

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

**IN THE MATTER OF THE 15TH
APPLICATION FOR THE
RECOVERY OF INCREMENTAL
FUEL AND INDEPENDENT POWER
PRODUCER (IPP) COSTS UNDER
THE GENERATION RATE
ADJUSTMENT MECHANISM
(GRAM), WITH PRAYER FOR
PROVISIONAL AUTHORITY**

ERC CASE NO. 2010-003 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 15th application for the recovery of Incremental Fuel and Independent Power Producer (IPP) Costs under the Generation Rate Adjustment Mechanism (GRAM), 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. The applications for the recovery of deferred charges were all consistent with the Commission's Order dated February 24, 2003 in ERC Case No. 2003-44 providing, among others, the required mechanism for the recovery of the deferred IPP costs;
4. The instant application is being filed consistent with Section 4 (e) Rule 3 of the Implementing Rules and Regulations (IRR), as amended, of R.A. No. 9136. It covers the billing period from April 2009 to June 2009. NPC has fully complied with all of the Commission's monthly reportorial requirements in support of the calculated allowable costs covering the said billing period as evidenced by the submitted reports/compliances duly received by the Commission;
5. On February 16, 2009 and as modified on March 23, 2009, the Commission issued two (2) Orders in ERC Case No. 2009-004 RC provisionally authorizing them to implement the new basic generation rates of PhP4.3648/kWh for Luzon, PhP3.7255/kWh for Visayas, and PhP2.8177/kWh for Mindanao. They were authorized to implement the new base rates corresponding to the revised revenue requirement starting the billing month of March 2009;
6. Based on the components of the new revenue requirement and energy sales as stated in the Commission's Order dated February 16, 2009, the new base rates for fuel and purchased power costs were deduced, which then served as the basis in the DAA calculations for the Luzon and Mindanao Grids. However, for the Visayas Grid, considering that the March 23, 2009 Order was silent as to the components of the modified revenue requirement, they propose to use the new base rates i in calculating the DAA for the Visayas Grid, subject to the approval of the Commission;
7. Based on the foregoing, they propose to recover/(refund) the following Deferred Accounting Adjustments (DAAs):
 - a. Fuel Costs:
 - a.1. The DAA covers the difference between the allowable fuel costs and the amounts recovered through the provisionally approved basic generation rates under ERC Case No. 2009-004 RC. The new basic generation charge became effective starting the billing month February 26, 2009 to March 25, 2009, which coincides with the April 2009 billing period proposed to be recovered;
 - b. Purchased Power Costs:
 - b.1 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 purchased power costs and

the amounts recovered through the basic generation rates per ERC Case No. 2004-178;

- b.2 For the billing period May and June 2009, covering the billing month February 26, 2009 to April 25, 2009, the DAA refers to the difference between allowable purchased power costs and the amounts recovered through the basic generation rates per ERC Case No. 2009-004 RC

The proposed DAA excludes the balance of previously approved GRAM applications pending resolution by the Commission.

8. The instant application includes the costs of purchased power from Malaya/Caliraya-Botocan-Kalayaan (CBK), and Mindanao Coal (STEAG), which were approved by the Commission on November 17, 2008 and February 2, 2009, respectively. Consistent with the previous GRAM applications, purchased power costs of Naga (Salcon) will be incorporated upon approval by the Commission of their inclusion in the power rates;

9. Likewise, the GRAM DAA calculation considered the following:

- a. Purchased Power Costs (PPC) of Casecnan Multi Purpose Power Plant covering the billing period 2008 to March 2009 based on the Memorandum of the Department of Finance (DOF) directing the Bureau of Treasury to pay the BOT obligations;
- b. Costs under the Operations and Maintenance Service Contract (OMSC) entered into between:
- PSALM/NPC and Alstom for Limay A and B after the Operation, Maintenance and Repair (OMR) contract expired on April 19, 2008 and October 18, 2008, respectively; and
 - PSALM/NPC and Burmeister & Wian Scandinavian Contractor A/S for PB 117 after the Electricity Supply, Operation and Maintenance Agreement (ESOMA) contract expired on March 31, 2009.

