

Republic of the Philippines
ENERGY REGULATORY COMMISSION
Pasig City

IN THE MATTER OF THE
APPLICATION FOR THE
APPROVAL OF THE POWER
SUPPLY AGREEMENT
BETWEEN MANILA
ELECTRIC COMPANY AND
TERRA SOLAR PHILIPPINES,
INC., WITH MOTION FOR
CONFIDENTIAL TREATMENT
OF INFORMATION

ERC CASE NO. 2023-014 RC

MANILA ELECTRIC
COMPANY AND TERRA
SOLAR PHILIPPINES, INC.,
Applicants.

Promulgated:
February 20, 2023

NOTICE OF VIRTUAL HEARING

TO ALL INTERESTED PARTIES

Notice is hereby given that on 15 February 2023, Manila Electric Company (MERALCO) and Terra Solar Philippines, Inc. (TSPI) filed a Joint Application dated 02 November 2022, seeking the Commission's approval of their Power Supply Agreement (PSA), with motion for confidential treatment of information.

The pertinent allegations of the Joint Application are hereunder quoted:

- Applicant MERALCO is a private corporation existing under the laws of the Republic of the Philippines, with principal office located at Lopez Building, Ortigas Avenue, Brgy. Ugong, Pasig City. It may be served with notices and other processes of this Honorable Commission through its counsel at the address indicated herein.
- MERALCO has a legislative franchise to operate and maintain a distribution system in the cities/municipalities of Metro Manila, Bulacan, Cavite and Rizal and certain cities/municipalities/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 Honorable Commission.
- Applicant TSPI is a private corporation duly organized and existing under the laws of the Philippines, with its principal place of business at Block 21, 16/F Three E-Com Center Bayshore Drive Corner, Ocean Drive Mall of Asia Complex Zone 10, Barangay 76, Pasay City, Metro Manila. It may be served with notices and other processes of this Honorable Commission through its counsel at the address indicated herein.
- TSPI shall construct, own, operate, manage, and maintain at least 2,500 MW solar power plants and 4,000 MWh battery energy storage systems ("BESS"), located within the areas of Cavite, Bulacan, Nueva Ecija, and/or Zambales, on the island of Luzon in the Philippines, 600 MW (AC, net) of which is scheduled to become operational by 26 February 2026 and 250 MW (AC, net) of which is scheduled to become operational by 26 February 2027 (hereinafter referred to as the "Plant"), capable of supplying 850 MW (AC, net) mid-merit from a renewable energy ("RE") source.
- Based on its power situation outlook for 2026 (and succeeding years thereafter), as well as the required minimum percentage share of RE supply based on the prevailing Renewable Portfolio Standards ("RPS") requirement, as shown in its 2021 Power Supply Procurement Plan approved by the Department of Energy ("DOE"), MERALCO foresees a renewable energy mid-merit capacity deficit in its portfolio covering 850 MW (AC, net).
- Thus, in order to ensure continuous and reliable electricity for MERALCO's customers whilst allowing MERALCO to continuously comply with the RPS requirement set by the DOE, there is a need for MERALCO to source additional RE mid-merit capacity through bilateral power supply contracts.
- 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 xxx."
- Accordingly, following the conduct of a Competitive Selection Process ("CSP") for the procurement of 850 MW (AC, net) RE mid-merit capacity, on 24 October 2022, MERALCO executed a Power Supply Agreement with TSPI ("MERALCO-TSPI PSA"), for the purchase of electric energy from an RE source corresponding to 850 MW (AC, net). The conduct of CSP proceeded as follows:
 - On 29 October 2021, the DOE's Department Circular No. DC 2021-09-0030, Series of 2021, (the "Revised CSP Rules") took effect. Section 8.B. of the Revised CSP Rules provided for an alternative mode of procurement in cases of new technology as defined therein, whereby the capacity requirement of a distribution utility may be procured through a power supplier's Unsolicited Proposal ("USP").
 - If, after the TPBAC's (i) conduct of a completeness review, (ii) detailed evaluation/negotiation of the USP, and (iii) finding of new technology, the TPBAC recommends to the distribution utility ("DU") the declaration of the power supplier as the original proponent, the DU may confirm such recommendation and grant the power supplier an original proponent status ("OP Status").
 - After which, the USP's Terms of Reference ("TOR") and finding of new technology shall be submitted by the DU to the DOE for review. If approved by the DOE, a competitive challenge will be conducted by the DU's TPBAC wherein other power suppliers may tender an offer that is compliant to the TOR requirements and its offered price is lower than that of the original proponent.
 - On 29 October 2021, MERALCO endorsed to its Third-Party Bids and Awards Committee ("TPBAC") the USP submitted by TSPI for 850 MW (AC, net) of RE mid-merit supply using a portfolio of solar power plants and BESS ("TSPI's USP").
 - On 13 December 2021, after MERALCO's confirmation of the TPBAC's (i) conduct of a completeness review, (ii) detailed evaluation/negotiation of TSPI's USP, (iii) finding of new technology, and (iv) recommendation to grant TSPI an OP Status, MERALCO submitted to the DOE for review the Invitation to Bid ("Invitation"), TOR, and Bid Requirements of TSPI's USP.
 - Upon the DOE's approval of the Invitation, TOR and Bid Requirements on 10 January 2022 and posting by the DOE of Invitation, TOR, and Bid Requirements in the publicly-viewable page of the DOE's CSP e-Portal, on 22 January 2022, to commence the CSP via competitive challenge, MERALCO caused the publication of the Invitation, which contained the basic TOR, indicating a summary of the process and timelines of the CSP, and inviting power generation companies to submit an Expression of Interest ("EOI") and Confidentiality Undertaking on or before the deadline set out in said Invitation. At the same time, MERALCO caused the posting thereof on its website, as well as posting in a conspicuous place of its principal office.
 - On 5 April 2022, at the deadline for interested bidders to submit their bids and compliance with the Bid Requirements, the TPBAC did not receive a bid from any supplier, hence on the same day, the TPBAC determined that there was failure of bidding under the Revised CSP Rules.
 - On 6 April 2022, MERALCO submitted to the DOE for posting the Final Invitation to Bid ("Final Invitation"), TOR, and Bid Requirements of TSPI's USP to initiate the second round of the CSP via competitive challenge.
 - On 19 April 2022, after the DOE's confirmation that the Final Invitation, TOR and Bid Requirements were posted in the publicly-viewable page of the DOE's CSP

