IN THE MATTER OF THE APPLICATION FOR APPROVAL OF ELECTRICITY SALES AGREEMENT BETWEEN ILOILO II ELECTRIC COOPERATIVE, INCORPORATED AND GREEN POWER PANAY PHILIPPINES, INCORPORATED, WITH PRAYER FOR PROVISIONAL AUTHORITY

ERC CASE NO. 2010-084 RC

ILOILO II ELECTRIC COOPERATIVE, INCORPORATED (ILECO II) AND GREEN POWER PANAY PHILIPPINES, INCORPORATED (GPPPI),

Applicants.

NOTICE OF PUBLIC HEARING

TO ALL INTERESTED PARTIES:

Notice is hereby given that on July 7, 2010, Iloilo II Electric Cooperative, Incorporated (ILECO II) and Green Power Panay Philippines, Incorporated (GPPPI) filed a joint application for approval of their Electricity Sales Agreement (ESA), with prayer for provisional authority.

In the said application, ILECO II and GPPPI alleged, among others, that:

The Applicants

1. ILECO II is a non-stock, non-profit electric cooperative organized and existing under and by virtue of Presidential Decree No. 269, as amended, with office address at Tigbauan, Iloilo. It has a franchise.
to distribute electricity in the City of Passi and the Municipalities of Mina, Pototan, Dingle, Duenas, San Enrique, Calinog, Bingawan, Lambunao, Badiangan, Janiuay, New Lucena, Zarraga, Barotac Nuevo, and Dumangas, all in the Province of Iloilo, Island of Panay (Franchise Area).

2. GPPPI is a generation company duly authorized and existing under and by virtue of the laws of the Republic of the Philippines, with principal address at 1101-1102, The Taipan Place, F. Ortigas Jr. Road, Ortigas Center, Pasig City. It is a wholly owned and operated subsidiary of Global Green Power PLC Corporation (GPPC). It is a domestic corporation affiliated with Global Green Power PLC, a public limited company based in the United Kingdom and formed to research, develop, own, acquire and operate renewable energy projects within the Philippines and Asia.

Nature of the Application

3. Pursuant to Rule 20 (B) of the ERC Rules of Practice and Procedure, approved by the Commission on June 22, 2006 in Resolution No. 38, Series of 2006, this application is submitted to the Commission for its review and approval of the ESA executed by and between ILECO II and GPPPI. A copy of the ESA is attached to the application.

Compliance with Pre-Filing Requirements

4. In compliance with Rule 6 of the aforementioned Rules, they have furnished the legislative bodies of each of the local government units where they principally operate, a copy of the present application with all its annexes and accompanying documents. Proofs of receipt by the legislative bodies of the said local government units, including the Province of Iloilo are attached to the application.

5. Furthermore, they have caused the publication of the present application in its entirety in a newspaper of general circulation within the Franchise Area. Copies of the corresponding affidavit of publication and the newspaper are, likewise, attached to the application.

Statement of Facts

6. Power Shortage in the Visayas Grid and in the Island of Panay. The supply of electricity in the Visayas Grid is currently insufficient to meet the required levels. According to the Department of Energy (DOE), the available dependable capacity in the Visayas Grid in 2009 is no longer sufficient to meet the required capacity, which is the peak demand plus the reserve margin mandated by the Commission. By the end of 2010, the dependable capacity in the Grid will no longer be sufficient to meet the peak demand.

7. Among the islands in the Visayas Grid, the Island of Panay is most affected by power shortages. Panay is located at the tail end of the
Cebu-Negros-Panay Sub-grid and has been facing power shortage and recurrent power outages throughout 2008. In 2008 alone, Panay had more than 1,000 power outages. As the lack of sufficient supply has significant adverse effects on the local economy, additional generation capacity to service Panay is an urgent necessity.

8. In addition, ILECO II is currently supplied power by the National Power Corporation (NPC) through a Transition Supply Contract (TSC) which will expire on December 25, 2010. NPC has rejected its request to extend the said TSC. Thus, it is necessary for it to procure other suppliers of power.