PSALM deemed it prudent to extend the contracts of Limay A & B and PB 117 with the same IPP proponents, to ensure power reliability and stability in the Luzon and Mindanao Grids, respectively, and prevent deterioration of the plants pending their privatization. Consequently, on August 26, 2009 and July 31, 2009, PSALM successfully conducted the negotiated sale of Limay A & B and PB 117 plants, respectively.

10. Similarly, they applied the same methodology and principles in the calculation of allowable fuel costs adopted in the 14th GRAM application filed on July 29, 2009 particularly the use of new heat rate caps on a per power plant basis, including the allowance for heat rate

degradation as approved by this Commission in its Decision dated June 30, 2008 in ERC Case No. 2004-111;

11. Considering the foregoing and pursuant to all the relevant Decisions and Orders issued by the Commission, they calculated the total deferred costs for recovery comprising of the deferred fuel and IPP costs stated above and the corresponding carrying charges for the Luzon, Visayas and Mindanao Grids covering the billing period from April 2009 to June 2009, current portion only. Shown below is the summary of the total deferred fuel and IPP costs:

Total Deferred Fuel and IPP Costs for Recovery/(Refund), (in PhP)

	LUZON	VISAYAS	MINDANAO
TOTAL DAA	3,235,456,012	202,920,421	245,028,990
ZERO VAT	846,501,755	166,457,961	153,657,036
12% VAT	2,388,954,257	36,462,460	91,371,954

12. To recover/(refund) the above-stated deferred costs over a period of three (3) months, they are proposing the approval of the following DAA Charges which were derived using the projected energy sales under the NPC's proposed CY 2007-2010 Budget:

Proposed DAA Charges, PhP/kWh

	LUZON	VISAYAS	MINDANAO
NON-VATABLE	0.1467	0.1236	0.0709
VATABLE	0.4141	0.0270	0.0421
TOTAL DAA	0.5608	0.1506	0.1130

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

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

Proposed Spread (No. of Months)

Luzon	Visayas	Mindanao
3	3	3

14. As authorized under the Implementing Rules of the GRAM, they utilized the following carrying charge interest rates which apply to both deferred costs for recovery and (refund):

Allowable Carrying Charge Rates, %

Billing Period	Prevailing 91-day T-Bill Rate^{1/}	Authorized Allowance^{2/}	Allowable Rate
April	4.3200%	3.00%	7.3200%
May	4.2940%	3.00%	7.2940%
June	4.4370%	3.00%	7.4370%

1- Source: *Bangko Sentral ng Pilipinas*

2- Pursuant to the GRAM Implementing Rules

15. The proposed GRAM DAA is fair and reasonable as it allows the recovery/(refund) of deferred costs consistent with the principles of a free and competitive electricity market as provided under R. A. No. 9136 and all pertinent Orders/Decisions issued by the Commission;
16. They pray that a provisional authority be issued to implement the rates for the recovery/refund of the following:
- a. The DAA under this instant application; and
 - b. The estimated DAA balances under the 13th and 14th GRAM applications for Luzon and the 10th to 14th GRAM applications for the Visayas and Mindanao Grids.
17. As of this filing, they are implementing the 12th GRAM charges in Luzon, pending resolution of the 13th and 14th GRAM applications. For the Visayas, they are implementing the 9th GRAM charges, pending resolution by the Honorable Commission of the 10th to 14th GRAM applications. The 9th GRAM DAA for the Mindanao Grid was fully recovered/(refunded), hence starting the billing month July 25 to August 26, 2009, no GRAM charges are being imposed to electricity consumers in the Mindanao Grid; and
18. They further pray that consistent with ERC Case No. 2003-44 adopting the implementing rules for the recovery of fuel and IPP costs: GRAM and Section 4(e) Rule 3 of the IRR, as amended, of RA 9136, the following deferred costs/(refund), recovery period, and proposed DAA charges for the current DAA be approved:

	LUZON	VISAYAS	MINDANAO
Total DAA For Recovery	3,235,456,012	202,920,421	245,028,990
Total DAA Charge	0.5608	0.1506	0.1130
Proposed Recovery Period	3 Months	3 Months	3 Months

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, 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 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 25th day of January 2010 at Pasig City.

ATTY. NOEL J. SALVANERA
Director III, Legal Service