

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

**IN THE MATTER OF THE 14<sup>TH</sup>  
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. 2010-002 RC**

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

**Applicants.**

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**NOTICE OF PUBLIC HEARING**

**TO ALL INTERESTED PARTIES:**

Notice is hereby given that on January 5, 2010, the National Power Corporation (NPC) and the Power Sector Assets and Liabilities Management Corporation (PSALM) filed their 14<sup>th</sup> 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, that:

1. Under Section 3 (g) of its Charter, NPC has the authority to sell electric power in bulk to electric cooperatives, private distribution utilities, government owned distribution utilities or local government units which have exclusive franchise to operate a distribution system.

Under Section 47 (j) of Republic Act No. 9136 ("Electric Power Industry Reform Act or EPIRA"), NPC may continue to generate and sell electricity from the undisposed generating assets and IPP contracts of PSALM Corporation;

2. NPC is filing the instant application as implementing agency for the unbundled generation rates stated in the various Orders and Decision of the Commission. PSALM is filing the instant application in its capacity as transferee, owner and administrator of the generating assets of NPC pursuant to Section 49 of the EPIRA;
3. In the Order dated February 24, 2003, 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;
4. The instant application covers the billing period from April 2009 to June 2009. They have fully complied with the ICERA's monthly reportorial requirements to support the calculated allowable costs covering the billing period, as evidenced by the submitted reports/compliances duly received by the Commission;
5. They propose to recover/(refund) the Deferred Accounting Adjustments (DAAs), corresponding to additional costs or savings from foreign exchange fluctuations in the settlement of Debt Service (principal repayment portion) and Operating Expenses (OPEX), and pertaining to the difference between actual or allowable Capacity and Infrastructure Fees for Build-Operate-Transfer (BOT) plants and the billed amounts under the basic generation charge, as well as the corresponding carrying charges for the billing period April 2009 to June 2009 for the Luzon, Visayas and Mindanao Grids;
6. Pursuant to the Commission's directive in its Order dated November 23, 2005 (approval of 4<sup>th</sup> ICERA DAA), the proposed 14<sup>th</sup> ICERA DAA charge is calculated on a per Grid basis;
7. On February 16, 2009 and March 23, 2009, the Commission issued an Order provisionally authorizing them to implement the new basic generation rates of PhP4.3648/kWh for Luzon, PhP3.7255/kWh for the Visayas Grid, and PhP2.8177/kWh for the Mindanao Grid. They were provisionally authorized to implement the new base rates corresponding to the revised revenue requirement starting the billing month of March 2009;
8. Based on the components of the new revenue requirement and energy sales in the Commission's February 16, 2009 Order, the new base rates for capacity fees were deduced, which then served as the basis in the DAA calculations for the Luzon and Mindanao Grids. However, said Order, as well as the March 23, 2009 Order modifying the new basic generation charge for the Visayas Grid, was silent as to the foreign exchange rates for both the foreign-denominated operating expenses and the principal repayment portion of debt service. Accordingly, they manifest the need to establish the level of the base rates, in order to determine the new base foreign

exchange rates in US Dollar and Japanese Yen for Forex I (Debt Service) and Forex II (insurance and spare parts);

9. The last asset appraisal conducted by the Resource Management International (RMI) Inc. was in CY 1996. This means that no asset revaluation was provided/allowed in the afore-mentioned Order, effectively pegging the rate base to CY 1996 level. Hence, in the absence of a base rate, they are proposing that the base rate for the principal repayment portion of Debt Service be based on the CY 1996 weighted average foreign exchange rate, to coincide with the last asset revaluation conducted by NPC. This is consistent with the provisional authority issued by the Commission which did not consider the proposed revaluation of assets, pending approval of the asset valuation guidelines;
10. For foreign-denominated operating expenses however, the DAA calculations considered a new base rate based on CY 2007 weighted average foreign exchange rate, consistent with the basic generation charge application which utilized the test year 2007;
11. They propose that the Commission consider a new base rate based on CY December 2007 weighted average foreign exchange rate of PhP41.7430 for foreign-denominated operating expenses (OPEX), to coincide with the test year used in the provisional authority granted by the Commission. For the principal repayment portion of debt service however, pending approval of the asset valuation guidelines, the weighted average CY 1996 foreign exchange rate amounting to PhP26.2320 for the US Dollar, and PhP0.2409 for the Japanese Yen, is being proposed to coincide with the last asset revaluation/appraisal conducted in CY 1996;
12. The calculation for the recovery/refund of Capacity and Infrastructure Fees for Bakun Hydroelectric Power Plant and San Roque Multi-purpose Project were pegged at PhP3.8299/kWh, as follows:

a. Bakun Hydro Electric Power Plant:

For the billing period April 2009, covering the billing month January 26, 2009 to February 25, 2009, capacity fee was calculated based on the Commission's Decision in ERC Case No. 2001-813 dated August 24, 2006 which provides that any amount in excess of the PhP3.8299/kWh (the rate considered by NPC as capacity fee for Bakun in ERC Case No. 2004-178) shall be part of the energy charge and shall be considered as allowable cost under the GRAM.

