

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

IN THE MATTER OF THE
APPLICATION FOR THE
APPROVAL OF THE POWER
SUPPLY AGREEMENT (PSA)
BETWEEN SULTAN
KUDARAT ELECTRIC
COOPERATIVE, INC.
(SUKELCO), AND KING
ENERGY GENERATION,
INC. (KEGI), WITH PRAYER
FOR THE ISSUANCE OF A
PROVISIONAL AUTHORITY,

ERC CASE NO. 2016-172 RC

SULTAN KUDARAT
ELECTRIC COOPERATIVE,
INC. (SUKELCO), AND
KING ENERGY
GENERATION, INC. (KEGI),
Applicants.

DOCKETED
Date: MAR 20 2017
By: M

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ORDER

On 16 September 2016, applicants Sultan Kudarat Electric Cooperative, Inc. (SUKELCO) and King Energy Generation, Inc. (KEGI) filed a *Joint Application* seeking the Commission's approval of the Power Supply Agreement (PSA) entered into by both parties on 01 July 2016, including therein a prayer for the issuance of provisional authority.

In the said *Joint Application*, Applicants alleged the following:

Applicants, SULTAN KUDARAT ELECTRIC COOPERATIVE, INC. (hereinafter referred to as SUKELCO for brevity) and KING ENERGY GENERATION, INC. (hereinafter referred to as KEGI for brevity), to this Honourable Commission, most respectfully allege:

1. That Applicant SUKELCO is a non stock non profit electric cooperative existing pursuant to law (P.D. 269), as amended, with postal address at SUKELCO Building, National

Highway, Tacurong City, where it may be served with the processes of this Honourable Commission through its General Manager, Claudia A. Pondales, whose authority to file this Application and represent the Applicant is authorized by the Board of Directors of the Applicant pursuant to Board Resolution No. 118, Series of 2016 which is hereto attached as Annex "A" and made an integral part of this Application.

2. That joint applicant KEGI is a domestic corporation organized and existing under the laws of the Republic of the Philippines with postal address at Misamis Oriental Power Plant (MOPP-1), Barangay San Luis Gingoog City, Misamis Oriental and represented in this Application by its President, MR. EDGARDO L. SALVAME, whose authority to represent KEGI through Board Resolution No. 0093, Series of 2016 is hereto attached as Annex "B".

3. That pursuant to Rule 20 (B) of the Commission's Rules of Practice and Procedure, and other pertinent rules and regulations, the instant Application is filed for its due consideration and approval.

4. That in Compliance with the pre filing requirement under Rule 6 of the said Rules, Applicant SUKELCO served copies of the Application together with all of its Annexes to the legislative bodies of the province of Sultan Kudarat, City of Tacurong where it principally operates and in the municipalities of Isulan, Esperanza, Bagumbayan, Pres. Quirino, Lambayong, Columbio, Palimbang, Senator Ninoy Aquino, Lebak, and Kalamansig, and the legislative bodies of the province of Maguindanao, the municipalities of Buluan, Datu Paglas, General S.K. Pendatun and Paglat. These are attached herein as Annexes "C" to "C-16."

5. That it likewise caused the publication of the entire Application in Gold Star Daily a newspaper of general circulation within Applicant SUKELCO's franchise area in the province of Sultan Kudarat covering the City of Tacurong and municipalities of Isulan, Esperanza, Bagumbayan, Pres. Quirino, Lambayong, Columbio, Palimbang, Senator Ninoy Aquino, Lebak, and Kalamansig, and the municipalities of Buluan, Datu Paglas, General S.K. Pendatun and Paglat, all in the province of Maguindanao. The Affidavit of Publication and the newspaper where and when said Application was published is attached herein as Annex "D" to "D-3."

STATEMENT OF FACTS

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

7. Power Suppliers of SUKELCO. Applicant SUKELCO is heavily dependent on Hydro powered electricity from NPC-PSALM. In its Contract for the Supply of Electric Energy (CSEE), which covers a period of four (4) years from 26 December 2012 to 25 December 2016, attached herein as Annexes "E" to "E-25," the

average contracted capacity is 10.0 MW. However, NPC-PSALM could only deliver 8.68 MW in 2015 and is projected to reduce further to 6.96 MW in 2016. A copy of the Supply and Demand Scenario, both historical and forecasted 2010 to 2020 is attached herein as Annex "F."

In addition to NPC-PSALM, SUKELCO contracted with Therma Marine, Inc., hereafter referred to as TMI, for 5 MW which will last in January 2018 and Therma South Inc, hereafter referred to as TSI, for 10 MW. It has likewise entered into a power supply agreement with DMCI Power Corporation, hereafter referred to as DPC, for 3.0 MW until January 2019.

Starting 2018, SUKELCO is expecting delivery of 14.32 MW from GN Power Kauswagan, Inc.

SUKELCO has likewise entered into a Power Supply Agreement with KEGI for the delivery of 2.65MW which is pending evaluation and approval by the Commission under ERC Case No. 2015-209 RC.

The subject matter of this joint application is a separate additional 6.0 MW which SUKELCO intends to be delivered immediately from co-applicant KEGI.

The total supply for 2015 and 2016, actual and projected, are 21.68 MW and 27.61 MW, respectively.

8. Drastic Reduction in NPC/PSALM's Supply. Worse, PSALM reduced its allocations to distribution utilities, further aggravating the power shortage.

Recently, NPC/PSALM reduced its firm supply commitments to distribution utilities in Mindanao, including SUKELCO, by about thirty percent (30%). SUKELCO's Contract for the Supply of Electric Energy with NPC/PSALM will expire in December 2016, after which any allocation is uncertain. As a matter of fact, the committed power deliveries of NPC-PSALM for 2015 as per attached CSEE, has been revised per letter dated 05 November 2014 from NPC-PSALM reducing its power allocation a per Annex "G" to "G-1".