9. **Public Competitive Process Undertaken by Electric Cooperatives.** The electric cooperatives of Panay and nearby Guimaras Island, including ILECO II and Iloilo I Electric Cooperative, Incorporated (ILECO I), formed the Panay-Guimaras Power Supply Consortium (Consortium) to undertake, in behalf of its member-cooperatives, the procurement of the necessary electricity supply through a public and competitive process.

9.1. In June 2008, the Consortium published an Invitation to Bid, calling all prospective suppliers of electricity to submit offers for the supply of its electricity requirements. Thereafter, it issued a Request for Offers (RFO) whereby it solicited expressions of interest for the supply of electric power to its member cooperatives.

9.2. Pursuant to the RFO, GPPPI submitted its proposal to supply electricity from multi-fuel biomass generation. It proposed two (2) options: a) to supply power from one (1) 17.5 MW biomass power plant, with full contracted capacity; or b) to supply power from two (2) 17.5 MW biomass power plants, also with full contracted capacity. Other prospective suppliers, likewise, submitted proposals.

10. **Lowest Available Price of Electricity.** After receipt of the proposals, the Consortium requested GPPPI to match the lowest price submitted, projected to 2011, at PhP5.90/kWh.

10.1. Considering a modified price of PhP4.88/kWh for the full contracted capacity of one (1) 17.5 MW biomass plant, instead to two (2) as earlier proposed, GPPPI projected such modified price to 2011 using available index values, arriving at PhP6.14/kWh.

11. Although its price projected at 2011 stood at PhP6.14/kWh, GPPPI agreed to match the lowest price submitted, resulting in the base contract price provided for in the subject ESA of PhP5.90/kWh, applicable in January 2011. Hence, the rate of PhP5.90/kWh at which it will supply power to ILECO II, was the best available generation rate in Panay.
12. After a thorough evaluation of all proposals submitted to the Consortium, ILECO II determined that GPPPI's proposal satisfies fully its need for economically advantageous and reliable supply of electric power and recognized that, because the latter will source fuel from sources within the Iloilo Province, the operation of the plant will have a direct economic benefit for the local community. Hence, ILECO II selected GPPPI as its supplier of its electricity requirements.

13. On December 17, 2008, they executed the ESA, subject of the present application, whereby GPPPI will supply and ILECO II will purchase electricity for its power needs. Earlier, on December 16, 2008, GPPPI executed a similar contract with the same generation rate with ILECO I.

The Project

14. To supply power under the ESAs with ILECO II and ILECO I, GPPPI will build, own, operate, maintain and support a generation facility (Mina Biomass Plant) to be located in the Municipality of Mina, Iloilo (Project), within the franchise area of ILECO II.

15. Environmentally Friendly Power Generation. The Mina Biomass Plant is a 17.5 MW biomass power plant, expandable to 35 MW, and has a dependable capacity of 15.3 MW. It will utilize multi-fuel combustion technology which provides utmost flexibility in fuel sourcing, and will be equipped with proven biomass combustion equipment using a high pressure steam boiler and an efficient full-condensing steam turbine.

15.1. Unlike other sources of energy such as coal-fired and diesel plants, the Mina Biomass Plant will produce environmentally sound, renewable and cost-effective energy. It will displace coal and fossil fuel energy generation and, this way, helps mitigate climate change.

15.2. The Plant will utilize agricultural waste from several key crops grown within Panay and provide clean, decentralized, renewable energy. Such agricultural waste includes corn and rice straw, sugar cane waste and other agricultural residues.

15.3. Aside from displacing harmful emissions from coal and other fossil fuels, the sustainable purchase of agricultural waste for conversion to energy helps mitigate climate change. If such waste is not converted to energy, they are burnt or left to rot in the fields producing carbon dioxide and methane which are greenhouse gases that contribute significantly to climate change.

16. Economic Benefits to the Local Community. Aside from providing clean renewable energy, the operation of the Mina Biomass Plant provides significant economic benefits to the local community.
16.1. The supply of biomass to be used for power generation is expected to inject as much as PhP9 Billion into the local community over the twenty-five (25)-year life of the ESAs through biomass and ancillary services supply such as transport, storage and biomass fuel preparation.

16.2. The Project is also expected to provide around 900 direct and indirect jobs. It will also provide the local farming community with additional income from the purchase of agricultural residues and waste for use in power generation.

