionally approve, and authorizing MERALCO to pass the full amount thereof to its customers;
- b. Issue a Decision, after trial on the merits, approving the IPSA, thereby authorizing 1590 EC 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. Allow 1590 EC to recover from MERALCO the rate difference, and authorize 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; and
- d. Grant 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 **04 May 2016 at ten o'clock in the morning (10:00 A.M.), at the ERC Hearing Room, 15<sup>th</sup> 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.

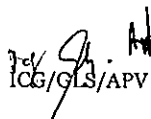
All other persons who may want their views known to the Commission with respect to the subject matter of the proceeding may

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 12th day of April 2016 in Pasig City.

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

  
ICG/CLS/APV