9. PSALM Certification. PSALM has certified that it has insufficient capacity to supply SUKELCO's additional power requirements beyond the contracted energy and equivalent demand in their current power supply contract. A copy of the relevant certification is hereto attached as Annex "H".

10. Necessity for Long-term Power Supply. It is necessary for a distribution utility like SUKELCO to ensure that the power supply requirements within its franchise area are adequately covered by supply contract.

11. That due to the sustained and increasing load requirement for applicant SUKELCO, as shown in the table below, coupled with its generation constraints, it was compelled to conduct

a Competitive Selection Process (CSP) for their additional supply requirement and contract with joint applicant KEGI , for an additional Six megawatt (6 MW) capacity demand with a minimum 1,400,000 kWh monthly contracted energy for eight (8) hours a day, and for a period of five (5) years to insure adequacy, quality and reliability of electric power and electricity for distribution to its member-consumers within its franchise area.

12. Power Demand. The Capacity and Energy Demand of SUKELCO for 2016 to 2026 is projected as follows (all in Megawatts hours-MWH), attached hereto as Annex “I”:

ACTUAL					
Year	2009	2010	2011	2012	2013
Demand (MW)	19.237	19.555	21.327	21.792	22.301
Energy required (MWH)	109,073	110,140	117,945	127,012	128,945
Year		2014	2015		
Demand (MW)		23.370	24.643		
Energy required (MWH)		136,246	143,172		
FORECAST					
Year	2016	2017	2018	2019	2020
Demand (MW)	26.985	28.578	30.295	32.082	33.985
Energy required (MWH)	151,657	160,612	170,262	180,301	190,998
Year	2021	2022	2023	2024	2025
Demand (MW)	35.999	38.117	40.332	42.637	45.026
Energy required (MWH)	202,317	214,219	226,667	239,624	253,050

Additionally, SUKELCO’s Distribution Development Plan (DDP), covering the years 2016 to 2025, Annex “I-1” to “I-84,” is attached to this Joint Application.

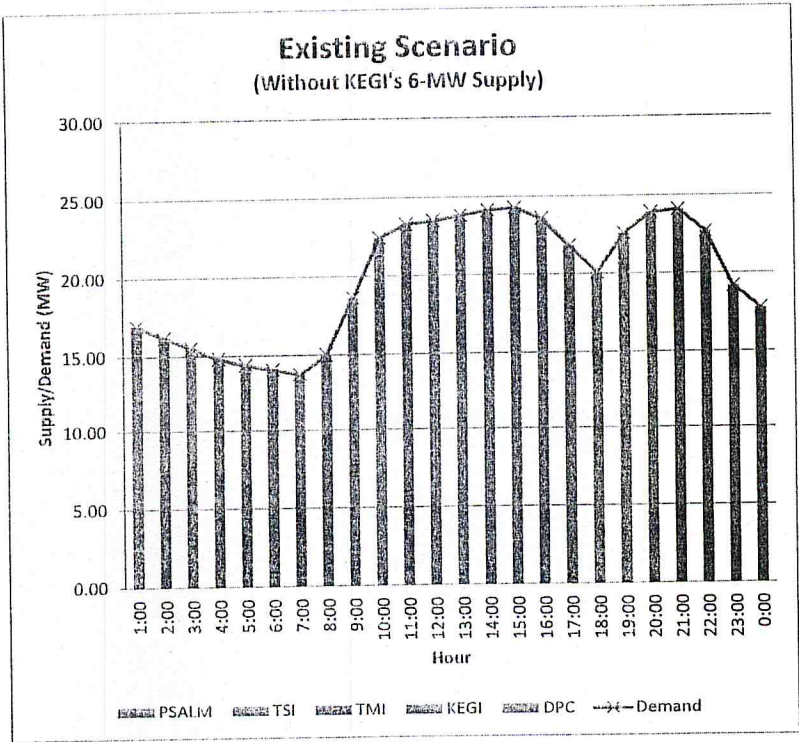
13. Supply Demand Scenario. The injection of 6.0 MW into SUKELCO supply chain has the following impact on the supply demand imbalance:

SUPPLY AND DEMAND SCENARIO (Historical and Forecasted)												
Description	Historical							Forecast				
	2010	2011	2012	2013	2014	2015	May-16	2016	2017	2018	2019	2020
Peak Demand (MW)	19.56	21.33	21.79	22.30	23.65	25.48	26.49	26.99	28.58	30.30	32.08	33.99
Supplier/s:												
PSALM	22.80	22.94	17.12	12.21	12.93	8.68	6.96	6.96				
TMI			5.00	5.00	5.00	5.00	5.00	5.00	5.00			
TSI						8.00	10.00	10.00	10.00	10.00	10.00	10.00
DPC							3.00	3.00	3.00	3.00		
KEGI - 2.65 MW							2.65	2.65	2.65	2.65	2.65	2.65
KEGI - 6.00 MW									6.00	6.00	6.00	6.00
GEEC - FIT BIOMASS									2.85	2.85	2.85	2.85
GNPOWER										14.32	14.32	14.32
Total Supply (MW)	22.80	22.94	22.12	17.21	17.93	21.68	27.61	27.61	29.50	38.82	35.82	35.82
Surplus/(-Deficit)	3.24	1.61	0.33	-5.09	-5.71	-3.80	1.11	0.62	0.92	8.53	3.74	1.84

