

Republic of the Philippines
ENERGY REGULATORY COMMISSION
Pacific Center Building, San Miguel Avenue
Ortigas Center, Pasig City

PETITION FOR THE
AVAILMENT OF THE
NATIONAL POWER
CORPORATION'S STRANDED
CONTRACT COSTS PORTION
OF THE UNIVERSAL CHARGE
FOR CALENDAR YEAR 2013 AND
TRUE-UP ADJUSTMENTS FOR
THE NATIONAL POWER
CORPORATION'S STRANDED
CONTRACT COSTS PORTION
OF THE UNIVERSAL CHARGE
FOR CALENDAR YEARS 2007 -
2010

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ERC CASE NO. 2014- 111 PC

POWER SECTOR ASSETS AND
LIABILITIES MANAGEMENT
CORPORATION (PSALM)

Petitioner.

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PETITION

Petitioner POWER SECTOR ASSETS AND LIABILITIES
MANAGEMENT CORPORATION (hereinafter, "PSALM"), by
counsel, respectfully states:

I.
NATURE OF THE PETITION

1. This is a Petition for the availment from the Universal
Charge (hereinafter, "UC") of National Power Corporation's
(hereinafter, "NPC") Stranded Contract Costs (hereinafter, "SCC")

for calendar year 2013 and True Up Adjustments for NPC's SCC Portion of the UC (hereinafter, "UC-SCC") for calendar years 2007 to 2010 pursuant to R. A. No. 9136 or the "Electric Power Industry Reform Act of 2001" (hereinafter, "EPIRA"), its Implementing Rules and Regulations (hereinafter, "EPIRA-IRR") and the Amended Rules for Recovery of NPC Stranded Contract Costs and Stranded Debts Portion of the Universal Charge (hereinafter, "Amended Rules for Recovery") as adopted by Energy Regulatory Commission (hereinafter, "ERC") Resolution No. 02-2011 dated 7 February 2011.

2. Under Article II of the Amended Rules for Recovery, true up adjustments of the UC for NPC SCC and Stranded Debts (hereinafter, "SD") for subsequent years¹ shall be submitted to the Honorable Commission on or before the 15th of March every year thereafter. True up adjustments shall be done on an annual basis to be initiated by Petitioner through submission of the Variance Analysis Report (hereinafter, "VAR")² certified by an Independent Third Party auditor on or before the 15th day of March of every year³.

3. Under Article IV, Section 9 of the Amended Rules for Recovery, PSALM shall file the petition for availment from the UC for NPC's SCC in accordance with Section 4 (e), Rule 3 of the IRR and the Honorable Commission's Rules of Practice and Procedure.

II. TIMELINESS OF THE PETITION

4. In a letter dated 18 February 2014, Petitioner requested for an extension of the deadline to file the True-up Adjustment of the UC-SCC from 15 March 2014 to 31 July 2014, on the ground that the 15 March original deadline is no longer feasible considering that the CY 2013 certified financial statements of PSALM which serve as the bases in calculating the VAR will only be available by 31 March 2014. Furthermore, Petitioner stated that the Commission on Audit (hereinafter, "COA") still needed to verify and validate the VAR before they can issue a certification, which certification is required to be submitted to the Honorable Commission to support the true-up calculation. In a letter dated 10 March 2014, the Honorable Commission granted Petitioner's request and directed it to file the True-up Adjustment for UC-SCC petition on or before 31 July 2014,

¹ Article II, Amended Rules for Recovery

² Article VIII, Amended Rules for Recovery

³ Article VIII, Section 1, Amended Rules for Recovery

without further extension. Copies of the said letter request for extension and the approval of the Honorable Commission are attached hereto and made integral parts hereof as **Annexes "A"** and **"B"**, respectively.