17. The Mina Biomass Plant will help alleviate the power shortages in the island of Panay, and thus contribute to the economic growth of the island.

18. With the Plant, GPPPI shall supply ILECO II a base load capacity of 7 MW under the ESA subject of the present case. It shall also supply ILECO I a base load capacity of 3 MW under its ESA with the latter.

19. **Government Policy on the Development of Renewable Energy.** The provision of electricity from the Mina Biomass Plant is in line with the state policy on the promotion and development of renewable energy sources.

20. Under Republic Act No. 9136, otherwise known as the Electric Power Industry Reform Act of 2001 or the EPIRA, it is the policy of the State to promote the utilization of indigenous and new and renewable energy resources in power generation in order to reduce dependence on imported energy (*Section 2, R.A. No. 9136*). Likewise, under Republic Act No. 9513 or the Renewable Energy Act of 2008, it is the policy of the State to accelerate the development of renewable energy resources such as biomass to achieve energy self-reliance through the adoption of sustainable energy development strategies to reduce the country's dependence on fossil fuels and thereby minimize the country's exposure to price fluctuations in the international markets. It is also the policy of the State to encourage the development and utilization of renewable energy resources as tools to effectively prevent or reduce harmful emissions and thereby balance the goals of economic growth and development with the protection of health and the environment (*Section 2, R.A. No. 9513*).

**Abstract of the ESA and Related Information**

21. **Salient Features of the ESA.** Under the ESA, GPPPI shall supply and ILECO II shall purchase a base load capacity of 7,000 kW from the Mina Biomass Plant operating at ninety percent (90%) of plant capacity except during periods of allowed downtime.

21.1. **Operation Period.** The terms of supply and purchase under the ESA shall be for a period of twenty-five (25) years.
21.2. **Fixed Capacity and Flexible Off-take.** GPPPI shall provide and make available a fixed base load capacity of 7,000 kW. There is no take-or-pay arrangement for energy delivered; billing for energy is based on actual metered off-take.

21.3. **The Commission’s Approval.** As agreed upon by them, the approval by the Commission of the terms of the ESA, including the generation rate and adjustment mechanism provided therein, is a condition precedent to the effectivity of the ESA and the commencement of their obligations thereunder.

22. **Purchased Power Rate.** Under the ESA, ILECO II shall pay a Contract Price of PhP5.90/kWh applicable in January 2011, consisting of a Capacity Fee and an Energy Fee which are subject to monthly adjustments based on the Consumer Price Index (CPI). The adjustment formulae are as follows:

**A. Capacity Fee (CF)**

\[ CF = \frac{CPI_n}{CPI_0} \times CFM \times (Capacity) \]

Where:

- **CPI** = Monthly CPI of the Philippines (all items). The CPI index value is based on information from the National Economic Development Authority (NEDA). Other official sources of the same information include the National Statistics Office (NSO) and the National Statistics Coordination Board (NSCB).

- **CPI_n** = CPI value used for the billing month (n). The CPI value is the CPI value three (3) months prior to the last day of the billing month (n-3).

- **CPI_0** = CPI value at the Base Month. The Base Month is January 2008. The CPI_0 for January 2008 is 146.8.

- **CFM** = Capacity Fee Multiplier. The CFM value is PhP2,597.00 per kW-month.

- **Capacity** = Available capacity for serving the load. The capacity unit is in kilowatt (kW).

The capacity factor [CPI_n x CFM/CPI_0] is defined as Capacity Fee Rate (CFR).

Of the entire 15.3 MW capacity of the Mina Biomass Plant, only 10 MW is contracted. Capital expenses for the Project is recovered through the Capacity Fee, in proportion to the contracted capacity and based on the assumption that the un-contracted capacity is
producing electricity sold at the same rate, except for 2.2 MW allocated for station use.

This ensures that the consumers of ILECO II pay only for capacity that they benefit from.

B. Energy Fee (EF)

\[
EF = \frac{FLW_n}{FLW_o} \times EFM \times (Offtake)
\]

Where:

- **FLW** = Fuel, Light and Water (FLW) Index component of the CPI of the Philippines (all items). The FLW index value is based on information from the NEDA. Other official sources of the same information include the NSO and the NSCB.