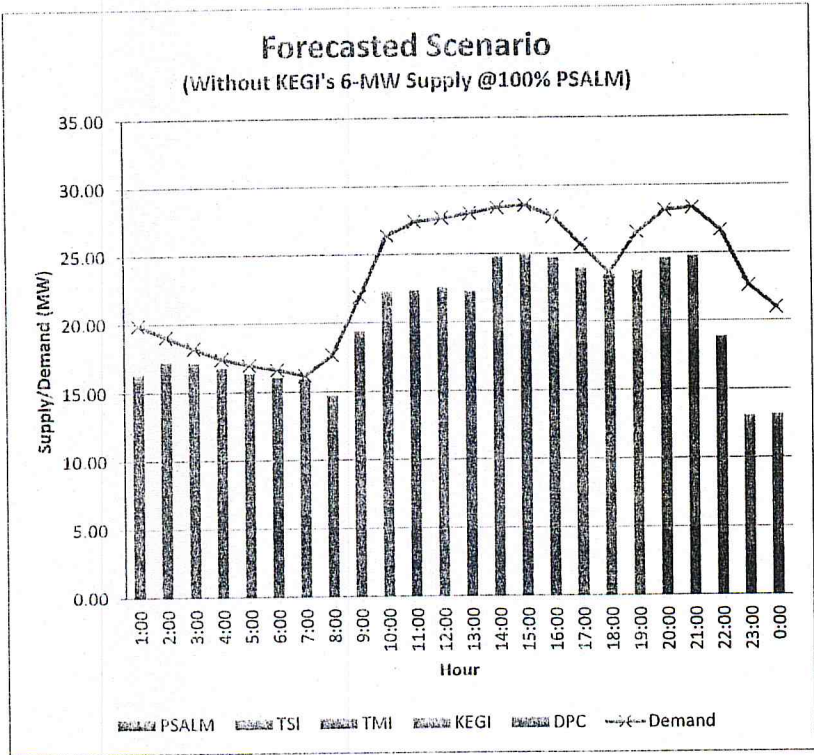
14. Simulation of NPC PSALM delivering only 70% to 30% without KEGI’s 6.0 MW infusion.

Existing scenario without KEGI’s power supply in the month of May 2016 showed enough supply due to low demand but this will

change with the additional demand by 2017 and reduction of supply due to expiration of PSALM CSEE, as shown in Annex “J” below:

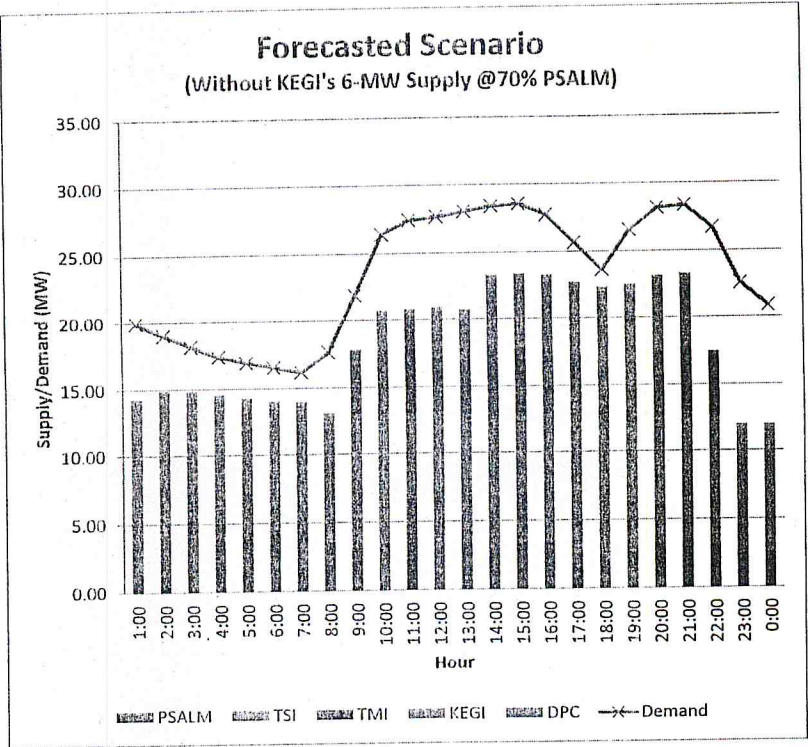


On the assumption that NPC PSALM will deliver to SUKELCO 100% of its committed contracted capacity, only minimal deficiency will be experienced by SUKELCO, as shown below, Annex “J-1”:

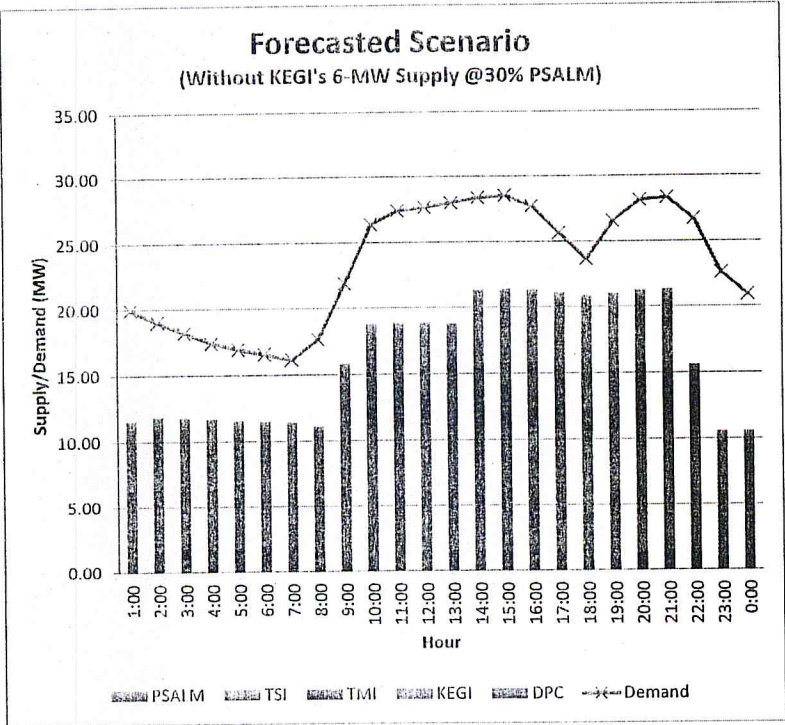


On the further assumption that NPC-PSALM can deliver only 70% of its contracted capacity, a shortage of about 5 MWs every