e-Portal, to commence the second round of the CSP via competitive challenge, MERALCO caused the publication of the Final Invitation, which contained the basic TOR, indicating a summary of the process and timelines of the CSP, and inviting power generation companies to submit an EOI and Confidentiality Undertaking on or before the deadline set out in said Invitation. At the same time, MERALCO caused the posting thereof on its website, as well as posting in a conspicuous place of its principal office.

- On 2 May 2022, at the deadline for interested bidders to submit their EOI, again the TPBAC did not receive a bid from any supplier, hence on the same day, the TPBAC determined that there was second failure of bidding under the Revised CSP Rules, and considering there is no outstanding dispute before the TPBAC on the conducted first and second rounds of the CSP by competitive challenge, the TPBAC determined that the conditions were present under the Revised CSP Rules so that the DU may enter into direct negotiation with the original proponent, TSPI.

- A copy of the TPBAC Summary-Report regarding the conduct of the CSP is attached as part of ANNEX "C".

- The MERALCO-TSPI PSA, a copy of which is attached as ANNEX "D" and made an integral part hereof, contains the following salient provisions:

"Article 1 Definitions and Interpretation

xxx

Availability of Supply means one hundred percent (100%) of the Contract Capacity is available from 08:00 AM to 8:59 PM from Mondays to Saturdays, and 08:00 AM to 01:59 PM on Sundays, covering peak hours of Meralco, for at least 84 hours in a week. For clarity, Meralco's peak hours are from 8:00 AM to 9:00 PM, but may be subject to change during the Term upon mutual consent of the Parties.

xxx

Contract Capacity or CC shall be, subject to Section 3.4.1, Article 10, and Section 21.1: (i) 600 MW_{AC} (net) for the first (1st) Contract Year; and (ii) pursuant to Section 3.3.1, increased to a total of 850 MW_{AC} (net) beginning Commercial Operations Date (Phase 2), in each case, sourced from the Plant; provided that this shall be the full 850 MW_{AC} (net) should Meralco exercise its option in Section 3.4.3.

xxx

Eligible Renewable Energy Power Plants means generating facilities utilizing renewable energy resources or technology, which achieved commercial operations after effectivity of the Renewable Energy Law and are attributed corresponding RECs pursuant to Laws.

xxx

Guaranteed Output means, on an annual basis, the Availability of Supply from: (a) Plant, shall result in an output of not less than 45% PCF with respect to the Contract Capacity, and (b) subject to Section 6.1, Plant and Eligible Renewable Energy Power Plants, shall result in output of not less than 50% PCF with respect to the Contract Capacity. For clarity, Guaranteed Output does not translate to a minimum energy off-take.