- **FLW_n** = FLW Index value used for the billing month (n). The FLW n value is the FLW index value three (3) months prior to the last day of the billing month (n-3).

- **FLW_o** = FLW Index value at the Base Month. The Base Month is January 2008. The CPI o for January 2008 is 189.2.

- **EFM** = Energy Fee Multiplier. The EFM value is PhP0.8800/kWh.

- **Off-take** = Actual energy off-take for the Billing Period in kWh. The minimum off-take is ninety percent (90%) capacity factor at any time.

The energy factor \([FLW_n \times EFM/FLW_o]\) is defined as Energy Fee Rate (EFR).

C. Escalation Adjustment

The Capacity Fee Rate and the Energy Fee Rate are subject to adjustments based on CPI, in accordance with the following formulae:

\[
Adjusted \ CFR = CFR \times \frac{CPI_n}{CPI_o}
\]

\[
Adjusted \ EFR = EFR \times \frac{FLW_n}{FLW_o}
\]
D. Calibration of Pricing Formula

The power pricing formula shall be calibrated so as to ensure that at the end of the month ending on January 31, 2011, the applicable Contract Price shall not exceed PhP5.90/kWh. Thereafter, the adjusted Contract Price shall not be less than PhP5.90/kWh. Such calibration is by reason of the agreement between them that GPPPI shall match the lowest price submitted during the bidding, projected at PhP5.90/kWh by 2011.

E. Capacity Fee Adjustment

The Capacity Fee shall be reduced in case the Mina Biomass Plant is not able to deliver the contracted power as determined by capacity tests which may be conducted by ILECO II. A sample computation of the power rate is attached to the application.

22.1. Lowest Available Price of Power. As discussed earlier, GPPPI matched the lowest submitted price of PhP5.90/kWh, applicable in January 2011.

22.2. NPC is undergoing privatization and can no longer install additional generation capacity in Panay. In fact, it is currently unable to meet the power needs of Panay. Hence, additional capacity must be provided by private investment.

22.3. As shown by the public, transparent and competitive bidding conducted by the Consortium wherein the bidders presumably took into consideration all factors related to the cost of supplying power in Panay, the Contract Price of PhP5.90/kWh, applicable in January 2011, is the lowest available price of power. Stated otherwise, electricity supply cannot be procured by the Consortium or any of its members at a lower price.

22.4. In addition, aside from availing of the lowest available price for the customers of ILECO II, Panay will also greatly benefit from the clean and environmentally friendly generation and from the significant economic impact for local suppliers of biomass for fuel.

22.5. Hence, they submit that the Contract Price of PhP5.90/kWh, applicable in January 2011, is very fair and reasonable and greatly beneficial to the public within the Franchise Area.

22.6. Indexation of Power Rate Components. As stated above, the components of the Contract Price are adjusted based on CPI and the FLW component of CPI. The indexation based on CPI is advantageous to ILECO II and its consumers, especially as compared to other arrangements for the supply of electricity, including the present supply from NPC.

22.7. ILECO II and its consumers are protected from foreign exchange (forex) fluctuations.
22.7.1. Ordinarily, components of the cost of generation incurred or to be incurred in foreign currency (such as dollar-denominated debt servicing) are indexed on the prevailing forex rate, such that forex fluctuations are passed on to the consumers. The consumers bear the risk of forex fluctuations throughout the life of the supply contract. The passing on of the forex risk to consumers is considered acceptable in supply contracts with private power providers, and is being implemented with NPC, through the Incremental Currency Exchange Rate Adjustment (ICERA).

22.7.2. Be that as it may, and even though GPPPI incurs costs in foreign currency, it assumes the risk of forex fluctuation and does not pass it on to the consumers.

22.8. In addition, the passing on fluctuations in fuel prices, costs in transport of fuel, and other similar costs is, likewise, considered acceptable, and is ordinarily provided for in electricity supply arrangements. However, the ESA insulates ILECO II and its consumers from the risk of such fluctuations as any increase in the Contract Price shall be based on local inflation, represented by CPI.

22.9. **Breakdown of the Base Price.** The components of the Contract Price are the Capacity Fee and the Energy Fee. The Capacity Fee is based on a CFM with a value of PhP2,597.00 of per kW-month, which shall be applied to the committed capacity. The Energy Fee is based on an EFM with a value of PhP0.8800/kWh, which shall be applied to the actual off-take.