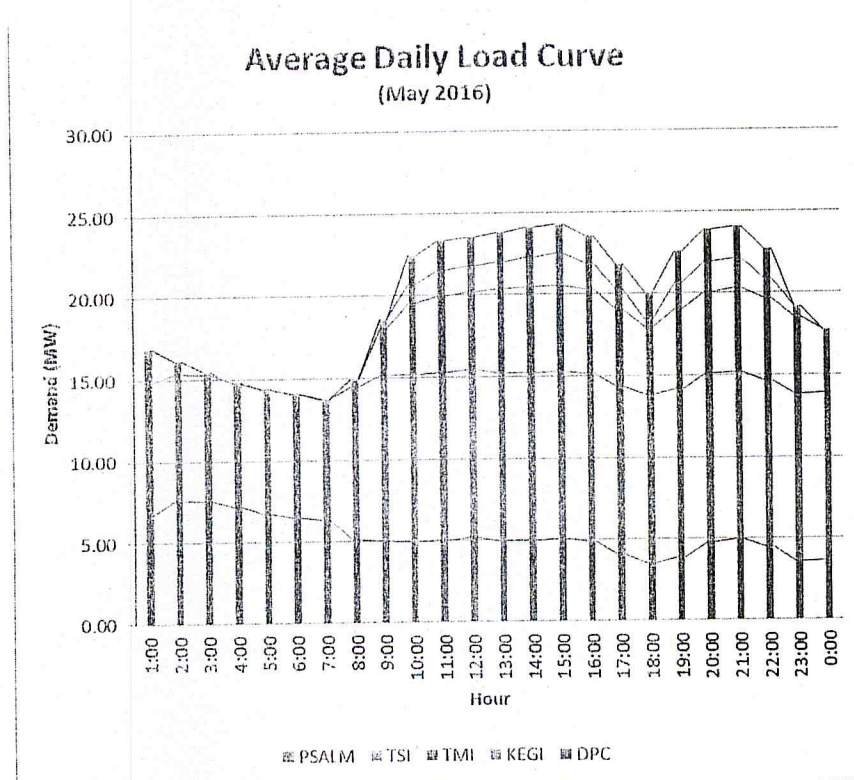
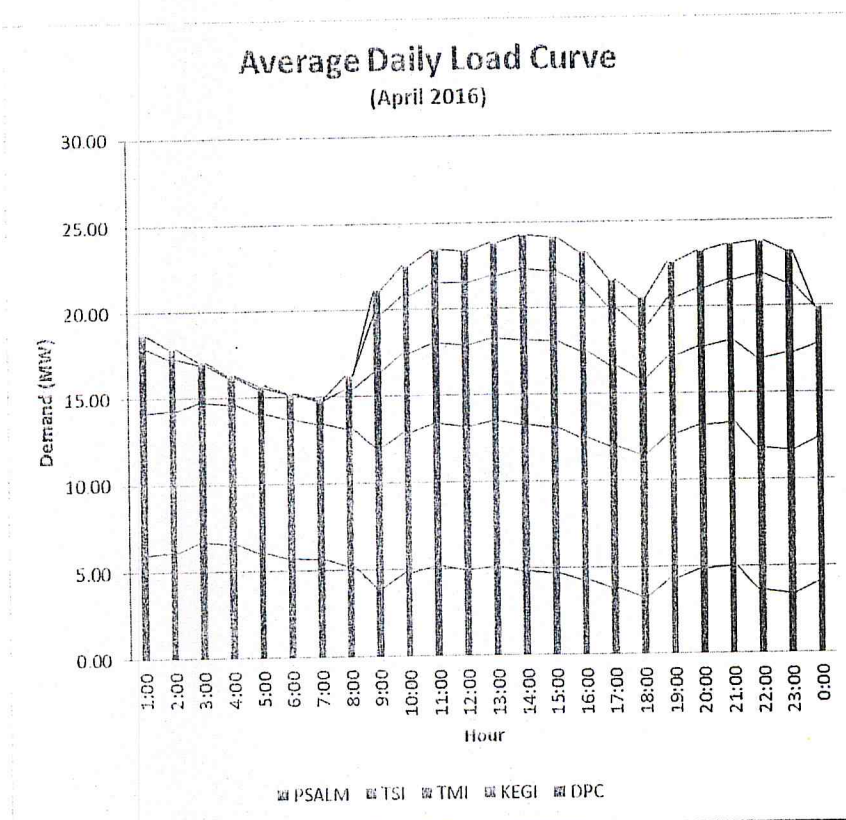
hour for 24 hours will be suffered by SUKELCO, as shown below, Annex “J-2”:



On the final assumption that NPC-PSALM could only deliver 30% of its committed capacity, there is an average shortage of about 7 MW's per day as shown below, Annex “J-3”:



14. Load Profile. Profile of latest average daily load curve of SUKELCO for the last twelve (12) months from June 2015 up to May 2016, are attached hereto as Annex “K” to “K-11”, the months of April and May, 2016 are reproduced herein as follows:



15. PROCUREMENT PROCESS ON KEGI's 6-MW PSA

In view of the increasing demand and expected reduction of supply allocation from PSALM due to privatization of its contracted supply from WMPC, SPPC and STEAG, the Board, in response to

the recommendation of the management, adopted on 14 September 2015, Board Resolution No. 130, Series of 2015: Approving the acquisition of six (6) MW firm supply from Southern Philippines Power Corporation (SPPC) and further authorizing the Board President to enter into a Power Sales Agreement for the purpose.

On 20 October 2015, the ERC adopted Resolution No. 13, Series of 2015, Directing all Distribution Utilities (DUs) to conduct Competitive Selection Process (CSP) in the procurement of their power supply to the captive market. Considering that the coop has not yet signed and filed the proposed 6-MW agreement with SPPC, the Board decided to comply with the directive of ERC and authorized the management to conduct a CSP for the coop's 6-MW firm supply requirement and to publish the same through its Board Resolution No. 196, Series of 2015 dated 22 December 2015.

