

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

IN THE MATTER OF THE 11TH
APPLICATION FOR THE RECOVERY OF
THE INCREMENTAL COSTS ON
FOREIGN CURRENCY EXCHANGE RATE
FLUCTUATIONS UNDER THE
INCREMENTAL CURRENCY EXCHANGE
RATE ADJUSTMENT (ICERA), WITH
PRAYER FOR PROVISIONAL
AUTHORITY

ERC CASE NO. 2008-064 RC

NATIONAL POWER CORPORATION
(NPC) AND POWER SECTOR ASSETS
AND LIABILITIES MANAGEMENT
CORPORATION (PSALM),

Applicants.

x ----- x

DOCKETED

Date: JAN 12 2009

By: _____

NOTICE OF PUBLIC HEARING

TO ALL INTERESTED PARTIES:

Notice is hereby given that on December 16, 2008, the National Power Corporation (NPC) and Power Sector Assets and Liabilities Management Corporation (PSALM) filed with the Commission, pursuant to the provisions of Republic Act No. 9136, their 11th application for the recovery of the incremental costs on foreign currency exchange rate fluctuations under the Incremental Currency Exchange Rate Adjustment (ICERA), with prayer for provisional authority.

In the said application, NPC and PSALM alleged, among others, the following:

1. In its Order dated February 24, 2003 in ERC Case No. 2003-44, the Commission issued and adopted the Implementing Rules for the ICERA providing, among others, the required mechanisms for the recovery/(refund) of the deferred incremental costs/(savings) on foreign currency exchange rate fluctuations and carrying charges;

2. The instant application covers the billing period July 2008 to September 2008. They have fully complied with the ICERA's monthly reportorial requirements in support of the calculated allowable costs covering the test period;
3. They propose to recover/(refund) the Deferred Accounting Adjustments (DAAs), corresponding to additional cost or savings from foreign exchange fluctuations in settlement of Debt Service and Operation Expenses (OPEX) and pertaining to the difference in the actual or allowable Capacity and Infrastructure Fees for Build-Operate-Transfer (BOT) Plants and the billed amount under the basic generation charge, as well as the corresponding carrying charges for the billing/test period from July 2008 to September 2008 for the Luzon, Visayas and Mindanao Grids;
4. Pursuant to the Commission's directive in its Order dated November 23, 2005 (approval of 4th ICERA DAA), the proposed 11th ICERA DAA charge is calculated on a per grid basis;
5. Consistent with its previous ICERA applications, the Base Exchange Rates used in the calculation of the 11th ICERA DAA for OPEX is adjusted from CY 2000 to the average figures of CY 2002, or from PhP44.0494/US\$1 to PhP51.6036/US\$1 and from PhP0.4096/JP¥ 1 to PhP0.4128/JP¥1. However, Base Exchange Rates for Debt Service are maintained at the CY 2000 level, pending resolution on its "Supplemental Motion for Clarification" filed on May 31, 2006 seeking clarification on the disallowance of the Loss on FOREX fluctuations in the Decision on RORB-TOU application (ERC Case No. 2004-178). Resolution of said motion shall provide it with a better understanding of the Commission's intention particularly on the appropriate Base Exchange rate/price of Debt Service;
6. The instant application does not include any un-recovered or un-refunded balance from the 9th and 10th ICERA applications (ERC Case Nos. 2008-043 RC and 2008-054 RC, respectively) considering that the same is still pending resolution by the Commission since its filing last July 29, 2008 AND September 25, 2008, respectively;
7. The calculation for the recovery/refund of costs on Capacity and Infrastructure Fees for Bakun Hydroelectric Power Plant and San Roque Multi-purpose Project is up to the authorized recoverable rate of PhP3.8299/kWh as contained in the Commission's Order on the 5th ICERA;
8. Considering the foregoing and pursuant to all the relevant Decisions and Orders previously issued by the Commission, they calculated the total deferred costs for recovery under the instant application comprising of deferred Debt Service, OPEX and Capacity Fees for BOT plants and the corresponding carrying charges for the Luzon, Visayas and Mindanao Grids covering the test period from July 2008 to September 2008. The table below shows the summary of the total deferred FOREX costs, as follows:

