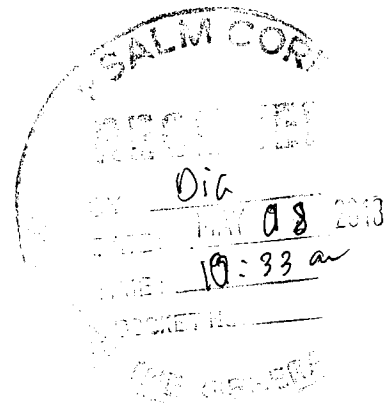


Republic of the Philippines  
**ENERGY REGULATORY COMMISSION**  
San Miguel Avenue, Pasig City

**PETITION FOR TRUE-UP  
ADJUSTMENT OF THE  
NATIONAL POWER  
CORPORATION'S  
STRANDED DEBTS  
PORTION OF THE  
UNIVERSAL CHARGE FOR  
THE LUZON, VISAYAS AND  
MINDANAO GRIDS FOR  
CALENDAR YEAR 2015,  
WITH PRAYER FOR THE  
ISSUANCE OF  
PROVISIONAL AUTHORITY  
(PA)**



**ERC CASE NO. 2016-150 RC**

**POWER SECTOR ASSETS  
AND LIABILITIES  
MANAGEMENT  
CORPORATION (PSALM),  
Petitioner.**

**D O C K E T E D**  
Date: MAY 07 2016  
By: [Signature]

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**NOTICE OF PUBLIC HEARING**

**TO ALL INTERESTED PARTIES:**

Notice is hereby given that on 30 June 2016, the Power Sector Assets and Liabilities Management Corporation (PSALM) filed a *Petition* dated 28 June 2016, seeking the Commission's approval of the true-up adjustment of the National Power Corporation's (NPC) stranded debts portion of the universal charge for the Luzon, Visayas, and Mindanao grids for calendar year 2015, with prayer for the issuance of a provisional authority.

PSALM alleged the following in its *Petition*:

I.  
NATURE OF PETITION

1. This Petition for True-Up Adjustment for the National Power Corporation's (hereinafter, "NPC") Stranded Debts (hereinafter, "SD") Portion of the Universal Charge (hereinafter, "UC") for Calendar Year 2015 to be collected from all end-users of electricity, is being filed pursuant to Republic Act 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 the Energy Regulatory Commission (hereinafter, "ERC") in its Resolution No. 02-2011 dated 7 February 2011.

II.  
TIMELINESS OF PETITION

2. Article VIII of said Amended Rules for Recovery provides that true-up adjustment shall be done on an annual basis to be initiated by PSALM through submission to the ERC on or before the 15<sup>th</sup> day of March of every year of a detailed Variance Analysis Report (hereinafter, "VAR") certified by an Independent Third Party Auditor as well as the relevant documents to support true-up adjustments as part of the VAR. The VAR shall be the basis by which the Honorable Commission will approve inclusion of any under recovery in the current year's level of NPC Stranded Debts availment of the UC or mandate a reimbursement due to over recovery by way of a reduction in the current year's level of NPC Stranded Debts Portion of the UC.

3. In a letter dated 26 February 2016, PSALM requested the Honorable Commission for an extension of the deadline to file, among others, the True-up Adjustment of the NPC SD Portion of the UC for Calendar Year (CY) 2015, from 15 March 2016 to 31 May 2016. The extension is necessary for the following reasons: (a) to provide time in processing the data contained in the certified financial statements approved by the PSALM Board last February 2016; (b) to properly identify and classify the components which are eligible for recovery under the Stranded Contract Costs (hereinafter, "SCC") and SD True-up Adjustment; (c) to afford time for the Independent Third Party Auditor, which is the Commission on Audit (hereinafter, "COA") to verify and validate the VAR before it issues the relevant Certifications; (d) to secure requisite approvals from the PSALM Board; and (e) to ensure compliance with the Amended Rules for Recovery and other relevant rules and regulations, prior to the filing of the UC petitions before the Honorable Commission.

4. In a letter-reply dated 02 March 2016, the Honorable Commission granted PSALM's request to extend the deadline, among others, to file the True-up Adjustment of the NPC SD Portion of the UC for CY 2015, from 15 March 2016 to 31 May 2016.

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Attached as Annexes "A" and "B" are PSALM's letter dated 26 February 2016 and the Honorable Commission's letter-reply dated 02 March 2016.