5. Hence, the instant Petition is timely filed.

III. PETITIONER

6. Petitioner is a government-owned and controlled corporation created by virtue of the EPIRA, with principal office address at 7/F Bankmer Building, 6756 Ayala Avenue, Makati City. It may be served with notices, orders, and other processes of the Honorable Commission through the undersigned counsel with office address at the Power Sector Assets and Liabilities Management Corporation, 7th Floor, Bankmer Building, 6756 Ayala Avenue, Makati City.

7. The principal mandate of Petitioner is to manage the orderly sale, disposition, and privatization of NPC generation assets, real estate and other disposable assets, and IPP contracts with the objective of liquidating all NPC financial obligations and stranded contract costs in an optimal manner⁴. To attain its objectives, Petitioner shall, among others, [i] calculate the amount of the stranded debts and stranded contract costs of NPC which shall form the basis for ERC in the determination of the universal charge and [ii] liquidate the NPC stranded contract costs, utilizing the proceeds from sales and other property contributed to it, including the proceeds from the universal charge⁵.

IV. NPC'S STRANDED CONTRACT COSTS

8. Stranded Contract Costs of NPC refer to the "excess of the contracted cost of electricity under eligible contracts over the actual selling price of the contracted energy output of such contracts in the market". Market as defined in the Amended Rules for Recovery refers to the "Wholesale Electricity Spot Market (WESM) where electricity traded includes, but is not limited to, Spot Sales, Transition

⁴ Sec. 50, EPIRA

⁵ Sec. 51, EPIRA

Supply Contracts (TSCs), Bilateral Contracts, One Day Power Sale (ODPS), Default Wholesale Supplier (DWS) service, and Ancillary Services”⁶. To be eligible for recovery under the Universal Charge, such contracts shall have been approved by the Energy Regulatory Board (hereinafter, “ERB”) as of 31 December 2000⁷.

9. For purposes of the UC-SCC calculation, Independent Power Producer (hereinafter, “IPP”) Contracts of NPC eligible for recovery under the UC-SCC (hereinafter, “Eligible IPP Contracts”) shall refer to “generation capacities developed under the Build-Operate-Transfer scheme and any such generation asset whose construction was not financed by NPC but whose output is bought by NPC under Purchase Power Agreements (PPAs), Energy Conversion Agreements (ECAs) or any other similar contractual relationship. The IPP Contracts shall also include Rehabilitate Operate Lease (ROL) and Rehabilitate Operate Maintain types of IPP Contracts”⁸. In accordance with Section 32 of the EPIRA, only contracts duly approved by the ERB as of 31 December 2000 shall be entitled for recovery through the UC-SCC.

10. On 26 December 2010, the commercial operation of the WESM in the Visayas Grid and its integration with the Luzon Grid commenced⁹.

11. Based on the above definition and for the purpose of this filing, the following are the Eligible IPP Contracts, which are eligible for recovery under UC-SCC:

- a. Benguet Mini-Hydros (Ampohaw and Bakun);
- b. Pagbilao I & II;
- c. Sual I & II; and
- d. Unified Leyte (Leyte A and B)

12. The annual UC-SCC shall be computed as the difference between the Gross Annual Contract Costs (hereinafter, “GACC”) and combined amounts derived from the Revenues from the Sale of Contracted Energy of Eligible IPP Contracts (hereinafter, “RSCE”) and the Privatization proceeds of the Eligible IPP Contracts (hereinafter, “PP”)¹⁰.

⁶ Article I, Section 2, *ibid.*

⁷ Sec. 4 [uu] and Sec. 32, EPIRA

⁸ Article III, Amended Rules for Recovery

⁹ DOE Department Circular No. 2010-11-0012

¹⁰ Article IV, Section 6 in relation to Sections 4 and 5, *ibid.*

IV - A. GROSS ANNUAL CONTRACT COSTS

13. For purposes of this filing, the GACC is composed of capacity fees, fixed operating and maintenance fee (FOM)-other power supply (OPS), other OPEX, variable fees - OPS when purchased power cost varies with volume of energy, and energy purchased from the WESM.