SUKELCO's Bids and Awards Committee (BAC) published through the Philippine Daily Inquirer (PDI) an Invitation to Bid (Annex 1) on 03 February 2016 and set the Pre-bid conference on 12 February 2016. During the pre-bid conference, only King Energy Generation, Inc. (KEGI) submitted the complete documents for accreditation and was given the Certificate of Accreditation. Pursuant to Section 3 of ERC Res. No. 13, Series of 2015, "A CSP is considered failed when during its conduct, only one supplier submitted an offer". Since only one supplier was accredited to bid, SUKELCO's BAC resolved to declare a failure of bidding for 6-MW firm power supply due to insufficient number of accredited bidders and re-publication of the same through its BAC Resolution No. 11, Series of 2016 dated 12 February 2016.

SUKELCO's BAC re-published the Invitation to Bid (Annex 2) through the Philippine Daily Inquirer (PDI) on 07 March 2016 and set the Pre-bid conference on 15 March 2016. During the accreditation process, Mapalad Power Corporation (MPC) completed the submission of required documents and was given the Certificate of Accreditation. On the scheduled pre-bid conference, both the KEGI and MPC representatives were present and the bidding documents were discussed thoroughly to enable them to submit a responsive bid. On the scheduled opening of bids, only KEGI was present and upon inquiry to the representative of MPC, she decided not to attend the opening of bids due to some lacking documents required in the opening of bids that she cannot submit. In accordance with Section 3 of ERC Res. No. 13, Series of 2015, "Direct negotiation with interested party for the supply of electricity may be made by the DU after at least two (2) failed CSPs." Similarly, having one supplier that can possibly submit an offer, the BAC through its BAC Resolution No. 20, Series of 2016, resolved to declare second failure of Bidding due to insufficient number of bidders and further recommended for its negotiation which was duly approved by the Board through its Board Resolution No. 70, Series of 2016.

SUKELCO's BAC, with the permission of the Management and the Board, proceeded to the Negotiation process with KEGI. The proposal submitted by KEGI was forwarded to the Technical Working Group (TWG) for further evaluation and simulation of its

impact to the existing generation rate. The evaluation of the TWG and of the BAC members were consolidated and presented to KEGI. After thorough discussion and negotiation, the BAC resolved to recommend Contracting of the Six (6) MW Firm Power Supply of SUKELCO to KEGI for a period of five (5) years through BAC Resolution No. 24, Series of 2016 dated 31 May 2016.

SUKELCO, through its Board President, Dir. Akmad M. Mamalinta, Ph.D, then executed a Power Supply Agreement for 6 MW power supply with KEGI on 01 July 2016.

Considering the above scenario, SUKELCO decided to contract with KEGI for 6 MW from 2016 to 2021. A copy of SUKELCO's procurement process is hereto attached as Annex "L" to "L-42";

16. THE POWER PLANT

Project Cost. KEGI is constructing a new power plant to be located in San Isidro, Jimenez, Misamis Occidental to supply the power requirements of SUKELCO with a total estimated project cost of Php1,391,714,421.00 inclusive of the civil works, electro mechanical, site development and other related costs. This will supply the additional power requirements that SUKELCO needs. A copy of the detailed project cost, which is prayed to be treated as *confidential information*, pursuant to ERC Rules of Procedure, is hereto attached as Annex "M" to "M-3". This power plant will have a capacity of 16.274 MW which will supply not only SUKELCO but also LANECO and ZAMSURECO II.

Sources of Financing and Debt to Equity Ratio. The total project cost of Php 1,391,714,421.00 will be financed by a combination of equity and debt in the ratio of seventy percent (70%) equity and thirty percent (30%) debt. This means that of the total project cost, Php 976,714,421.00 will be equity and Php 415,000,000 be debt. The debt to equity ratio is part of the Project Financial and Economic Analysis which is marked as Annex "N."

Return on Investment (ROI) and Weighted Average Cost of Capital (WACC). The return on equity sought is 13.871% and the Weighted Average Cost of Capital (WACC) is computed at 12.419%. This is shown also in Annex "N."

Debt Financing and amortization. The loan portion will come from Banco de Oro with an interest rate of 9%. The amortization schedule of the principal and interest is hereto attached as Annex "O".

ABSTRACT OF THE POWER SUPPLY AGREEMENT (PSA) AND OTHER RELEVANT INFORMATION

17. Executive Summary. The Power Supply Agreement is hereto attached as Annex "P" to "P-31." The Contract Capacity to be made available by KING ENERGY GENERATION, INC. to Applicant SUKELCO shall be Six Thousand Kilowatts (6,000 kW) with One Million Four Hundred Thousand kilowatt hours

(1,400,000 kWh) is fixed on a daily at eight (8) hours for five (5) years. The PSA provides that KING ENERGY GENERATION, INC. and SUKELCO shall be excused from their respective obligation to deliver and receive energy during the occurrence of scheduled or unscheduled outages, in which case the contract energy for the affected billing period may be adjusted pro rata or as agreed by the parties. KING ENERGY GENERATION INC. has the option to supply SUKELCO all or a portion of the contract energy, and additional energy if applicable, during the occurrence of scheduled or unscheduled outages, from its back up facility and/or third party in accordance with Sec. 2 of the PSA. For the portion of the contract energy and additional energy provided by KING ENERGY GENERATION, INC. from the Generator Set, SUKELCO shall pay the Contract Energy Fee in the form of Load Curtailment Adjustment in lieu of the Capacity Fee.