5. In a letter dated 02 May 2016, PSALM requested the Honorable Commission for another extension of the deadline to file the True-up Adjustment of the NPC SD Portion of the UC for CY 2015 until 30 June 2016 in view of the advice by the COA, its Independent Third Party Auditor, that the required VAR covering the UC-SD may not be issued on or before 31 May 2016 as it coincides with their timeline on the preparation of COA Annual Audit Report on PSALM and conduct of the exit conference with its officials.

6. In a letter reply dated 01 June 2016, the Honorable Commission granted PSALM's second request for extension and directed it to file the True-Up Adjustments on the NPC's SD Portion of the UC for CY 2015 until 30 June 2016.

Attached as Annexes "C" and "D", is a copy of PSALM's letter dated 02 May 2016 and the Honorable Commission's letter-reply dated 01 June 2016.

7. Hence, this Petition for True-Up Adjustment is filed on time.

### **III. PETITIONER**

8. Petitioner PSALM 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.

9. The principal mandate of PSALM 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 manner (Sec. 50, EPIRA). To attain its objectives, PSALM 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** (emphasis supplied) 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 charge (Sec. 51, EPIRA).

10. It is PSALM's responsibility to calculate the amount of the Stranded Debts of NPC that can be recovered through the UC, subject to the review and approval by the Honorable Commission.<sup>1</sup> The recovery of NPC SD through the UC shall be uniform to all the end-users.<sup>2</sup>

11. PSALM is likewise responsible for initiating true-up adjustments through the submission of the VAR certified by an

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<sup>1</sup> Article V, Amended Rules for Recovery

<sup>2</sup> Section 1, Article V, Amended Rules for Recovery

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Independent Third Party Auditor as well as the calculation and collation of supporting documents for UC-SD<sup>3</sup>.

**IV.**  
**ANTECEDENTS**

12. On 07 February 2011, this Honorable Commission approved and adopted ERC Resolution No. 2, Series of 2011 entitled "Amended Rules for the Recovery of NPC Stranded Contract Costs and Stranded Debts Portion of the Universal Charge" which, among others, established the procedure and manner in which PSALM shall file its petitions for availment from the UC with respect to NPC SCC and SD recovery, and defined the parameters in calculating said SCC and SD.

13. On 28 January 2013, the Honorable Commission rendered its decision on ERC Case No. 2011-092 RC (hereinafter, "**ERC Decision**"), disapproving the petition of PSALM for the recovery of NPC's SD portion of the UC and setting the recoverable SD to zero (o) "*since the allowable SD for CY 2011 can be fully covered and paid from the proceeds of NPC's operation. This is without prejudice to the filing of annual true-up adjustments for the recovery of succeeding SD.*"

14. On 30 September 2013, PSALM filed the Petition for True-up Adjustments of the NPC's SD Portion of the UC for CYs 2011 and 2012 docketed under ERC Case No. 2013-195 RC, with Prayer for the Issuance of Provisional Authority. In the said Petition, PSALM sought this Honorable Commission's approval for the collection of the UC-SD for the years 2011 and 2012 amounting to an aggregate of PhP41,138.89 Million over a 12.5-year period, which translates to a UC-SD charge of PhPo.0382/kWh. The detailed VAR for this UC-SD True-up Adjustment, duly audited by the COA in its Independent Auditor's Report dated 27 September 2013, was submitted to support PSALM's True-up Adjustment Application.

15. This Honorable Commission conducted hearings on PSALM's CYs 2011 and 2012 UC-SD True-up Adjustment application starting 19 March 2014 which were concluded on 20 May 2014. PSALM thereafter filed its Formal Offer of Evidence (FOE) on 25 July 2014 and submitted the case for resolution.

16. On 31 July 2014, PSALM submitted to the ERC, as its compliance with the Amended Rules for Recovery, the UC-SD True-up Adjustment for CY 2013 amounting to negative PhP49,590.95 Million. The detailed VAR for the True-up Adjustment, duly audited by the COA in its Independent Auditor's Report dated 25 July 2014, was submitted to support PSALM's compliance with the True-up Adjustment.