Guaranteed RECs mean, on an annual basis, the minimum number of RECs that Power Supplier shall provide to Meralco equivalent to forty-five percent (45%) PCF with respect to the Contract Capacity.

xxx

Material Adverse Government Action means:

- any Law or Directive coming into effect after the signing of this Agreement, including the adoption or enactment, or any change or repeal with respect to the imposition of taxes, duties, levies, fees, charges and similar impositions, and the right to remit or convert currencies. This does not include any Legal Requirement or the application or interpretation thereof in existence at the date of the signing of this Agreement, but which by its explicit terms or due to any other circumstance, became effective or could be implemented only after the date of this Agreement; or
- the amendment, modification, repeal or withdrawal of any Law or Directive (including any official interpretation thereof which the Parties have relied upon in entering into this Agreement) in force at the date of this Agreement; or
- the modification in the application, enforcement, interpretation or implementation of any Law or Directive by a Governmental Instrumentality which the Parties have relied upon in entering into this Agreement, which modification occurred at any time after the date of this Agreement.

which causes or may cause serious damage to, or materially and adversely affects the financial condition of, any of the Parties. It is understood that there is serious damage to, or material and adverse effect on the financial condition of, a Party if the cost impact is more than ten percent (10%) of the annual capacity payment.

xxx

Renewable Energy Certificates or RECs mean the certificate issued by the renewable energy registrar to electric power industry participants which show the energy produced, sold or used, and may be traded in the renewable energy market for compliance with the renewable portfolio standards, pursuant to the Renewable Energy Law and relevant Laws.

xxx

2.2 Term of Agreement

Subject to Article 3, this Agreement shall become effective on the Execution Date. The term of this Agreement shall commence on the Commercial Operations Date (Phase 1) and shall expire on the last day of the 20th Contract Year following Commercial Operations Date (Phase 2), unless terminated earlier in accordance with the terms of this Agreement or extended by the application of this Section 2.2 and Section 17.3.3 (the "Term").

The Term may be renewed for an additional period of up to one (1) year under the same terms and conditions, at the option of Meralco, by giving prior written notice to Power Supplier at least one hundred eighty (180) Days prior to the end of the Term.

xxx

3.3 Commercial Operations Date

- 3.3.1 Subject to Section 3.4.3, Power Supplier covenants that the Plant Configuration sufficient to make available 600 MW_{AC} (net) of the Plant shall achieve Commercial Operations Date no later than 26 February 2026 (the "Scheduled Commercial Operations Date (Phase 1)"); and the Plant Configuration sufficient to make available the additional 250 MW_{AC} (net) of the Plant shall achieve Commercial Operations Date no later than 26 February 2027 (the "Scheduled Commercial Operations Date (Phase 2)").

xxx

- 3.3.3 If the Commercial Operations Date has not occurred by the Scheduled Commercial Operations Date, from and after the Scheduled Commercial Operations Date, Power Supplier shall, for each Day of unexcused delay, (i) procure and cause delivery to Meralco of Replacement Power from Eligible Renewable Energy Power Plants of up to the Contract Capacity, as may be applicable, subject to Article 6 and in accordance with Appendix E, to be paid for by Meralco at the lower between WESM price and the Price specified in Appendix E; or (ii) to the extent that such Replacement Power is not available due to inadequate supply, pay to Meralco a fine equivalent to Nine Hundred Eighty Philippine Pesos (PHP 908.00) multiplied by each affected MWh nomination by Meralco, until the earlier of: (a) the Commercial Operations Date, and (b) sixty (60) Days after the Delay Limit Date (as the Delay Limit Date may be adjusted in accordance with the succeeding provisions). For purposes of this Section 3.3.3, a fraction of a Day is considered a Day.

6.1 Supply of Power

xxx

Subject to the terms and conditions of this Agreement:

- 6.1.1 From the Commercial Operations Date of the Plant until the expiration of the Term or earlier termination of this Agreement, Power Supplier shall:
 - make available to Meralco, and Meralco shall purchase from Power Supplier, at the Price determined in accordance with Appendix E, the Contract Capacity of the Plant; and
 - deliver and sell to Meralco, and Meralco shall purchase from Power Supplier, at the Price determined in accordance with Appendix E, the Associated Energy (and Replacement Power), to the extent of Meralco's relevant day-ahead nominations.