18. Salient Features of the PSA.

a. Term. The PSA shall have a term or contract period of five (5) years from effective date, upon the signing of the Agreement, subject to automatic renewal for another five (5) years pursuant to Sec. 1.4 of the PSA. Closing Date means the time KEGI is obligated to deliver the contract capacity and contract energy to SUKELCO, provided these conditions are satisfied: (a) Receipt of KEGI of a certificate executed by the corporate secretary of SUKELCO adopting the resolutions to (1) authorize SUKELCO to execute, enter into, and deliver the PSA and performance of its obligation under the PSA, (2) Designating the person authorize to execute the PSA in behalf of SUKELCO; (b) Receipt by KEGI of the security deposit pursuant to Art. 3.2 of the PSA; (c) Receipt from the ERC approval of the PSA (including the Provisional Authority).

b. Contract Energy. KING ENERGY GENERATION, INC. shall deliver the Contract Capacity and Contract Energy at the Metering Points¹ at the Rates Schedule² specified under the PSA. On the other hand, to make available for delivery, the contract energy shall be based on the schedule of Contract Energy attached to the PSA. In case SUKELCO demands for and receives more than the contracted capacity of 6,000 kW, the actual delivered excess capacity shall be billed separately. Likewise, should SUKELCO's demand of 6,000 kW exceeds eight (8) hours per day, the additional energy delivered shall also be billed separately.

c. Rates Schedule. The basic components of the Electricity Fee, is as follows:

Capacity Fee (CF)= Php 1,328.00 per kW per month
Fixed Operating and Maintenance Fee (FOM) = Php 401.00
per kW per month
Variable Operating and Maintenance Fee (VOM)= Php
1.1285 per kWh
Billing Capacity = 6,000 kW or 6 MW
Minimum Contracted Energy = 1,400,000 kWh per month

¹Annex "A" of the PSA

²Annex "B" of the PSA

Operating Schedule = 8 hours a day
In excess of 8 hours and/or 6,000 kW to be billed separately

The computation of the CF is arrived at using a WACC of 12.419% for a useful life of 20 years of the project cost (Annex "M" to "M-3"). The FOM is based on a budgeted annual fixed expenses of Php 57,744,000.00 and the VOM on a budgeted annual variable expense of Php 37,917,600.00. The details of the operating and maintenance budgets are contained in Annex "Q."

A sample computation of the power rates, with assumptions using the above rate components, is attached herein as Annex "R."

d. Contract Energy Fee per month

$$\begin{aligned} \text{CEF} &= \text{FC} + \text{VC} \\ \text{FC} &= [\text{CF} + (\text{FOM} \times \text{IFf})] \times \text{BC} \\ \text{VC} &= (\text{VOM} \times \text{IFv} + \text{FL}) \times \text{ED} \end{aligned}$$

Where:

BC = Billing Capacity in Kw whichever is higher between the contracted demand kW or actual highest demand in kW during the contract month
FC = Fixed charge per month in Php in kW
VC = Variable charge per month in Php in kWh
ED = Energy delivered in kWh
CEF = Contract Energy Fee in Php
VOM = Variable Operating & Maintenance Fee per month in Php in kWh
CF = Capacity Fee in Php per month in kW
FOM = Fixed Operating & Maintenance Fee per month in PHp in kW
IFf = Inflation factor fixed
IFv = Inflation factor variable
FL = Fuel and Lube oil in PHp/kWh (pass through subject to heat rate schedule I of ANNEX B)

e. Inflation factor

Inflation factor for fixed O & M
 $\text{IF (f)} = 1 (\text{P CPI m} / \text{P CPI b})$

Inflation factor for variable O & M
 $\text{IF (v)} = 0.0222 \times (\text{P CPI m} / \text{P CPI b}) + 0.9778 \times (\text{P EX m} / \text{P EX b})$

Where:

P CPI m = Philippine CPI of the current billing month
P CPI b = Philippine CPI on the effectivity month of the PSA
P EX m = Peso to Euro exchange rate at the end of the current billing month
P Ex b = Peso to Euro exchange rate on the effectivity month of the PSA
Consumer Price Index

The indexation is based on the year when the PSA was signed which is treated as the base of 100%. This will allow for the inflationary effect on both the fixed and variable components of the operating expenses. The indexation allocation is hereto attached as Annex "S."

f. Computation of Fuel and Lube Oil Rate

$$FL = HFOCR \times \text{Actual Heavy Fuel cost per liter}$$

Where:

$$HFOCR = \text{Heavy fuel oil consumption rate in liters/kWh}$$

$$= .026 \text{L/kWh (based on the actual Load Factor per Schedule I)}$$

Note: The monthly actual cost per liter of fuel oil shall be based on the weighted average cost of actual monthly invoices of fuel oil deliveries, inventories and consumption.

g. Testing and commissioning fee

Only actual fuel cost and variable Operating and Maintenance expenses

h. Start up fee

Actual cost of additional start-up and shutdown with documents. Refer in Schedule 1 of the PSA)

i. Additional Energy Fee in excess of eight (8) running hours per day

$$AEF = [AC + (VOM + iFf) + FL] \times EE$$

Where:

$$AEF = \text{Additional Energy Fee in Php}$$

$$AC = \text{Additional cost (0.78 Php/kw/h) in excess of eight (8) running hours per day}$$

$$VOM = \text{Variable O \& M as defined}$$

$$FL = \text{Fuel and lube oil as defined}$$

$$EE = \text{Energy delivered in excess of eight hours}$$

ii. Additional Energy Fee in excess of contracted capacity of 6.0 MWs

$$EEF = (FC \times ADE) + VC$$

$$FC = CF + (FOM \times IFf)$$

$$VC = (VOM \times IFv + FL) \times EED$$

$$ADE = \left(\frac{ADEh}{Rh} \right) / \left(\frac{D}{M} \right)$$

Where:

- EEF = Excess energy Fee
- ADEh = Actual total delivered energy in excess of contracted capacity/hr in kW/month
- ADE = Actual delivered energy in excess of contracted capacity/month in kW
- EED = Excess energy delivered in kWh
- Rh = Eight running hours per day as contracted
- D = Three Hundred Fifty day's operation per year
- M = Months per year
- FC = Fixed charge per month in Php
- VC = Variable charge per month in Php
- VOM = Variable O&M per month in Php/kwh
- CF = Capacity fee in Php/kW/month
- FOM = Fixed O&M fee in Php/kW/month
- IFf = Inflation factor fixed
- IFv = Inflation factor variable
- FL = Fuel and Lube oil in Php/kwh (Pass through subject to heat rate schedule I of Annex B)