GRID	DAA, PhP
LUZON	(939,037,877)
VISAYAS	2,986,975
MINDANAO	(84,990,100)
PHILIPPINES	(1,021,041,002)

9. The application seeks to obtain the approval for the recovery/refund of the total deferred FOREX cost for the test/billing period May 2008 and June 2008 only, through the imposition of the following proposed DAA charges:

	Luzon	Visayas	Mindanao
TOTAL DAA Charges, PhP/kWh	(0.1722)	0.0023	(0.0403)

The balance from the implementation of the 9th and 10th ICERA applications, depending on the Commission's resolution of the said cases, shall be added to the above rate;

10. As authorized under the Implementing Rules of the ICERA, they utilized the carrying charge interest rates as shown below:

Allowable Carrying Charge Interest Rates

Test/Billing Months	Prevailing 91-day T-Bill Rate ¹	Authorized Allowance ²	Allowable Rate
July 2008 ³	5.699%	3%	8.699%
August 2008 ³	5.699%	3%	8.699%
September 2008 ³	5.699%	3%	8.699%

1. Source: Bangko Sentral ng Pilipinas

2. As authorized in the ICERA Implementing Rules

3. There was No Issue (NI) T-Bill Rate for the month of August 2008 and September 2008, hence, the rate was computed based on the average T-Bill Rates for the preceding of the said months.

11. The proposed ICERA DAA is fair and reasonable as it allows the recovery of deferred costs consistent with the principles of a free and competitive electricity market as provided under R.A. No. 9136;
12. They seek the approval to recover the above-mentioned deferred costs over following recovery periods:

Proposed Spread (No. of Months)

LUZON	VISAYAS	MINDANAO
3	3	3

13. They would like to emphasize that the above proposed recovery period is only for the test period of July 2008 and September 2008. The resulting balance from the implementation of the Commission's Order dated November 24, 2008, where NPC was directed to

continue collecting/(refunding) the amount previously authorized by the Commission under ERC Case No. 2008-032 RC and the balance from the implementation or non-implementation of ICERA applications (9th and 10th) which covers the test period from January 2007 to June 2008 pending with the Commission, is being proposed under the instant application to be spread over the remaining number of months when incremental costs or savings were deferred, to reflect a reasonable monthly power rate. For clarity, assuming the 9th and 10th ICERA applications which covered a total of eighteen (18) months cost is only implemented for two (2) months then the balance of the 9th and 10th ICERA applications to be added in the instant application should be spread for sixteen (16) months.

Should there be a single ruling on the said applications, including the instant application, they propose that the corresponding ICERA DAAs be broken down on a per rate case application basis; and

14. They pray that consistent with ERC Case No. 2003-44 adopting the Implementing Rules for the Recovery of ICERA and Section 4(e) Rule 3 of the IRR, as amended, of RA 9136 or EPIRA, the proposed DAA charges of (P0.1722)/kWh for Luzon Grid, P0.0023/kWh for Visayas Grid and (P0.0403)/kWh for Mindanao grid be approved or provisionally approved and that the corresponding balances from the previous ICERA applications including the 9th and 10th ICERA, which are currently pending resolution, be integrated on top of the aforementioned proposed charges. They further pray for the approval of the proposed determination of the appropriate DAA Charges for the balances as stated in the instant application, including the breakdown of the ICERA DAAs on a per rate application basis, in the event that the Commission issues a consolidated resolution on the 9th and 10th ICERA applications.

The Commission has set the application for hearing on February 4, 2009 at ten o'clock in the morning (10:00 A.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 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, **RAUF A. TAN**, **ALEJANDRO Z. BARIN**, **MARIA TERESA A.R. CASTAÑEDA** and **JOSE C. REYES**, Energy Regulatory Commission, this 7th day of January 2009 at Pasig City.


ATTY. FRANCIS SATURNINO C. JUAN
Executive Director III

610/08/064 RC NPH