17. On 30 July 2015, PSALM filed the Petition for True-up Adjustments of the NPC's SD Portion of the UC for CY 2014 docketed under ERC Case No. 2015-144 RC, with Prayer for the Issuance of Provisional Authority. In the said Petition, PSALM

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<sup>3</sup> Article VIII, Amended Rules for Recovery

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sought this Honorable Commission's approval for the collection of the UC-SD for the year 2014 amounting to an aggregate of PhP1,352.22 Million over a 10.5-year period, which translates to a UC-SD charge of PhP0.0013/kWh. The detailed VAR for this UC-SD True-up Adjustment, duly audited by the COA in its Independent Auditor's Report dated 24 July 2015, was submitted to support PSALM's True-up Adjustment Application. The said petition is still pending before this Honorable Commission.

18. In a letter dated 26 February 2016, PSALM requested the Honorable Commission for an extension of the deadline to file, among others, the True-up Adjustment of the NPC SD Portion of the UC for CY 2015, from 15 March 2016 to 31 May 2016.

19. In a letter-reply dated 02 March 2016, the Honorable Commission granted PSALM's request to extend the deadline, among others, to file the True-up Adjustment of the NPC SD Portion of the UC for CY 2015, from 15 March 2016 to 31 May 2016.

20. In a letter dated 02 May 2016, PSALM requested the Honorable Commission for another extension of the deadline to file the True-up Adjustment of the NPC SD Portion of the UC for CY 2015 until 30 June 2016. The request was made in view of the advice by the COA that the required VAR covering the UC-SD may not be issued on or before 31 May 2016 as it coincides with their timeline on the preparation of COA Annual Audit Report on PSALM and conduct of the exit conference with its officials.

21. In a letter reply dated 01 June 2016, the Honorable Commission granted PSALM's second request for extension and directed it to file the True-Up Adjustments on the NPC's SD Portion of the UC for CY 2015 until 30 June 2016.

**V.**  
**VARIANCE ANALYSIS REPORT TO SUPPORT**  
**THE UC-SD TRUE-UP ADJUSTMENT**

22. Stranded Debts of NPC refer to *"any unpaid financial obligations which have not been liquidated by the proceeds from the sales and privatization of NPC assets"*.

23. Under Section 3, Article VIII of the Amended Rules for Recovery, the VAR to be submitted by PSALM to the Honorable Commission shall contain, at the minimum, the following:

- a. Quantity Variance (hereinafter, "**QV**"), which refers to the difference between the billing determinant used pursuant to the ERC Decision and the Actual kWh sales to end-users;
- b. Cost Variance (hereinafter, "**CV**"), which refers to the difference in the estimated costs considered in establishing the approved level of stranded debts and actual costs incurred covering Gross Debt Service,

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Privatization Proceeds, and Projected Net Cash Flow from NPC Main Grid Operations; and

- c. The over/under recovery for the stranded debts shall be equivalent to the sum of CV and QV translated in absolute peso amount (QV multiplied by the PhP/kWh stranded debt approved by the Honorable Commission).

**VI.**  
**FINANCIAL OBLIGATIONS SERVICED IN CY 2015**

24. PSALM's total financial obligations serviced/paid in CY 2015 consist of i) debt maturities of NPC, NPC-Small Power Utilities Group (hereinafter, "**NPC-SPUG**"), PSALM, and the National Transmission Corporation (hereinafter, "**TransCo**") due for the said year including debt prepayment implemented in CY 2015 (prepayment of debts and buyback of PSALM bonds in advance of maturity); and ii) BOT lease obligations pertaining to eligible (for SCC calculation purposes) and ineligible Independent Power Producer (IPP) contracts (relevant in calculating SD) due for the said year.

25. For CY 2015, total debts and BOT lease obligations serviced are summarized in the table below:

<b>TOTAL FINANCIAL OBLIGATIONS</b>	<b>AMOUNT (In PhP)</b>
i) NPC's outstanding financial obligations as of effectivity of EPIRA	38,153,917,445.88
- Debts	11,797,042,895.01
- Lease Obligation of all IPPs	26,356,874,550.87
ii) New loans contracted by NPC after the effectivity of EPIRA	5,593,560,276.82
iii) Loans incurred by PSALM in behalf of NPC	37,616,974,530.96
<b>Total Financial Obligations Serviced/Paid for CY 2015</b>	<b>81,364,452,253.66</b>

**Table 1: Summary of Financial Obligations Serviced in CY 2015**

Attached hereto are the schedules of Financial Obligations Serviced in CY 2015 consisting of Actual Debt Service for CY 2015 and Lease Obligations as of 31 December 2015 as Annexes "E" and "F", respectively.

