

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

**IN THE MATTER OF THE
APPLICATION FOR
AUTHORITY TO
IMPLEMENT THE
PROPOSED CAGBALETE
ISLAND MICROGRID
ELECTRIFICATION
EXPANSION CAPITAL
EXPENDITURE PROJECT,
WITH PRAYER FOR
PROVISIONAL AUTHORITY,**

ERC CASE NO. 2019-041 RC

**MANILA ELECTRIC
COMPANY (MERALCO),**

Applicant.

promulgated:

JUN 18 2019

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NOTICE OF PUBLIC HEARING

TO ALL INTERESTED PARTIES:

Notice is hereby given that on 31 May 2019, the Manila Electric Company (MERALCO) filed an *Application* dated 29 May 2019, seeking the Commission's authority to implement the proposed Cagbalete Island Microgrid Electrification Expansion Capital Expenditure Project, with prayer for the issuance of provisional authority.

In the said *Application*, MERALCO alleged the following, among others:

1. Applicant MERALCO is a private corporation duly organized and existing under the laws of the Republic of the Philippines, with principal office located at Lopez Building, Ortigas Avenue, Barangay Ugong, Pasig City. It may be served with notices and other processes of this Honorable Commission through its undersigned counsel at the address indicated herein.

ERC CASE NO. 2019-041 RC
NOTICE OF PUBLIC HEARING/14 June 2019
PAGE 2 OF 7

2. MERALCO has a legislative franchise to construct, operate and maintain an electric power distribution system for the conveyance of electric power to the end-users in the cities and municipalities of Metro Manila, Bulacan, Cavite and Rizal, and certain cities/municipalities/barangays in Laguna, Quezon, Pampanga, and Batangas, including Cagbalete Island, pursuant to Republic Act No. 9209.
3. MERALCO seeks the Honorable Commission's approval to implement the Cagbalete Island Microgrid Electrification Expansion Project ("Project").
4. This Application is being filed pursuant to Section 20 (b) of Commonwealth Act No. 146, as amended, otherwise known as the Public Service Act, which requires any public service to seek the prior approval of the Honorable Commission before it can establish, construct, maintain, and operate new facilities or make any extension of its existing facilities.
5. Pursuant to Section 23 of Republic Act No. 9136, a distribution utility *"shall have the obligation to provide distribution services and connections to its system for any end-user within its franchise area consistent with the distribution code. Any entity engaged therein shall provide open and non-discriminatory access to its distribution system to all users."*
6. Moreover, the same Section 23 of Republic Act No. 9136 mandates that "[d]istribution utilities shall provide universal service within their franchise, over a reasonable time from the requirement thereof, including unviable areas, as part of their social obligations, in a manner that shall sustain the economic viability of the utility, subject to the approval by the ERC in the case of private or government-owned utilities."
7. The Project is in line with the mandate of the administration of President Rodrigo Duterte, in keeping with the Philippine Development Plan (PDP) 2017-2022 of the National Economic and Development Authority (NEDA) and Section 2(c) of Department of Energy's (DOE) Department Order No. DO2018-05-0010, to achieve one hundred percent (100%) electrification of the entire Philippine archipelago by 2022 as part of its program to spread the benefits of economic growth to stakeholders at the grassroots level.¹
- A. BACKGROUND AND PROJECT RATIONALE
8. Cagbalete is a 1,640-hectare island composed of two (2) barangays namely, Cagbalete I and Cagbalete II, located in the middle of Lamon Bay that falls within the territorial

¹ Lucas, Daxim L. (2016) 'DOE aims for 100% electrification by 2020', *Inquirer.Net*, 6 October 2016. Available at: <http://business.inquirer.net/216153/doe-aims-for-100-electrification-by-2020#ixzz5741jAXrU> (Accessed: 8 April 2019).

jurisdiction of the Municipality of Mauban in the Province of Quezon. It forms part of MERALCO's franchise area.