22.10. In accordance with the commitment of GPPPI to match the lowest available price of PhP5.90/kWh, applicable on January 2011, the pricing formula shall be recalibrated on January 2011 to ensure that the applicable Contract Price shall not exceed PhP5.90/kWh.

23. **Sources of Funds/Financial Plans.** The cost of the Project will be funded from loans to be extended by local financial institutions to GPPPI and from equity. As discussions with its lenders are ongoing, the indicative debt-equity ratio for the Project is 75:25.

23.1. **Project Cost.** The project cost is estimated at US$52 Million or PhP2,340.9 Million (at an exchange rate of PhP45.00=$1.00), the main components of which are as follows:
<table>
<thead>
<tr>
<th>Description</th>
<th>PhP Million</th>
<th>US$ Million</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pre-Operating Costs</td>
<td>73.4</td>
<td>1.6</td>
</tr>
<tr>
<td>Cost of Sales</td>
<td>29.5</td>
<td>0.7</td>
</tr>
<tr>
<td>Administration Costs</td>
<td>42.8</td>
<td>1.0</td>
</tr>
<tr>
<td>Overhead Costs</td>
<td>77.4</td>
<td>1.7</td>
</tr>
<tr>
<td>Taxation</td>
<td>10.4</td>
<td>0.2</td>
</tr>
<tr>
<td>Servicing of Finance</td>
<td>267.4</td>
<td>5.9</td>
</tr>
<tr>
<td>Intangible Assets</td>
<td>109.5</td>
<td>2.4</td>
</tr>
<tr>
<td>Fuel</td>
<td>54.9</td>
<td>1.2</td>
</tr>
<tr>
<td>Capital Costs/ Fixed Assets</td>
<td>1,646.3</td>
<td>36.6</td>
</tr>
<tr>
<td>Construction Period Headroom</td>
<td>29.3</td>
<td>0.7</td>
</tr>
<tr>
<td>Total Project Cost</td>
<td>2,340.9</td>
<td>52.0</td>
</tr>
</tbody>
</table>

A detailed summary of the components of the project cost is attached to the application.

23.2. **Annual Interest.** GPPPI is currently discussing with prospective lenders for the project finance, with indicative rates at about eleven percent (11%) per annum. The final loan details such as the principal, term and interest are still undetermined. Among the matters that lenders have indicated they will require is the approval of the ESA presently applied for.

23.3. For purposes of determining the Contract Price, it applied an estimated interest rate of eleven percent (11%) per annum. The relevant assumptions on the project finance are, likewise, attached to the application.

23.4. **Computation of Return on Investment/Weighted Average Cost of Capital.** The average Return on Investment (ROI) over twenty-five (25) years is sixteen percent (16%). The Weighted Average Cost of Capital (WACC) based on estimates at the time of the bid is 9.3%. Based on current
assumptions, WACC is computed at 11.8%. Computations of the ROI and WACC are attached to the application.

24. **Cash Flow.**

24.1. **Breakdown of Operating and Maintenance Expenses.** The projected operating expenses are broken down as follows:

<table>
<thead>
<tr>
<th>O&amp;M Costs</th>
<th>Year 3 Million</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost of sales</td>
<td>PhP358.7</td>
</tr>
<tr>
<td>Operating Costs</td>
<td>PhP55.4</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>PhP414.1</strong></td>
</tr>
</tbody>
</table>

A more detailed breakdown of the projected operating expenses is attached to the application. A detailed breakdown showing the operating expenses for the power plant and general and administrative expenses are, likewise, attached to the application.

25. **No Transmission Charges.** As stated earlier, the Mina Power Plant will be located within the Franchise Area, with the delivery point at the high side of ILECO II's 69 kV subtransmission line at or near its substation embedded in the Franchise Area. Hence, as power is delivered directly to ILECO II, obviating the necessity of transmission costs which end users ordinarily have to shoulder, resulting in lower total rates to be paid by its customers.

26. **Application for Certificate of Compliance.** On March 18, 2010, GPPPI filed with the Commission an application for the issuance of a Certificate of Compliance (COC) for the Mina Biomass Plant.