**VII.**  
**GROSS DEBT SERVICE (GDS)**

**Recoverable Financial Obligations**

26. Pursuant to Section 2, Article V of the Amended Rules for Recovery, the financial obligations that shall be included as part of the GDS for purposes of the SD true-up calculations are as follows:

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- i) NPC's outstanding financial obligations as of the effectivity of the Electric Power Industry Reform Act of 2001 (EPIRA);
- ii) New loans contracted by NPC after the effectivity of the EPIRA;
- iii) Loans incurred by PSALM in behalf of the NPC; and
- iv) Loans contracted by TRANSCO prior to its privatization.

27. On the other hand, the financial obligations that shall be excluded for purposes of the SD true-up calculations are as follows:

- i) Capacity fees and debt service related to eligible IPP contracts;
- ii) All other loans incurred by PSALM; and
- iii) All loans pertaining to NPC-SPUG.

28. Consistent with the ERC Decision on the recovery of UC-SD, Capacity Fees/Lease Obligations of IPP contracts not eligible for recovery under SCC (Lease obligations of ineligible IPPs) shall be included as part of GDS under NPC's outstanding financial obligations as of the effectivity of the EPIRA.

#### **Allowable GDS**

29. Out of the total financial obligations serviced by PSALM, the SD share in debt service or the allowable GDS was calculated by applying to each component of debt service (principal repayment, interest, guarantee fee, and other charges) the percentage share utilization of SD in the loan proceeds. The percentage share utilization of SD is based on the extent of loan proceeds that was utilized for generation/ transmission/other power assets and ineligible IPPs which are all eligible for recovery under SD (hereinafter, "**SD Percentage**"). In case the proceeds of a particular loan have not yet been fully utilized, the SD Percentage may vary year-on-year and will only be fixed once the loan proceeds have been fully utilized. This will apply particularly to loans incurred by PSALM in behalf of NPC in which the proceeds have not yet been fully utilized.

30. The allowable GDS also includes the capacity fees/lease obligations for ineligible IPP contracts namely San Roque, Bakun, Ilijan, Kalayaan 3 and 4, and Mindanao Coal/STEAG. In other words, allowable GDS excludes capacity fees/lease obligations of IPP contracts for Sual and Pagbilao Coal plants which are eligible for recovery under SCC.

31. Out of the PhP81,364.45 Million total financial obligations serviced in CY 2015, actual Allowable GDS amounts to PhP54,312.68 Million, as shown below:

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<b>GROSS DEBT SERVICE</b>	<b>AMOUNT (In PhP)</b>
i) NPC's outstanding financial obligations as of effectivity of EPIRA	22,460,145,651.00
- Debts	11,780,220,672.61
- Lease Obligation of non-eligible IPPs	10,679,924,978.39
ii) New loans contracted by NPC after effectivity of EPIRA	4,598,384,857.90
iii) Loans incurred by PSALM in behalf of NPC	27,254,153,435.05
<b>Total GDS for CY 2015</b>	<b>54,312,683,943.95</b>

**Table 2: Summary of Actual GDS for CY 2015**

32. The total actual allowable GDS of PhP54,312.68 Million was further reduced by PhP2,351.84 Million representing principal repayment portion of Loans for Refinancing (namely LBP<sup>4</sup> 75 Billion Syndicated Term Loan, ROP<sup>5</sup> Relending Facility and ROP Relent-\$500 Million Onshore Dollar Bond) serviced in CY 2015 to avoid double recovery, considering that the proceeds therefrom were used to service the debt maturities included in the CYs 2011 and 2012 GDS.

33. Hence, the allowable GDS net of the principal repayment portion of the loans for refinancing amounts to PhP51,960.84 Million, as shown below:

<b>NET GROSS DEBT SERVICE</b>	<b>AMOUNT (in PhP)</b>
Allowable GDS	54,312,683,943.95
LESS: Principal Repayment Portion of New Loans for Refinancing	2,351,844,814.38
<b>Net GDS for CY 2015</b>	<b>51,960,839,129.57</b>

**Table 3: Summary of Net GDS for CY 2015**

The details of the Net Gross Debt Service is attached hereto as Annex "G" and the schedule of Lease Obligations of Ineligible IPP Plants as of 31 December 2015 is attached as Annex "H".