9. The provision of regular electric service to Cagbalete Island has been constrained by the lack of generation facilities on the island itself. Further, because of the strong currents around the water surrounding Cagbalete Island and its distance from the port of the Municipality of Mauban, it is currently not feasible and viable to install submarine cables and other facilities to connect Cagbalete Island to MERALCO's distribution system.
10. On May 2011, pursuant to Energy Regulation No. 1-94, otherwise known as the Rules and Regulations Implementing Section 5 (i) of Republic Act No. 7638 (Department of Energy Act of 1992), MERALCO facilitated the purchase and transfer of four (4) diesel powered generator units (two [2] 13kVA, one [1] 15kVA, and one [1] 5kVA) to a cooperative that was formed to be responsible for the operation and maintenance of said generating facilities, including billing and collection activities relative to the provision of electric service within the said island, under the guidance of the Barangay council.
11. However, at least in the case of Cagbalete Island, the arrangement of allowing the community to operate and maintain their source of electricity proved to be unsustainable. This is exemplified by the fact that, as of October 2015, all of said generator units turned-over to the community were already found defective.
12. With this experience, MERALCO explored other possible options of energizing remote and unviable areas. One of the options considered is the use of a hybrid microgrid system. Relevant to this, MERALCO decided to implement a pilot project which promotes the use of hybrid microgrids for the electrification of households located in remote islands and far-flung areas, such as Cagbalete Island.
13. A Microgrid, as defined by the US Department of Energy, is a "group of interconnected loads and distributed energy resources with clearly defined electrical boundaries that acts as a single controllable entity with respect to the grid and that connects and disconnects from such grid to enable it to operate in both grid-connected or island mode."² The key components of a microgrid include Distributed Energy Resources (DER) (can be conventional or non-conventional), Battery Energy Storage System (BESS), μ EMS, and grid interconnection facility.

² Ton, Dan T. and Smith, Merrill A. (2012), The U.S. Department of Energy's Microgrid Initiative [Electronic version]. The Electricity Journal, 25(8), 84-94. Retrieved on 8 April 2019 at: <https://www.energy.gov/sites/prod/files/2016/06/f32/The%20US%20Department%20of%20Energy%27s%20Microgrid%20Initiative.pdf>.

ERC CASE NO. 2019-041 RC
NOTICE OF PUBLIC HEARING/14 June 2019
PAGE 4 OF 7

14. MERALCO's pilot project used a hybrid generation system using solar photovoltaic panels, diesel generators, lithium-ion battery storage, and intelligent controller as main components.
15. On 16 January 2019, MERALCO wrote a letter to update the Honorable Commission on its pilot implementation in Cagbalete Island and relayed that the generation plant has been completed and that the installation of the distribution network is on-going. Attached hereto as Annex "A" is a copy of MERALCO's letter dated 16 January 2019.
16. While MERALCO is ready and able to commercially operate the pilot project, the same is still awaiting the release of the necessary documentary requirements, such as the Renewable Energy Service Contract (RESC) and Certificate of Endorsement (COE) to be issued by the Department of Energy (DOE).
17. At present, a majority of Cagbalete Island's residents are reliant to households that have access to electricity, through privately-owned diesel generator units or solar home systems, selling at an exorbitant rate of as much as Ph55/kWh for a mere seven (7) hours of service per day.
18. However, despite access to electricity, the power quality in the island is low due to high voltage drops and overloading of diesel generator units.
19. Furthermore, residents in Cagbalete Island who are not covered by the pilot project have been clamoring for the immediate expansion of the microgrid system to completely energize the entire island.
20. Given the foregoing backdrop, it is imperative for MERALCO to expand its pilot project to be able to completely energize all the residents and commercial establishments in Cagbalete Island.
21. The Project will utilize a scaled-up hybrid generation system by similarly using solar photovoltaic panels, diesel generators and lithium-ion battery storage as main components.
22. The estimated cost of the Project is TWO HUNDRED NINETEEN MILLION SIXTY-ONE THOUSAND AND SEVENTY FOUR & 40/100, Philippine Currency (PhP219,061,074.4).
23. Attached as Annex "B" and made an integral part hereof is the Project Justification for the proposed Cagbalete Island Microgrid Electrification Expansion Project, which document includes a more detailed description of the Project.