27. **Environmental Compliance Certificate.** On July 6, 2009, the Department of Environment and Natural Resources (DENR) issued Environmental Compliance Certificate (ECC) No. ECC-R6-0904-115-4220 for the Mina Biomass Plant in favor of GPPPI.

28. **Fuel Procurement.** GPPPI will source its biomass fuel from the locality, thereby providing direct economic benefit to Panay. Panay has an enormous abundance of biomass residues that are currently treated as waste products, but could be put into productive use as fuel for the Mina Biomass Plant.

28.1. In order to ensure the long-term sustainable supply of biomass fuel, GPPPI executed an agreement with Global Biomass PLC Corporation (GBC), an affiliate of GPPC with the necessary experience and expertise in biomass supply, for the delivery of the fuel supply requirements of the Mina Biomass Plant and to maintain a minimum of three (3) months reserve supply at the Plant.
28.2. To support its feedstock generation strategy, GBC has signed a Memorandum of Agreement (MOA) with the Philippine Agriculture Development and Commercial Corporation (PADCC), a government-owned and controlled corporation associated with the Department of Agriculture (DA), to provide services and support in the identification and consolidation of marginal lands for its biomass production on an exclusive basis within a 150 Km radius of Mina Biomass Plant.

29. **NPC Certification.** As discussed earlier, there is a shortage of supply in the Island of Panay. In addition, the TSC between NPC and ILECO II is set to expire by the end of 2010, and NPC has rejected its request to extend the same. Further, GPPPI has formally requested NPC for a certification that it does not have available capacity to supply ILECO II’s energy requirements during the contract period of the ESA. However, to date, NPC has yet to respond to such request. It undertakes to submit the certification to the Commission once it is obtained.

30. **DOE Certification.** On April 30, 2010, the DOE issued Certificate of Endorsement No. 2010-04-01, certifying that the Mina Biomass Plant is consistent with the Power Development Plan (PDP).

31. **ILECO II’s Load Forecast Projections.** A copy of ILECO II’s Distribution Development Plan (DDP) showing its load forecast projections is attached to the application.

**Rate Implications of the ESA**

32. As stated earlier, ILECO II currently sources its power requirements from NPC. The table below shows the impact of the ESA on generation rates to be paid by ILECO II once the Mina biomass Plant commences operations:
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Unit</td>
<td>PhP/kWh</td>
<td>PhP/kWh</td>
<td>PhP/kWh</td>
</tr>
<tr>
<td>Generation Charge</td>
<td>3.8850(^1)</td>
<td>4.88</td>
<td>5.90</td>
</tr>
<tr>
<td>Value Added Tax (VAT) on energy from non-renewable energy sources</td>
<td>0.10359(^2)</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Mandatory Rate Reduction (MRR)</td>
<td>-0.30</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Franchise and Benefits to Host Communities Taxes</td>
<td>0.0177(^3)</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>8(^{th}) ICERA DAA</td>
<td>0.0278(^4)</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>FPPCA&amp; Foreign Exchange</td>
<td>0.2657(^5)</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Transmission charges</td>
<td>1.1235(^6)</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td><strong>Total Delivered Cost</strong></td>
<td><strong>4.92329</strong></td>
<td><strong>4.88</strong></td>
<td><strong>5.90</strong></td>
</tr>
</tbody>
</table>

\(^1\) Based on actual power bill for the month of April 2010
\(^2\) A generation mix of twenty-three percent (23%) non-renewable and seventy-seven percent (77%) renewable. VAT imposed on NPC’s generation sales depends on the generation mix in the Visayas for a particular billing month. Generation from renewable energy sources is VAT-exempt
\(^3\) ERC Case No. 2001-901
\(^4\) Deferred Accounting Adjustment
\(^5\) Fuel and Purchased Power Cost and Foreign Exchange Related Cost, ERC Res. Nos. 19 and 25
\(^6\) Based on transmission charge component in an actual bill to a customer in the April 2010 billing month

33. The above table presents a comparison of the delivered cost of electricity sourced by ILECO II from NPC at present on one hand, using data from the billing month of April 2010, and from GPPPI in 2011.