### **VIII. PRIVATIZATION PROCEEDS (PP)**

34. Consistent with the EPIRA and the UC-SD formula, the PP shall be used to reduce the allowable GDS. The actual cash inflows from privatization include the following:

- i) Proceeds from the sale of assets or equity in the privatized entities;

<sup>4</sup> Land Bank of the Philippines

<sup>5</sup> Republic of the Philippines

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**ERC CASE NO. 2016-150 RC**  
**NOTICE OF PUBLIC HEARING/16 April 2018**  
**PAGE 9 OF 18**

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- ii) Proceeds from the privatization of non-eligible IPP contracts; and
- iii) Proceeds from the concession of operations of the transmission system.

35. Guided by the considerations on PP in the ERC Decision, the detailed PP for CY 2015 is shown below:

<b>PRIVATIZATION PROCEEDS</b>	<b>AMOUNT (In PhP)</b>
Proceeds from sale of Power Barges (PB) 101, 102 and 103	420,000,000.00
IPP Administrator Monthly Payment	13,931,649,376.69
Interest on TransCo's Concession Agreement	4,605,610,254.72
<b>TOTAL PP</b>	<b>18,957,259,631.41</b>

**Table 4: Details of Privatization Proceeds for CY 2015**

36. The details of the privatization proceeds for CY 2015 are as follows:

- a. The proceeds from the sale of PBs 101, 102 and 103 amounting to PhP420 Million were remitted to PSALM in full by the winning bidder, Trans-Asia Oil and Energy Development Corporation;
- b. IPP Administrator (hereinafter, "IPPA") monthly payments amounting to PhP13,931.65 Million represents the privatization proceeds from the IPPAs of Bakun, San Roque, Ilijan and Mt. Apo as a result of PSALM's privatization of these IPP contracts. This includes the first monthly payment of FDC Misamis Power Corporation, the Mt. Apo's IPPA, in the amount of PhP128,000,888.88 paid in 22 December 2014 in accordance with the IPPA Agreement which was not included in the CY 2014 UC-SD True-up Adjustment; and
  - a. Interest on TransCo's Concession Agreement amounting to PhP4,605.61 Million representing the semi-annual interest payments made by the National Grid Corporation of the Philippines (hereinafter, "NGCP") corresponding to the interest on the balance of the concession fee under the Concession Agreement.

Attached hereto as Annex "I", is the schedule of Actual Privatization Proceeds for CY 2015.

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**IX.**  
**PROCEEDS FROM NPC OPERATIONS (PO)**

37. Consistent with the Amended Rules for Recovery and ERC Decision on the UC-SD recovery, the PO shall be used to reduce the allowable GDS. Below is the summary of the actual PO of the remaining generating assets and ineligible IPP contracts for CY 2015 that were considered in the SD true-up calculations.

<b>PROCEEDS FROM NPC OPERATIONS</b>	<b>AMOUNT (In PhP)</b>
<b>REVENUES</b>	
Net Utility Revenue (NUR)	25,541,594,690.47
Generation Payment Billings	26,249,993,826.40
Net, Other Income/(Expense)	(221,983,466.88)
<b>Total Revenues</b>	<b>51,569,605,049.99</b>
<b>COSTS</b>	
Fuel	25,031,926,210.80
Purchased Power Cost (PPC)	15,480,188,535.21
Energy Purchased from PEMC	163,450,733.58
Pumping Cost	2,771,078,940.35
Other OPEX	2,789,767,673.62
<b>Total Costs</b>	<b>46,236,412,093.56</b>
<b>NET CASH FLOW / PO</b>	<b>5,333,192,956.43</b>

**Table 5: Summary of Proceeds from NPC Operations for  
CY 2015**

The detailed PO for CY 2015 is attached hereto as Annex "J".

38. The components of the PO for CY 2015 are as follows:

a. Net Utility Revenues (hereinafter, "NUR") refer to the revenues generated from the provision by PSALM's remaining generating assets and ineligible IPP plants (ineligible plants) of energy and ancillary service to customers and the spot market, as well as from the implementation of the monthly automatic cost recovery mechanism (hereinafter, "ACRM"). These exclude revenue deduction items such as Prompt Payment Discount and Mandatory Rate Reduction<sup>6</sup>, consistent with the treatment made by this Honorable Commission when it rendered its decision on the UC SCC. These revenues were based on the Operating Results, Cash Flow or the Results of Operation (hereinafter, "ROO") for CY 2015 broken down into Ineligible and Eligible Plants, attached hereto as Annex "K".