24. Upon approval and implementation of this Project, MERALCO shall charge the current ERC-approved rates to the customers in Cagbalete Island. These rates consist of generation, transmission, and other charges including the blended distribution, supply, metering charges.
- B. URGENT NEED TO ISSUE PROVISIONAL AUTHORITY
25. There is an urgent need for a provisional authority to be issued to allow MERALCO to immediately start the project, which is estimated to take around eight (8) months. This is necessary in order to meet the target project completion set on December 2019, and thus, allow the residents of the said island to fully enjoy and reap the benefits of the much awaited safe and reliable provision of electric service in Cagbalete Island, at the soonest possible time, consistent with the mandate of the national government.
26. The necessary activities to implement the Project, considering the magnitude, include: procurement of materials, detailed engineering design, site development, lot acquisition and civil works, installation, testing and commissioning of diesel generators, battery storages and solar PV, among other things. MERALCO cannot start any of the preparatory activities without the necessary approval of the Honorable Commission.
27. Most importantly, the benefits that will be achieved by this Project will bolster the economic potential and growth of the various industries in Cagbalete island and will promote the vast untapped potential of the island as an eco-tourism destination that has been left largely underdeveloped due to the lack of electric service which has proven to be its lynchpin.
28. Accordingly, pending final approval, there is an urgent need for a provisional authority for MERALCO to immediately implement the Project. In support of the prayer for the grant of a provisional authority, attached as Annex "C" is the Judicial Affidavit of Mr. Benjamin G. Nolasco, Assistant Vice-President and Head, HMB – South Business Area.

PRAYER

WHEREFORE, it is most respectfully prayed to this Honorable Commission that the instant application for Authority to implement MERALCO's proposed Cagbalete Island Microgrid Electrification Expansion Project be APPROVED, and MERALCO be allowed to charge the Honorable Commission's approved rates consisting of generation, transmission, and other charges including the blended distribution, supply, metering charges to the residents of Cagbalete Island.

ERC CASE NO. 2019-041 RC
NOTICE OF PUBLIC HEARING/14 June 2019
PAGE 6 OF 7

Pending approval, MERALCO further prays for the immediate issuance of a provisional authority or interim relief to allow MERALCO to implement the Cagbalete Island Microgrid Electrification Expansion Project.

Applicant MERALCO prays for such other relief as are deemed just and equitable under the premises.

The Commission has set the *Application* for determination of compliance with the jurisdictional requirements, expository presentation, Pre-Trial Conference, and presentation of evidence on **14 August 2019 (Wednesday) at one o'clock in the afternoon (1:00 P.M.), at the ERC Hearing Room, 15th Floor, Pacific Center Building, San Miguel Avenue, Pasig City.**

All persons who have an interest in the subject matter of the instant case may become a party by filing with the Commission a verified Petition to Intervene at least five (5) days prior to the initial hearing and subject to the requirements under Rule 9 of the 2006 ERC Rules of Practice and Procedure, indicating therein the docket number and title of the case and stating the following:

- 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 case may file their Opposition or Comment thereon at any stage of the proceeding before Applicant rests its case, subject to the requirements under Rule 9 of the 2006 ERC Rules of Practice and Procedure. No particular form of Opposition or Comment is required, but the document, letter, or writing should contain the following:

- 1) The name and address of such person;
- 2) A concise statement of the Opposition or Comment; and
- 3) The grounds relied upon.

ERC CASE NO. 2019-041 RC
NOTICE OF PUBLIC HEARING/14 June 2019
PAGE 7 OF 7

All such persons who wish to have a copy of the *Application* may request from Applicant that they be furnished with the same prior to the date of the initial hearing. Applicant is hereby directed to furnish all those making such request with copies of the *Application* and its attachments, subject to the reimbursement of reasonable photocopying costs. Any such person may likewise examine the *Application* and other pertinent records filed with the Commission during the standard office hours.

WITNESS, the Honorable Chairperson and CEO **AGNES VST DEVANADERA**, and the Honorable Commissioners **ALEXIS M. LUMBATAN**, **CATHERINE P. MACEDA**, and **PAUL CHRISTIAN M. CERVANTES**, Energy Regulatory Commission, this 14th day of June 2019 in Pasig City.


JOSEFINA PATRICIA A. MAGPALE-ASIRIT
Oversight Commissioner for Legal

LS: SSI/LSP/QLO