34. It must be noted that the NPC generation charge is the April 2010 rate. On the other hand, the proposed Contract Price of PhP5.90/kWh is the rate applicable in January 2011. In comparing the above rates, the expected increase in NPC’s generation rate from 2010 to 2011 must be considered.

34.1. In addition, NPC also passes on the risk of fuel cost and forex fluctuations by way of Deferred Accounting Adjustments (DAA) subject to approval of the Commission. Thus, the NPC generation charge is expected to increase upon approval by the Commission of NPC’s pending applications for DAAs.

34.2. Currently, NPC’s pending DAA applications represent several rate increases proposed to be recovered over periods ranging from two (2) to sixteen (16) months subject of ERC Case Nos. 2008-042 RC, 2008-053 RC, 2008-063 RC, 2009-032 RC, 2009-056 RC, 2008-043 RC, 2008-054 RC, 2008-064 RC, 2009-031 RC, and 2009-055 RC. It must be noted that it seeks to recover, not only the deferred
adjustments but corresponding interest on the subject amounts.

34.3. Moreover, pursuant to Resolution No. 19, Series of 2009 dated August 3, 2009, NPC will automatically recover monthly fuel and purchased power costs and foreign-exchange related costs, effectively passing on to the customers the risk of fuel cost and forex rate fluctuations without prior approval by the Commission.

35. In contrast, under the ESA, ILECO II and its customers are protected from the risk of fuel cost and forex fluctuations. That is, the Contract Price will not change notwithstanding changes in the cost of fuel or in the forex rate. Any increase in the rate shall be based on local inflation, represented by CPI.

36. ILECO II currently pays twelve percent (12%) Value-Added Tax (VAT) on power sourced from NPC’s non-renewable energy plants. As the electricity supplied by the Mina Biomass Plant is considered renewable energy, it is exempt from VAT, which ILECO II’s customers would otherwise pay.

37. As stated earlier, the Mina Biomass Plant is embedded in the Franchise Area, obviating transmission charges which ILECO II’s customers would otherwise pay.

38. As shown in the above table, the delivered cost of power currently sourced from NPC is PhP4.92/kWh. On the other hand, the delivered cost of power to be sourced from GPPPI in 2011 is PhP5.90/kWh. As stated earlier, the expected increase of NPC’s generation rate from 2010 to 2011 must be considered when comparing the above rates.

39. For purposes of determining the indicative impact of the ESA on the rates ILECO II’s customers would pay, assuming GPPPI supplied power to ILECO II under the ESA for the billing month of April 2010, the effective delivered cost of power to the end-users would be PhP5.47/kWh, to wit:

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Actual (April 2010)</th>
<th>GPPPI</th>
<th>NPC</th>
</tr>
</thead>
<tbody>
<tr>
<td>Average total kWh in a day</td>
<td>301,412</td>
<td>168,000</td>
<td>133,412</td>
</tr>
<tr>
<td>Average hourly kWh</td>
<td>12,558.84</td>
<td>7,000.00</td>
<td>5,558.84</td>
</tr>
<tr>
<td>Load Factor</td>
<td>61.13%</td>
<td>100.00%</td>
<td>41.05%</td>
</tr>
<tr>
<td>Monthly, kWh</td>
<td>9,042,364</td>
<td>5,040,000</td>
<td>4,002,364</td>
</tr>
<tr>
<td>Rate (PhP/kWh)</td>
<td>5.90</td>
<td>4.92329</td>
<td></td>
</tr>
<tr>
<td>Amount (PhP)</td>
<td>29,736,000.00</td>
<td>19,704,799.56</td>
<td></td>
</tr>
<tr>
<td>Average Rate (PhP/kWh)</td>
<td>5.47</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Copies of the actual and simulated demand data with computations, and corresponding graphical presentations are attached to the application.
Allegations in Support of the Prayer for Provisional Authority

40. As discussed earlier, the Island of Panay, including the Franchise Area, has been facing power shortage and recurrent power outages since 2008. As the lack of sufficient supply has significant adverse effects on the local economy, the urgent need for additional generation capacity is clear.