In addition to the revenues reflected in the ROO, the revenues from monthly foreign exchange adjustments (hereinafter, "FxA") for ineligible plants recovered through the ACRM, were added to the NUR. The total FxA revenue per grid was allocated using the Transition Supply Contract

<sup>6</sup> In accordance with Decision on ERC Case No. 2011-091 RC dated 28 January 2013

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(hereinafter, “**TSC**”) energy sales of these ineligible plants as provided in the Operating Results, Cash Flow or ROO for CY 2015 Per Grid, attached hereto as Annex “**K-1**”. Also attached as Annexes “**L**” and “**M**” are the schedules of total Foreign Exchange Adjustment Recovery per Grid and Foreign Exchange Adjustment Revenue broken down into Ineligible and Eligible Plants, respectively.

b. Generation Payments represent billings made to IPP Administrators of ineligible IPP plants, namely Bakun, San Roque, Ilijan and Mt. Apo. For Ilijan’s Generation Payment, this includes Debit and Credit Memos issued on 26 February 2014 amounting to PhP828,293,545.77 and (PhP78,104,367.85), respectively. These represent adjustments in generation payments for the period 26 October to 25 December 2013 that were not considered in the CY 2014 UC-SD True-Up Adjustment. Attached as Annex “**N**” is the Summary of IPPA Billings – Generation Payments.

It is worthy to note that Generation payments of Ilijan in the amount of PhP22,181.17 Million includes unpaid amounts by South Premiere Power Corporation (hereinafter, “**SPPC**”) for the year, the Ilijan IPP Administrator, amounting to PhP818.09 Million. This is consistent with the concept applied by the ERC in its SCC decision covering ERC Case No. 2011-091 RC dated 28 January 2013 wherein the Commission is of the view that PSALM should not recover from the consumers the discounts granted by NPC to its other customers (i.e. prompt payment discount [PPD] and mandatory rate reduction [MRR] implementing Section 72 of Republic Act 9136).

c. The Net Other Income/(Expense) consisting of other income less other expenses not directly attributable to the operations of existing power plants was taken from CY 2015 ROO.

d. Costs include fuel, purchased power costs (PPC), energy purchased from Philippine Electricity Market Corporation (hereinafter, “**PEMC**”), pumping costs and other plant operating expenses (hereinafter, “**other OPEX**”). Other OPEX includes NPC’s Operation and Maintenance Agreement (hereinafter, “**OMA**”) costs, station use, share in the national wealth, Energy Regulation (ER) 1-94, real property taxes, insurance and technical and administrative expenses. For PSALM’s remaining generating assets and ineligible IPP plants, the cost components are based on the CY 2015 ROO. On the other hand, the cost components for IPP plants under IPPA, were based on the CY 2015 Schedules of Fixed and Variable Costs of Ineligible Plants under IPPA Agreement (hereinafter, “**IPPAA**”) attached hereto as Annexes “**O**” and “**P**”, respectively.

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**NPC's STRANDED DEBTS**

39. The NPC Stranded Debts shall be equivalent to the Allowable GDS net of the calculated PP and PO. The calculated Stranded Debts for CY 2015 amounts to PhP27,670.39 Million as shown below.

<b>STRANDED DEBTS</b>	<b>CY 2015 (In PhP)</b>
GDS	51,960,839,129.57
Less: PP	18,957,259,631.41
PO	5,333,192,956.43
<b>SD</b>	<b>27,670,386,541.73</b>

**Table 6: UC-SD for CY 2015**

40. The calculated SD for CY 2015 in the amount of PhP27,670.39 Million will increase by PhP818.09 Million or a resulting SD of PhP28,488.48 Million if the CY 2015 unpaid Generation Payments from SPPC, the Ilijan IPPA, is deducted from the total generation payment billings.

**XI.  
COST VARIANCE (CV)**

41. As mentioned above, Cost Variance (CV) refers to the difference in the:

- i) Estimated costs covering GDS, PP and PO considered in establishing the approved level of stranded debts; and
- ii) Actual costs covering GDS, PP and PO.