The Dispatch of Contract Capacity and Associated Energy shall meet the requirements set out in the Performance Guarantees.

The energy storage component of the Plant shall be charged from the renewable energy components of the Plant, and the Associated Energy shall be paid for by Meralco at the Price. Should there be inadequacy of the relevant renewable energy source, which prevents generation from the renewable energy components of the Plant, the energy storage system component may be charged from the WESM to the extent of the inadequacy; provided, however, that should the energy storage system component be charged from a source other than the renewable energy components of the Plant despite adequate renewable energy source for generation, the Associated Energy shall be paid for by Meralco at the lower between WESM price and the Price, in accordance with

Appendix E. The Parties shall mutually agree on the mechanism and protocol for purposes of determining the source of the energy storage system's charging energy, in order to give effect to this provision.

- 6.1.2 Unless otherwise expressly permitted by this Agreement, Power Supplier shall not, without Meralco's prior written consent:
 - sell, divert, grant, transfer, dedicate, reserve or assign all or any portion of the Contract Capacity and Associated Energy to any Person other than Meralco; or
 - provide Meralco with capacity and/or electrical energy from any source other than the Plant; provided, however, that Power Supplier shall be allowed to deliver and sell to Meralco the Associated Energy from Eligible Renewable Energy Power Plants only when the Plant is on Outage. For this purpose, should Power Supplier fail to source from the Plant when it is available, Meralco shall pay the lower between WESM price and Price, in accordance with Appendix E.

xxx

6.5 Compliance with RPS Rules

- 6.5.1 Subject to the rules on renewable portfolio standards pursuant to the Renewable Energy Law (the "RPS Rules"), the Parties acknowledge and agree that the Contract Capacity and Associated Energy under this Agreement shall be utilized by Meralco for the purpose of complying with RPS Rules requirements. The Parties shall agree on a mechanism by which to implement Section 6.5 within six (6) months from Commencement Date and as may be necessary upon promulgation of relevant regulations.
- 6.5.2 Beginning on Scheduled Commercial Operations Date, Power Supplier shall provide Meralco RECs equivalent to the higher between Guaranteed RECs and volume corresponding to Meralco's nomination, reckoned annually. This notwithstanding, RECs shall be monitored and accounted for on a monthly basis.

For clarity, (i) for the first Contract Year, RECs shall be reckoned from Scheduled Commercial Operations Date until December 25, 2026, regardless of actual COD; and (ii) for the succeeding Contract Years, RECs shall be reckoned annually from 26 December of the preceding year to 25 December of the current year (or, in case of the final year, until expiration or end of the Term).

- 6.5.3 Meralco shall be entitled to all RECs for energy generated by the Plant corresponding to the Contract Capacity and Associated Energy, plus Excess Energy and Excess Capacity, if any. All such RECs, which shall be at least equivalent to the Guaranteed RECs, shall be delivered to Meralco in accordance with prevailing regulations. This provision shall apply notwithstanding the suspension of supply under Section 12.2.2(a).

xxx

Article 9 Outages

- 9.1.1 Power Supplier shall not be entitled to any Outage allowance during the Term of this Agreement. For clarity, this means that notwithstanding Outage of the Plant, Power Supplier shall, except as provided in Section 9.1.4 and subject to Article 17, make available the Contract Capacity and deliver the Associated Energy to Meralco, which shall be paid at the lower between WESM price and Price as specified in Appendix E.
- 9.1.2 The preceding Section notwithstanding, Power Supplier shall furnish Meralco its proposed Scheduled Outage, inclusive of the duration thereof and schedule of completion and start-up. From time to time, Power Supplier shall inform Meralco of any changes requested by Power Supplier from the System Operator in the schedule of its Scheduled Outage including possible delays in the shut-down and completion of schedules or early completion of Scheduled Outage.
- 9.1.3 In case of Outage and Power Supplier fails to provide Replacement Power from Eligible Renewable Energy Power Plants, Meralco will be deemed to have sourced the Replacement Power, subject to reimbursement by Power Supplier of the amount corresponding to the positive difference between (i) WESM price and (ii) Contract Price, in each case inclusive of all relevant transaction cost and taxes. In addition, in case such failure to provide Replacement Power to Meralco is due to unavailability of supply, Power Supplier shall pay a fine equivalent to Nine Hundred Eighty Philippine Peso (PHP908) multiplied by each MWh during a Day, which shall be used to reduce the generation charge to the consumers. For the avoidance of doubt, in case Power Supplier fails or refuses to supply Replacement Power despite availability thereof, then Section 18.1 shall apply.
- 9.1.4 On and after the Commercial Operations Date, during any period in which an Event of Force Majeure affects Power Supplier or Meralco, Meralco shall procure replacement energy from the WESM to the extent supply or offtake is so affected. For clarity, the cost of such replacement energy shall form part of the price that Meralco will charge to its customers.