14. For CY 2013, the GACC amounted to a total of PhP 30,895.23 Million with details as follows:

GACC Components (in PhP)	Benguet Mini-Hydros	Unified Leyte	Pagbilao	Sual	TOTAL
Capacity Fees	-	-	8,138,882,353.76	8,037,982,653.82	16,176,865,007.58
Fixed O&M- Other Power Supply	-	9,753,657,816.12	1,414,172,017.52	1,400,417,048.15	12,568,246,881.79
Other OPEX - Plant	1,775,840.68	74,772,831.42	73,530,069.08	137,315,452.17	287,394,193.35
Sub-Total: Fixed Fees	1,775,840.68	9,828,430,647.54	9,626,584,440.36	9,575,715,154.14	29,032,506,082.72
Variable - Other Power Supply	648,568,201.49	-	587,080,876.03	559,917,366.74	1,795,566,444.26
Energy Purchased from PEMC (to meet TSC)	11,860,418.53	54,655,253.50	-	-	66,515,672.03
Energy Purchased from PEMC (Station Use)	16,504.86	623,928.72	-	-	640,433.58
Sub-Total: Variable Fees	660,445,124.87	55,279,182.23	587,080,876.03	559,917,366.74	1,862,722,549.87
TOTAL GACC	662,220,965.55	9,883,709,829.77	10,213,665,316.39	10,135,632,520.88	30,895,228,632.59

Table 1. Gross Annual Contract Costs

15. It should be noted that cost of energy purchased from PEMC does not include the downward adjustment for November and December 2013 issued by the Philippine Electricity Marketing Corporation (PEMC) in 2014 as a result of market suspension during the Malampaya natural gas pipeline shutdown, which was directed by the Honorable Commission in its Order dated 3 March 2014 in ERC Case No. 2014-021 MC titled *"In the Matter of the Prices in the (Wholesale Electricity Spot Market (WESM) for the Supply Months of November and December 2013 and the Exercise by the Commission of its Regulatory Powers to Intervene and Direct the Imposition of Regulated Prices therein without prejudice to the Ongoing Investigation on the Allegation of Anti-Competitive Behavior and Possible Abuse of Market Power by some WESM Participants"*.

16. For Benguet Mini-Hydros and Unified Leyte, components of GACC were lifted from the Results of Operation of Eligible IPPs (ROO). Attached hereto and made an integral part hereof as **Annex**

"C" is the ROO for CY 2013. For eligible IPP plants under IPP Administrators (hereinafter, "IPPA") namely Sual and Pagbilao, components of GACC were sourced from the monthly IPP payment vouchers and Schedule of Other OPEX of Plants under IPPA. Copies of the said Schedule of GACC of Sual and Pagbilao, and Other Operating Expenses of Plants under IPPA are attached hereto and made integral parts hereof as Annexes "D" and "E", respectively.

IV- B.
**REVENUES FROM THE SALE OF CONTRACTED ENERGY
 OF ELIGIBLE IPP CONTRACTS**

17. For purposes of this filing, the RSCE refers to the following sources of revenue: (i) Sales in WESM, including net settlement surplus (NSS); and (ii) Sales under Transition Supply Contracts (TSC), including adjustments namely purchased power cost adjustments (PPCA) and foreign-exchange related cost adjustments (FxA), and penalties imposed to customers which drew power in excess of contracted level of energy.

18. For CY 2013, the RSCE amounted to a total of PhP12,939.05 Million with details as follows:

RSCE Components (in PhP)	Benguet Mini-Hydros	Unified Leyte	TOTAL
Sales in WESM	61,851,590.38	3,526,666,071.62	3,588,517,662.00
Sales in TSC	179,517,373.61	9,171,009,968.93	9,350,527,342.55
TOTAL RSCE	241,368,963.99	12,697,676,040.55	12,939,045,004.55

Table 2. Revenues from the Sale of Contracted Energy

19. It should be noted that revenues generated by sales in WESM of Benguet Mini-Hydros and Unified Leyte, particularly for the months of November and December 2013, were based on the original WESM billings, which do not reflect the downward adjustment pursuant to the Order of this Honorable Commission dated 3 March 2014 in ERC Case No. 2014-021 MC mentioned above. In the event the adjusted WESM bills for November and December 2013 issued by PEMC are used as bases, revenues from sales in the WESM for Benguet Mini-Hydros and Unified Leyte will decrease by PhP29,087,896.54.