42. In arriving at the CV, the two (2) items mentioned above need to be established. Since there is no approved level of SD when this Honorable Commission set the recoverable SD to zero, it follows that the value of estimated cost shall also be zero. As such, actual costs (GDS less PP and PO) for the year 2015 will necessarily be equivalent to the CV for 2015, amounting to **PhP27,670.39 Million** as summarized below:

<b>Particulars</b>	<b>Actual (In PhP)</b>	<b>SD Approved for Recovery</b>	<b>Cost Variance (In PhP)</b>
Gross Debt Service	51,960,839,129.57	0	51,960,839,129.57
Less:			
Privatization Proceeds	18,957,259,631.41	0	18,957,259,631.41
Proceeds from Operation	5,333,192,956.43	0	5,333,192,956.43
<b>SD</b>	<b>27,670,386,541.73</b>	<b>0</b>	<b>27,670,386,541.73</b>

**Table 7: Cost Variance for CY 2015**

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**XII.**  
**QUANTITY VARIANCE (QV)**

43. Quantity Variance (QV), as stated earlier, refers to the difference between the billing determinant used pursuant to the ERC Decision and the Actual kWh sales to end-users. This will be the QV in kWh sales.

44. To determine the QV in absolute amount, QV is multiplied by the PhP/kWh SD approved by this Honorable Commission. Since the Honorable Commission set the recoverable SD in PhP/kWh to zero, QV in absolute amount will also be zero regardless of the QV in kWh sales that will be computed.

**XIII.**  
**TRUE-UP ADJUSTMENT**

45. In accordance with this Honorable Commission's Amended Rules for Recovery, the True-up Adjustment for CY 2015 representing the sum of CV and the peso value of the QV amounted to **PhP27,670.39 Million**, as shown below:

Particulars	Amount (In PhP)
Cost Variance	27,670,386,541.73
Add: Quantity Variance	0.00
<b>True-up Adjustment</b>	<b>27,670,386,541.73</b>

**Table 8: True-up Adjustment for CY 2015**

46. A copy of the CY 2015 Variance Analysis Report (VAR) to support the above True-up Adjustments, certified by the Commission on Audit, the Third Party Auditor is attached hereto as Annex "Q".

47. The equivalent rate of the CY 2015 UC-SD True-up Adjustment is **PhP 0.0283/kWh** calculated by dividing **PhP27,670,386,541.73** with the projected energy sales for January 2017 to June 2026 based on the Department of Energy's (hereinafter, "DOE") 2014-2030 Power Development Plan (hereinafter, "PDP")<sup>7</sup> with details as follows:

UC-SD True-Up Adjustment for CY 2014 (in PhP)	Energy Sales Forecast (GWh)	UC-SD Rate (PhP/kWh)
27,670,386,541.73	977,206	0.0283

**Table 9: UC-SD True-up Adjustment and Rate for CY 2015**

<sup>7</sup> Electricity Sales forecast for 2017 to June 2026 based on the DOE's PDP for 2014-2030 was used in the calculation of the UCSD rate, pending receipt of DOE's updated electricity sales forecast under the PDP for 2015-2030. The updated PDP was received after the preparation and presentation to the PSALM Board.

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**ERC CASE NO. 2016-150 RC**  
**NOTICE OF PUBLIC HEARING/16 April 2018**  
**PAGE 14 OF 18**

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A copy of the Electricity Sales Forecast, PDP (2014-2030) as sourced from the DOE is hereto attached as Annex "R".

A copy of the updated Electricity Sales Forecast, PDP (2015-2030) provided by the DOE on 20 June 2016 is likewise attached as Annex "R-1".

**XIV.**  
**ACTUAL OUTSTANDING DEBT SERVICE**  
**AS OF 31 DECEMBER 2015**

48. Pursuant to Section 3, Article V of the ERC Amended Rules for Recovery, PSALM shall include in the petition for cost recovery under the UC for Stranded Debts, the actual outstanding Debt Service as of the current year to account for any adjustment on the Debt Service for reasons, such as, but not limited to, PSALM's refinancing of existing debts. Such recalculated Debt Service shall be used in the true-up computation as provided under Article VIII of the Amended Rules for Recovery.