IMPACT ON APPLICANT SUKELCO's OVERALL GENERATION RATE

The determination of the generation rate impact is based on the blended generation rates of Applicant SUKELCO's, Annex "T," to wit:

Year	Average blended Generation Rate		Difference Increase (Decrease)
	Without KEGI	With KEGI	
2016 to 2020	Php5.7120	Pph6.5522	Phpo.8402

ALLEGATIONS IN SUPPORT OF THE MOTION FOR ISSUANCE OF A PROVISIONAL AUTHORITY

19. As discussed, the demand for power supply of SUKELCO's franchise area is steadily increasing. Furthermore, NPC/PSALM, the supplier of the bulk of SUKELCO's requirement has significantly reduced its supply commitments to SUKELCO by about thirty (30%) percent. The projected 5 MW deficiency in 2017 will result to a massive rotating blackout unless SUKELCO is able to secure now a PSA to supply the deficiency.

20. The timely implementation of the PSA subject of the present case will ensure that the rotating blackouts will be reduced in SUKELCO's franchise area. This will greatly benefit the electricity consumers as well as the local businesses.

21. In view of the foregoing, Joint Applicants respectfully move for the provisional approval of the instant Application pursuant to Rule 14 of this Honorable Commission's Rules of Practice and Procedure.

Copy of the sworn statement/Affidavit of Merit executed by its OIC General Manager Claudia A. Pondales, supporting the petition for the issuance of the Provisional Authority is attached hereto as Annex "U".

OTHER DOCUMENTS/INFORMATION IN SUPPORT OF THE APPLICATION

Joint applicants are submitting the following documents for further evaluation of the Commission: (1) the amended Articles of Incorporation of KEGI and Certificate of Approval of Increase of Capital Stock (Annex "V"); (2) the certificate of registration of the Articles of Incorporation issued by the SEC (Annex "W"); (3) the latest General Information Sheet of (GIS) of KEGI (Annex "X"); (4) Environmental Compliance Certificate No. ECC R10-1603-0016 (Annex "Y"); (5) Certificate of Endorsement from the Department of Energy (Annex "Z"); (6) Fuel Supply Contracts and Fuel Supply Procurement Process (Annex "AA"); (7) the heat rate of the engine (Annex "BB"); (8) A Certification from NGCP that the TSA and MSA are undergoing processing (Annex "CC"); (9) Affidavit of Undertaking for the implementing Demand Side Management (Annex "DD"); (10) Latest and complete set of Audited Financial Statement of KEGI and SUKELCO (Annex "EE" and "EE-1"); (11) and Technical Description (Annex "FF").

Board of Investment. Applicant KEGI has not registered with the BOI considering that it is engaged at power generation using bunker/diesel fuel which is not among those considered as priority project/industry by the Board. However, this is without prejudice to KEGI's availing of BOI incentives should it decide to enter into renewable power sources such as those generated by hydropower and solar.

MEOT. In order to supply the contracted capacity of 6.0 MW with SUKELCO, KEGI will have to operate its one (1) unit 7.841 MW capacity engine for at least eight (8) hours. The other 8.433 MW engine is intended to serve LANECO and ZAMSURECO II. This is the minimum energy offtake necessary to comply with the PSA.

For Ancillary Services, KEGI has six (6) other operating power plants all over Mindanao with capacities ranging from 2.2 MWs to 8.433 MWs which it can tap for ancillary services should these become necessary.

VARIOUS CONTRACTS FOR ENGINEERING, PROCUREMENT AND CONSTRUCTION. All contracts related to the EPC of the power plant are consolidated, bound and jointly marked as Annex "GG"

PRAYER

WHEREFORE, foregoing premises considered, it is most respectfully prayed of this Honourable Commission, to approve provisionally the Power Supply Agreement (PSA) entered into by Applicant SUKELCO and supplier KING ENERGY GENERATION, INC. upon the filing of this Application.

The prayer for the issuance of a Provisional Authority is necessitated in order that joint applicant KING ENERGY GENERATION, INC. can immediately dispatch the badly needed energy requirement of SUKELCO.

It is finally prayed that after due notice, publication and hearing, the proposed generation rate subject matter of this Application, at contracted capacity of 6.0 MW for 8 hours daily, be approved as follows:

Capacity Fee (CF) = Php 1,328.00 per kW per month
Fixed Operating and Maintenance Fee (FOM) = Php 401.00
per kW per month
Variable Operating and Maintenance Fee (VOM) = Php
1.1285 per kWh
Passed on fuel charge based on P0.26 L/kWh
In excess of 8 hours and/or 6.0 MW to be billed separately
Other reliefs consistent with justice and equity are likewise
prayed for.

Finding the said *Joint Application* sufficient in substance with the required fees having been paid, the same is hereby set for determination of compliance with jurisdictional requirements, expository presentation, Pre-trial Conference, and presentation of evidence on **18 April 2017 at ten o'clock in the morning (10:00 A.M.), at SUKELCO Main Office, National Highway, Tacurong City.**

Accordingly, Applicants are hereby directed to:

- 1) Cause the publication of the attached Notice of Public Hearing in two (2) newspapers of nationwide circulation in the Philippines at their own expense, twice (2x) within two (2) successive weeks, the dates of publication not being less than seven (7) days apart and the date of the last publication to be made not later than ten (10) days before the date of the scheduled initial hearing;
- 2) Furnish with copies of this Order and the attached Notice of Public Hearing the offices of the Governors, Mayors, and Local Government Unit (LGU) legislative bodies within SUKELCO's franchise area, for the appropriate posting thereof on their respective bulletin boards;

- 3) Inform of the filing of the *Joint Application*, the reasons therefor, and of the scheduled hearing thereon, the consumers within the affected franchise area, by any other means available and appropriate;
- 4) Furnish with copies of this Order and the attached Notice of Public Hearing, the Office of the Solicitor General (OSG), the Commission on Audit (COA), and the Committees on Energy of both Houses of Congress. They are hereby requested, if they so desire to send their duly authorized representatives at the scheduled hearing; and
- 5) Furnish with copies of the *Joint Application* and the attachments all those making requests therefor, subject to reimbursement of reasonable photocopying costs.