20. Components of RSCE were lifted from the Net Utility Revenue portion of the ROO. RSCE excludes Power Act Reduction

(PAR) and Prompt Payment Discount (PPD) adjustment which have been disallowed for recovery by the Honorable Commission in its Decision dated 28 January 2013 in ERC Case No. 2011-091 RC. FxA was based on Total FxA Revenue and allocated per plant based on TSC energy sales. Copies of the Schedule of FxA Adjustment for the period 2013 and Schedule of FxA Adjustment for Eligible IPP Contracts are attached hereto and made integral parts hereof as Annexes "F" and "G", respectively.

IV - C. PROCEEDS FROM PRIVATIZATION OF ELIGIBLE IPP CONTRACTS

21. For CY 2013, PP amounted to a total of PhP 13,877.94 Million. Included under PP are cash inflows arising from an Assumption of Obligation scheme of the eligible IPP contracts namely monthly payments and generation payments of Pagbilao and Sual IPP Administrators, as follows:

Privatization Proceeds Components (in PhP)	Pagbilao	Sual	Total
Monthly Payments of IPP Administrator	6,092,355,338.39	6,640,311,798.25	12,732,667,136.64
Generation Payments	586,423,702.43	558,847,761.55	1,145,271,463.98
TOTAL PP	6,678,779,040.82	7,199,159,559.80	13,877,938,600.62

Table 3. Privatization Proceeds

22. Copies of the Collection of IPPAA Monthly Payments, Summary of IPPA Billings - Energy Fee, and Summary of IPPA Billings - Generation Payment (PhP Equivalent) are attached hereto and made integral parts hereof as Annexes "H", "I" and "J", respectively.

V. NPC's STRANDED CONTRACT COSTS

23. Based on the foregoing calculations, the SCC for CY 2013 amounts to PhP 4,078.24 Million computed as the difference between the GACC, on one hand, and the combined amounts derived from the RSCE and PP on the other, with details as follows:

2013 UC-SCC (in PhP)	Benguet Mini-Hydros	Unified Leyte	Pagbilao	Sual	TOTAL
GACC	662,220,965.55	9,883,709,829.77	10,213,665,316.39	10,135,632,520.88	30,895,228,632.59
Less: RSCE	241,368,963.99	12,697,676,040.55	-	-	12,939,045,004.55
Less: PP	-	-	6,678,779,040.82	7,199,159,559.80	13,877,938,600.62
SCC	420,852,001.56	(2,813,966,210.78)	3,534,886,275.57	2,936,472,961.08	4,078,245,027.43

Table 4. Details of Stranded Contract Cost

24. Consistent with the Honorable Commission's Decision in ERC Case No. 2011-091 RC mentioned above, wherein the Honorable Commission used four (4) years' forecast of electricity sales based on the Department of Energy's (DOE) Power Development Plan (PDP) in determining the four (4) year 2007-2010 UC-SCC rate, the UC-SCC rate for CY 2013 is derived by dividing the calculated CY 2013 SCC by one (1) year Electricity Sales Forecast for CY 2015 based on the PDP (2014-2030). The calculated SCC rate is PhP 0.0531/kWh with details as follows:

UC-SCC For CY 2013 (in PhP)	Forecasted Energy Sales (GWh)	UC-SCC Rate (PhP/kWh)
4,078,245,027.43	76,855	0.0531

Table 5. Stranded Contract Costs

A copy of the Electricity Sales Forecast, PDP (2014-2030) as sourced from the DOE is attached hereto and made an integral part hereof as Annex "K-Energy Sales".