Article 10 Adjustments in Contract Capacity and Associated Energy

- 10.1. Subject to the provisions of Section 10.2 below, Meralco shall, from time to time, be entitled to a reduction in the Contract Capacity and Associated Energy (the "Reduction in Contract Capacity and Associated Energy") equivalent to the reduction in the demand of its captive customers in order to avoid stranded contract capacities or costs, or by reason of the enforcement of Retail Competition and Open Access, the Renewable Energy Law and other Laws and Legal Requirements.
- 10.2. Meralco shall give a written notice to Power Supplier of the Reduction in Contract Capacity and Associated Energy at least five (5) Days prior to the first Day of the next Billing Period. Upon receipt by Power Supplier of such written notice, Meralco shall cease to have any rights and obligations under this Agreement in respect of such Reduction in Contract Capacity and Associated Energy.
- 10.3. In the event that the Plant is capable of producing energy above the Contract Capacity, Meralco has the option to purchase the same (the "Excess Capacity") through notice to Power Supplier sixty (60) Days prior to availability and for a period of up to six (6) months, subject to technical limitations of the Plant in accordance with Appendix A.

xxx

- 12.2.4 Following the ERC Final Approval, Parties shall implement a one-time adjustment of the Price, in case of a change in the interest rate at the time of ERC Final Approval compared to the interest rate on the Date of Submission of Unsolicited Proposal, in accordance with the Pricing Adjustment Formula provided in Appendix E (the "One-Time Price Adjustment"). For clarity, should there be any inconsistency between the adjustment amount in PHP/kWh-year of the Pricing Adjustment Formula and the One-Time Price Adjustment based solely on change in interest rate, the latter shall prevail.

xxx

14.3 ERC Approval

- 14.3.1 Subject to the non-occurrence of the Longstop Date, upon receipt of the ERC Final Approval, Meralco shall provide a copy of such ERC Final Approval to Power Supplier. Power Supplier shall have ten (10) Days from its receipt from ERC or from Meralco of such ERC Final Approval, whichever is earlier, to notify Meralco in writing that (a) it accepts such ERC Final Approval or (b) it does not accept the ERC Final Approval, stating the grounds for non-acceptance. However, if the ERC Final Approval does not contain any adjustment or modification, it shall be (i) deemed accepted by the Power Supplier and (ii) implemented by the Parties immediately.

xxx"

10. The Payment Structure under Appendix E of the PSA is as follows:

"MONTHLY POWER BILL UPON COMMERCIAL OPERATIONS DATE

The MPB upon COD shall consist of Capacity Payment, Energy Payment, and Other Payments. The Capacity Payment consists of Component A (MCP). The Energy Payment consists of Component B (MVOMP) and Component C (MRP). Other Payments are Component D (LRAP) and Component E (ASCRP). Thus, the MPB upon COD ("MPB") for Contract Capacity and Associated Energy (and Replacement Power) for each Billing Period shall be equal to:

$$MPB = MCP + MVOMP + MRP - LRAP + ASCRP$$

The MPB is exclusive of the applicable Value Added Tax."

The same Payment Structure under Appendix E of the PSA defines the following components of the Monthly Power Bill (MPB) as:

- MCP – Monthly Capacity Payment;
- MVOMP – Monthly Variable O&M Payment;
- MRP – Monthly Replacement Power Payment;
- LRAP – Line Rental Adjustment Payment; and
- ASCRP – Ancillary Services Cost Recovery Payment.

11. Based on the foregoing, and given a certain set of assumptions, the annual effective rate under the MERALCO-TSPI PSA is PHP 5,700.00 per kWh (at plant gate, VAT inclusive), as shown in the RATE IMPACT ANALYSIS below:

(This space is intentionally left blank.)