The calculation of the capacity fees for the billing period May 2009 and June 2009, covering the billing months February 26, 2009 to April 25, 2009, were pegged at PhP3.8299/kwh or actual capacity fee whichever is lower. It should be noted that the capacity fee component of Bakun in the provisionally approved basic generation charge under ERC Case No. 2009-004, excludes the O & M costs. Any amount in excess of the

Php3.8299 plus the O & M costs, were recovered under the GRAM.

b. San Roque Multipurpose Project

The capacity fee for San Roque was calculated based on Commission's directive in ERC Case No. 2001-816, which pegged the purchased power cost of San Roque Multipurpose Project at the effective rate of the Luzon Grid or the purchased power cost under the agreement, whichever is lower. Any amount in excess of the PhP3.8299/kWh plus the PPC variable and fixed O & M costs were considered for recovery under the GRAM;

13. The instant application likewise includes the recovery/(refund) of the allowable Capacity and Infrastructure fees for Kalayaan Unit No. 3 & 4 and Mindanao Coal (STEAG), based on the Commission's Decision dated November 17, 2008 in ERC Case No. 2007-159 and ERC Case No. 2001-811 dated February 2, 2009, respectively;
14. The DAA for capacity fees was calculated as follows:
  - a. For the billing period April 2009, covering the billing month January 26, 2009 to February 25, 2009, the DAA refers to the difference between the allowable capacity fees and the amounts recovered through the basic generation rates prescribed in ERC Case No. 2004-178.
  - b. For the billing period May and June 2009, covering the billing months February 26, 2009 to April 25, 2009, the DAA refers to the difference between allowable capacity fees and the amounts recovered through the basic generation rates prescribed in ERC Case No. 2009-004 RC;
15. The instant application does not include any un-recovered or un-refunded balance from the previous ICERA applications, considering that the same are still pending resolution by the Commission;
16. Considering the foregoing, and pursuant to all the relevant Decisions and Orders issued by the Commission, they calculated the total deferred costs for recovery under this 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 billing period from April to June 2009 only. Shown below is the summary of the total deferred FOREX costs as follows:

**Total Deferred FOREX Costs (in PhP)**

	<b>LUZON</b>	<b>VISAYAS</b>	<b>MINDANAO</b>
Zero % VAT	1,973,322,541	1,240,930,933	155,075,613
12% VAT	4,617,527,492	380,775,159	88,677,010
<b>TOTAL DAA</b>	<b>6,590,850,033</b>	<b>1,621,706,093</b>	<b>243,752,623</b>

17. They seek the Commission’s approval for the recovery/refund of the above-stated total current deferred FOREX costs for the billing period April 2009 to June 2009, through the imposition of the following proposed DAA charges:

**Proposed 14<sup>th</sup> ICERA DAA Charges, PhP/kWh**

	<b>LUZON</b>	<b>VISAYAS</b>	<b>MINDANAO</b>
0% VAT	0.3421	0.9213	0.0715
12% VAT	0.8004	0.2827	0.0409
<b>TOTAL DAA, PhP/kWh</b>	<b>1.1425</b>	<b>1.2039</b>	<b>0.1124</b>

In accordance with ERC Resolution No. 20, Series of 2005, the VAT to be imposed to consumers will be based on gross receipts or the total amount paid for electricity sold from non-renewable energy portion of the generation mix corresponding to the billing period under recovery/(refund);

18. They seek the approval of the Commission to recover the above-stated deferred costs over the following recovery periods:

**Proposed Spread (No. of Months)**

<b>Luzon</b>	<b>Visayas</b>	<b>Mindanao</b>
<b>3</b>	<b>3</b>	<b>3</b>

19. As authorized under the Implementing Rules of the ICERA, they utilized the carrying charge interest rates, to wit:

**Allowable Carrying Charge Interest Rates**

Billing Months	Prevailing 91-day T-Bill Rate <sup>1</sup>	Authorized Allowance <sup>2</sup>	Allowable Rate
April 2009	4.3200%	3.00%	7.3200%
May 2009	4.2940%	3.00%	7.2940%
June 2009	4.4370%	3.00%	7.4370%

1- Source: *Bangko Sentral ng Pilipinas*

2- As authorized in the *ICERA Implementing Rules*

20. 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;
21. To date, they are implementing the 11<sup>th</sup> ICERA charges in Luzon, pending resolution of the 12<sup>th</sup> and 13<sup>th</sup> ICERA applications. For the Visayas, They are implementing the 8<sup>th</sup> ICERA charges, pending resolution by the Commission of the 9<sup>th</sup> to 13<sup>th</sup> ICERA Applications. The 8<sup>th</sup> ICERA DAA for the Mindanao Grid was fully recovered/(refunded), hence starting the billing month July 25 to August 26, 2009, no ICERA charges are being imposed to electricity consumers in the Mindanao Grid;
22. They pray that a provisional authority be issued covering the deferred costs under the 14<sup>th</sup> ICERA, as well as the estimated DAA balances under the 12<sup>th</sup> and 13<sup>th</sup> ICERA for Luzon and the 9<sup>th</sup> to 13<sup>th</sup> ICERA for the Visayas and Mindanao Grids, in order to mitigate the accumulated DAA to customers and improve NPC's financial standing; and
23. They further pray that the following deferred costs/(refund), recovery period, and proposed Deferred Accounting Adjustment (DAA) charges covering the current DAA be approved by the Commission consistent with the Implementing Rules for the Recovery of Incremental Currency Exchange Rate Adjustment (ICERA) and Section 4 (e) Rule 3 of the IRR, as amended, of RA 9136 or EPIRA:

Particulars	Luzon	Visayas	Mindanao
Total Deferred Costs/(Refund)	6,590,850,033	1,621,706,093	243,752,623
Total DAA Charge	1.1425	1.2039	0.1124
Proposed Recovery Period (number of months)	<b>3</b>	<b>3</b>	<b>3</b>

The Commission has set the application for initial hearing and pre-trial conference on March 2, 2010 (Tuesday) at two o'clock in the afternoon (2:00 P.M.) at the ERC Hearing Room, 15<sup>th</sup> 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 Commission'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 a 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 25<sup>th</sup> day of January 2010 at Pasig City.

**ATTY. NOEL J. SALVANERA**  
Director III, Legal Service