VI. UNDER-RECOVERY OF UC-SCC FOR CYs 2007-2010

25. Under Article VIII, Section 2 of the Amended Rules for Recovery, the VAR to be submitted by the Petitioner to the Honorable Commission for the SCC recovery shall contain, at the minimum, the following:

- a. The Variance analysis that would show a positive or negative Quantity Variance (QV), which refers to the difference between the energy sales used in determining the ERC-approved level of NPC SCC in PhP/kWh (billing determinant) and the actual energy (kWh) sales to end-users; and

- b. The over or under recovery for the stranded contract costs which shall be calculated by multiplying the QV by the PhP/kWh SCC approved by the ERC.

26. In the Honorable Commission's Decision dated 28 January 2013 in ERC Case No. 2011-091 RC covering CYs 2007-2010 UC-SCC, Petitioner was authorized to recover the Total SCC amounting to PhP 53.851 Billion translated to PhP0.1938/kWh for the Luzon, Visayas, and Mindanao Grids, to be collected from the consumers starting March 2013 billing period.

27. In its Petition for UC-SCC True-up Adjustments for CYs 2011 and 2012 docketed as ERC Case No. 2013-160 RC, Petitioner reported that the total remittance made by collecting entities of the UC to Petitioner pertaining to the PhP0.1938/kWh ERC-approved UC-SCC amounted to PhP1,859,256,657.29 out of the PhP 53,851,000,000.00 approved CYs 2007-2010 SCC, covering the period 1 April to 17 June 2013. This resulted to a Quantity Variance of 9,593.90 GWh and translated to an under-recovery of PhP51,991,743,342.71. This was reported in the VAR for the UC-SCC for CYs 2007-2010, certified by the Commission on Audit (COA), the Third Party auditor, and submitted to the Honorable Commission to support the true-up application.

28. From 18 June 2013 to 31 December 2013, total remittance made by collecting entities of the UC to Petitioner pertaining to the UC-SCC amounted to PhP 5,909,546,643.07 equivalent to 30,493.02 GWh energy sales.

29. Taking off from the QV and corresponding SCC recovery as of 17 June 2013, the under-recovery for the CYs 2007-2010 SCC as of 31 December 2013 is PhP 46,082,196,699.64, calculated by multiplying the quantity variance of 237,788.08 GWh (rounded off) by the PhP0.1938/kWh SCC rate approved by the ERC, details of which are shown below:

Particulars	Quantity (GWh)	Amount (in PhP)
Billing determinant and Level of Stranded Contract Cost pursuant to the ERC Decision ¹	277,875.00	53,851,000,000.00
Less: Energy Sales Billed/Remitted covering 1 April to 17 June 2013 Remittance Period ² (PhP1,859,256,657.29/PhP0.1938/kWh)	9,593.90	1,859,256,657.29
Quantity Variance and corresponding Under Recovery as of 17 June 2013 ²	268,281.10	51,991,743,342.71

Less: Energy Sales Billed/Remitted covering 18 June to 31 December 2013 Remittance Period (PhP5,909,546,643.07/ PhP0.1938/kWh)	30,493.02	5,909,546,643.07
Quantity Variance/Under Recovery	237,788.08	46,082,196,699.64

Table 6. Quantity Variance and Under Recovery as of 31 December 2013
(CYs 2007-2010 UC-SCC)

^{1/} ERC Decision on Case No. 2011-091 RC dated 28 January 2013

^{2/} As certified by COA in its Independent Auditor's Report dated 29 July 2013

^{3/} Per PSALM's UCAD Remittance Report

A copy of the Variance Analysis Report for the UC-SCC for CYs 2007-2010 as of 31 December 2013, certified by the Commission on Audit, the Third Party Auditor, is attached hereto and made an integral part hereof as **Annex "L-VAR"**.