41. The Mina Biomass Plant is expected to provide much needed generation capacity to ILECO II and the rest of Panay.

42. As the Project will be funded primarily through financing to be provided by lenders, it is imperative that GPPPI will be able to conclude its financing agreements. However, based on discussions with prospective lenders, it has become clear that the assurance of a firm cash flow from approved bilateral power supply contracts is necessary in order to conclude such financing.

43. As financial closure with its lenders is essential for it to move forward with the Project, the expedient approval of the present ESA is of utmost necessity, in order to ensure delivery of much needed power at the soonest possible time.

44. It endeavors to complete and commission the Mina Biomass Plant at the soonest possible time in order to help alleviate the power shortage in Panay and its adverse effects to the local economy. As discussed earlier, the Project will also provide significant direct economic benefit to the local economy and the environment. It is thus clear that the expedient approval of the present application will greatly benefit the electricity consumers of ILECO II, the local economy and the environment as well.

Prayer

45. Thus, they pray that the Commission:

45.1. Immediately issue an Order provisionally approving the ESA dated December 17, 2008, subject of the present application, as well as the generation rate and adjustment mechanism indicated therein.

45.2. After due hearing, render judgment making such provisional approval permanent.

On January 25, 2011, ILECO II and GPPPI filed a “Joint Manifestation” manifesting, among others, that:

1. On December 17, 2008, they executed an ESA, subject of the present application. Under Section 2.02 of the said ESA, ILECO II shall purchase from GPPPI a base load capacity of 7,000 kW.
2. ILECO II’s TSC with NPC will expire on December 26, 2010, and will not be renewed.

3. To address the expected supply shortfall due to the expiration of the TSC, and given that GPPPI’s biomass power plant will not yet be operational at the time of such expiration, ILECO II executed a contract for the supply of electricity with another power supplier, Global Business Power Corporation.

4. Consequently, the total contracted supply of ILECO II may be in excess of its requirements, through no fault of ILECO II.

5. In view of the foregoing, they executed an Amendment to the ESA on December 2, 2010, reducing the contracted demand from 7,000 kW to 3,000 kW, subject to the terms and conditions stated therein.

5.1. Section 2.02 of the said ESA was revised to read as follows:

   “2.02 Fixed Capacity
   During the Operation Period, ILECO II shall purchase from GPPPI a base load capacity of 3,000 kW (Contracted Demand) operating at 90 percent of plant capacity except during periods of Allowed Downtime.”

6. They manifest that the said Amendment does not affect the tariff under the ESA. The tariff therein and the rest of the provisions of the ESA continue to apply. Thus, the said Amendment does not affect the present application.

The Commission has set the application for initial hearing, expository presentation, pre-trial conference and evidentiary hearing on February 18, 2011 (Friday) at nine o’clock in the morning (9:00 A.M.) at ILECO II’s Main Office, Barangay Cauayan, Pototan, Iloilo.

All persons who have an interest in the subject matter of the proceeding may become a party by filing, at least five (5) days prior to the initial hearing and subject to the requirements in the ERC’s Rules of Practice and Procedure, a verified petition with the Commission giving the docket number and title of the proceeding and stating: (1) the petitioner’s name and address; (2) the nature of petitioner’s interest in the subject matter of the proceeding, and the way and
manner in which such interest is affected by the issues involved in the proceeding; and (3) a statement of the relief desired.

All other persons who may want their views known to the Commission with respect to the subject matter of the proceeding may file their opposition to the application or comment thereon at any stage of the proceeding before the applicants conclude the presentation of their evidence. No particular form of opposition or comment is required, but the document, letter or writing should contain the name and address of such person and a concise statement of the opposition or comment and the grounds relied upon.

All such persons who may wish to have a copy of the application may request the applicants, prior to the date of the initial hearing, that they be furnished with a copy of the application. The applicants are hereby directed to furnish all those making such request with copies of the application and its attachments, subject to reimbursement of reasonable photocopying costs. Likewise, any such person may examine the application and other pertinent records filed with the Commission during the usual office hours.

WITNESS, the Honorable Chairperson, ZENaida G. Cruz-Ducut, and the Honorable Commissioners, MARIA TERESA A.R. Castañeda, and JOSE C. Reyes, Energy Regulatory Commission, this 26th day of January, 2011 at Pasig City.

ATTY. FrancOis Saturnino C. Juan
Executive Director III