On the date of the initial hearing, Applicants must submit to the Commission its written compliance with the aforementioned jurisdictional requirements attaching therewith, methodically arranged and duly marked the following:

- 1) The evidence of publication of the attached Notice of Public Hearing consisting of affidavits of the Editors or Business Managers of the newspapers where the said Notice of Public Hearing was published, and the complete issues of the said newspapers;
- 2) The evidence of actual posting of this Order and the attached Notice of Public Hearing consisting of certifications issued to that effect, signed by the aforementioned Governors, Mayors, and LGU legislative bodies or their duly authorized representatives, bearing the seals of their offices;
- 3) The evidence of other means employed by Applicant to inform of the filing of the *Joint Application*, the reasons therefore, and of the scheduled hearing thereon, the consumers within the affected franchise area;
- 4) The evidence of receipt of copies of this Order and the attached Notice of Public Hearing by the Office of the Solicitor General (OSG), the Commission on Audit (COA), and the Committees on Energy of both Houses of Congress;

- 5) The evidence of receipt of copies of the *Joint Application*, and the attachments by all those making requests therefor, if any; and
- 6) Such other proofs of compliance with the requirements of the Commission.

Applicant and all interested parties are also required to submit, at least five (5) days before the date of initial hearing and Pre-Trial Conference, their respective Pre-Trial Briefs containing, among others:

- 1) A summary of admitted facts and proposed stipulation of facts;
- 2) The issues to be tried or resolved;
- 3) The documents or exhibits to be presented, stating the purposes and proposed markings therefore; and
- 4) The number and names of the witnesses, with their written testimonies in a Judicial Affidavit form attached to the Pre-trial Brief.

Failure of Applicants to comply with the above requirements within the prescribed period shall be a ground for cancellation of the scheduled hearing, and the resetting of which shall be six (6) months from the said date of cancellation.

Applicants must also be prepared to make an expository presentation of the instant *Joint Application* aided by whatever communication medium that they may deem appropriate for the purpose, in order to put in plain words and explain, for the benefit of the consumers and other concerned parties, what the *Joint Application* is all about and the reasons and justifications being cited in support thereof.

SO ORDERED.

Pasig City, 01 March 2017.

FOR AND BY AUTHORITY
OF THE COMMISSION:


JOSE VICENTE B. SALAZAR
Chairman and CEO

LS: IQS/IFM/ APV

COPY FURNISHED:

ERC

Office of the Chairman and CEO



C-2017-017-OC-00673

1. Atty. Eleuterio F. Diao IV
Counsel for Sultan Kudarat Electric Cooperative, Inc. (SUKECO)
Corner Arch Hayes extension and Lim Ket Kai Drive, Macajalar, Camaman-an, Cagayan de Oro City
2. Sultan Kudarat Electric Cooperative, Inc. (SUKECO)
Applicant
SUKECO Main Office, National Highway, Tacurong City
3. Office of the Solicitor General (OSG)
134 Amorsolo Street, Legaspi Village
Makati City
4. Commission on Audit (COA)
Commonwealth Avenue
Quezon City
5. Senate Committee on Energy
GSIS Bldg. Roxas Blvd., Pasay City
6. House Committee on Energy
Batasan Hills, Quezon City
7. Philippine Chamber of Commerce and Industry (PCCI)
Campus Avenue corner Park Avenue,
McKinley Town Center, Fort Bonifacio, Taguig City
8. Office of the Governor
Sultan Kudarat
9. Office of the Local Government Unit (LGU) legislative body
Sultan Kudarat
10. Office of the Mayor
City of Tacurong, Sultan Kudarat
11. Office of the LGU legislative body
City of Tacurong, Sultan Kudarat
12. Office of the Mayor
Isulan, Sultan Kudarat
13. Office of the LGU legislative body
Isulan, Sultan Kudarat
14. Office of the Mayor
Esperanza, Sultan Kudarat
15. Office of the LGU legislative body
Esperanza, Sultan Kudarat
16. Office of the Mayor
Bagumbayan, Sultan Kudarat
17. Office of the LGU legislative body
Bagumbayan, Sultan Kudarat

18. Office of the Mayor
President. Quirino, Sultan Kudarat
19. Office of the LGU legislative body
President Quirino, Sultan Kudarat
20. Office of the Mayor
Lambayong, Sultan Kudarat
21. Office of the LGU legislative body
Lambayong, Sultan Kudarat
22. Office of the Mayor
Cumbio, Sultan Kudarat
23. Office of the LGU legislative body
Cumbio, Sultan Kudarat
24. Office of the Mayor
Palimbang, Sultan Kudarat
25. Office of the LGU legislative body
Palimbang, Sultan Kudarat
26. Office of the Mayor
Senator Ninoy Aquino, Sultan Kudarat
27. Office of the LGU legislative body
Senator Ninoy Aquino, Sultan Kudarat
28. Office of the Mayor
Lebak, Sultan Kudarat
29. Office of the LGU legislative body
Lebak, Sultan Kudarat
30. Office of the Mayor
Kalamansig, Sultan Kudarat
31. Office of the LGU legislative body
Kalamansig, Sultan Kudarat
32. Office of the Governor
Maguindanao
33. Office of the LGU legislative body
Maguindanao
34. Office of the Mayor
Buluan, Maguindanao
35. Office of the LGU legislative body
Buluan, Maguindanao
36. Office of the Mayor
Datu Paglas, Maguindanao
37. Office of the LGU legislative body
Datu Paglas, Maguindanao
38. Office of the Mayor
General S.K. Pendatun, Maguindanao
39. Office of the LGU legislative body
General S.K. Pendatun, Maguindanao
40. Office of the Mayor
Paglat, Maguindanao
41. Office of the LGU legislative body
Paglat, Maguindanao