31. In compliance with Section 4(e) of Rule 3 of the EPIRA-IRR and ERC Resolution No. 38-2006, a copy of the instant Petition (including Annexes) was furnished the Sangguniang Panlungsod of Makati City. A copy of the Certification of Posting/Affidavit of Service is attached hereto and made an integral part hereof as **Annex "M"**. The Petition (excluding Annexes) was also published in a newspaper of general circulation. A copy of the Affidavit of Publication is attached hereto and made an integral part hereof as **Annex "N"**.

VII. ALLEGATIONS IN SUPPORT OF THE ISSUANCE OF PROVISIONAL AUTHORITY

32. The instant petition covers the SCC for CY 2013. The amount, if collected, would enable Petitioner to recover SCC, which was funded through loans/borrowings, and to service these maturing loan obligations. Provisional approval of this SCC will also keep Petitioner from resorting to refinancing to service its maturing loan obligations, thus reducing, if not totally eliminating, additional borrowing costs.

33. Pursuant to the Honorable Commission's Rules of Practice and Procedure, the Honorable Commission may exercise its discretion by granting provisional authority or interim relief prior to a final decision.

34. It is understood that the interim relief sought by Petitioner, that may be granted by the Commission, shall be subject to

adjustments and other conditions that the Commission may impose after hearing and final determination of the Honorable Commission.

PRAYER

WHEREFORE, premises considered, Petitioner respectfully prays, after due notice and hearing, for the APPROVAL of the following:

1. The calculated UC-SCC for the calendar year 2013 amounts to PhP 4,078,245,027.43, which is equivalent to Php 0.0531/ kWh covering a one-year recovery period.
2. Provisional Authority allowing Petitioner to charge and collect the computed UC-SCC or such amount determined by the Honorable Commission.

Other reliefs just and equitable are likewise prayed for.

Makati City for Pasig City, 25 July 2014.



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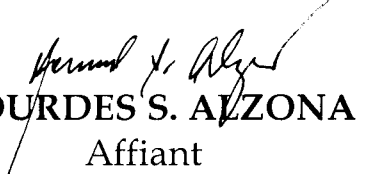
(Republic of the Philippines)
(Makati City) s.s.

VERIFICATION AND CERTIFICATION

I, **LOURDES S. ALZONA**, of legal age, married, with office address at the Power Sector Assets and Liabilities Management Corporation (**PSALM**), 4th Floor, Bankmer Building, 6756 Ayala Avenue, Makati City, after having been duly sworn to in accordance with law, do hereby depose and state for myself and for PSALM, that:

- (1) I am the Vice President, Finance Group of the Power Sector Assets and Liabilities Management Corporation (**PSALM**) and the duly authorized representative of the President and CEO of PSALM, with authority to commence, initiate and file the foregoing Petition pursuant to PSALM Board Resolution No. 2014-0715-01 dated 15 July 2014.
- (2) I have read the Petition and the allegations therein are true and correct based on my personal knowledge or the authentic records available to PSALM;
- (3) I or PSALM have not commenced any other action or proceeding involving the same issues in the Supreme Court, the Court of Appeals or any court, tribunal, or quasi-judicial agency and, to the best of my knowledge, no such other action or claim is pending therein; and
- (4) If I or PSALM should hereinafter learn that the same or a similar action or claim has been filed or is pending in the Supreme Court, the Court of Appeals or any court, tribunal, or quasi-judicial agency, I shall report the said fact within five (5) days from discovery thereof to the Honorable Commission.

JUL 25 2014
___ July 2014, Makati City, Philippines.


LOURDES S. ALZONA
Affiant

JUL 25 2014

SUBSCRIBED and SWORN TO before me this ___ day of July 2014, with affiant **LOURDES S. ALZONA** presenting to me her GSIS ID No. CRN-006-0098-8982-8 issued at Pasay City, known to me and to me known to be the same person who executed the foregoing Verification and Certification.

Doc. No. 79 ;
Page No. 17 ;
Book No. I ;
Series of 2014.

Maria Concepcion B. Mendoza
MARIA CONCEPCION B. MENDOZA
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