49. Shown below is the actual outstanding GDS as of 31 December 2015 as compared with the outstanding GDS (i) as of 31 December 2010 considered in the ERC Decision, (ii) as of 31 December 2011 and 2012 as reported in PSALM's petition under ERC Case No. 2013-195 RC, (iii) as of 31 December 2013 as submitted in PSALM's compliance to this Honorable Commission dated 30 July 2014, (iv) as of 31 December 2014 as reported in PSALM's petition under ERC Case No. 2015-144 RC, to wit:

Particulars	As of 31 December (PhP Million)					
	2010	2011	2012	2013	2014	2015
i) NPC's outstanding financial obligations as of effectivity of EPIRA (including Lease Obligations of non-eligible IPPs)	254,599.31	224,948.36	188,538.81	173,044.82	140,879.39	126,744.94
ii) New loans contracted by NPC after the effectivity of EPIRA	84,198.97	55,879.99	38,520.28	37,200.56	32,612.93	29,003.88
iii) Loans incurred by PSALM in behalf of NPC	201,117.09	260,665.13	311,414.89	268,359.69	260,494.00	242,568.09
<b>Outstanding GDS</b>	<b>539,915.37</b>	<b>541,493.49</b>	<b>538,473.98</b>	<b>478,605.06</b>	<b>433,986.34</b>	<b>398,316.91</b>

*Note: Difference in centavos is due to rounding off*

**Table 10: Outstanding GDS as of 31 December 2010, 2011, 2012, 2013, 2014 and 2015**

The details of the Outstanding GDS as of 31 December 2015 is attached hereto as Annex "S".

The Total Inventory of Financial Obligations as of 31 December 2015, Inventory of Financial Obligations (Principal) and Inventory

of Financial Obligations (Interest, Guarantee Fee and Other Charges) as of 31 December 2015 are attached as Annexes "T", "U" and "V", respectively.

50. 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 Affidavit of Service is hereto attached as Annex "W". The Petition (excluding Annexes) was also published in a newspaper of general circulation. A copy of the Affidavit of Publication is hereto attached as Annex "X".

**XV.**  
**ALLEGATIONS IN SUPPORT FOR THE ISSUANCE**  
**OF PROVISIONAL AUTHORITY**

51. The petition covers the true-up adjustment for the UC-SD for CY 2015. As PSALM has vigorously pursued its mandate of privatizing the generation assets and the power facilities, revenues from the sale of electricity of the remaining assets are not enough to cover its operations and provide funds for the payment of NPC debts and obligations. To address the funding gaps, PSALM is forced to resort to temporary solution by borrowing, which entails borrowing costs, which in turn will form part of the UC-SD, effectively increasing the UC burden of all electricity end-users.

52. On the other hand, if PSALM will be allowed to immediately recover the UC-SD under this petition through provisional approval, new loans and refinancing to service maturing debts and lease obligations would lessen. This would redound to the benefit of electricity end-users due to reduced borrowing costs, effectively reducing the UC burden.

53. Pursuant to ERC Rules of Practice and Procedures, the Honorable Commission may exercise its discretion by granting provisional authority or interim relief prior to a final decision.

54. It is understood that the interim relief sought by Petitioner PSALM 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 of this Honorable Commission that, after due notice and hearing:

1. The calculated True-Up Adjustment/Under Recovery for the National Power Corporation Stranded Debts Portion of the Universal Charge for CY 2015 amounting to **PhP27,670,386,541.73**, with an equivalent rate of **PhP 0.0283 / kWh** based on a nine and one half (9 ½) years recovery period, be **APPROVED**.

*m*

**ERC CASE NO. 2016-150 RC**  
**NOTICE OF PUBLIC HEARING/16 April 2018**  
**PAGE 16 OF 18**

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2. Provisional Authority allowing PSALM to charge, collect the computed UC-SD True-up Rate or such amount determined by the Honorable Commission be **GRANTED**; and
3. Submission of the following documents be deemed in **FULL COMPLIANCE** to the directive of ERC Resolution No. 02, Series of 2011:
  - a.) Inventory of Financial Obligations (Principal) as of 31 December 2015 (**Annex "U"**);
  - b.) Inventory of Financial Obligations (Interest, Guarantee Fee and Other Charges) as of 31 December 2015 (**Annex "V"**);
  - c.) Outstanding Lease Obligations of Eligible and Ineligible IPPs as of 31 December 2015 (**Annex "F"**);
  - d.) Details of Outstanding GDS as of 31 December 2015 (**Annex "S"**); and
  - e.) Outstanding Lease Obligations of Ineligible IPP Plants as of 31 December 2015 (**Annex "H"**).

Other reliefs just and equitable are likewise prayed for.

The Commission has set the *Petition* for determination of compliance with the jurisdictional requirements, expository presentation, Pre-trial Conference, and presentation of evidence on the following dates and venues:

<b>Date and Time</b>	<b>Venue</b>	<b>Particulars</b>
<b>12 July 2018</b> (Thursday) at ten o'clock in the morning (10:00 A.M.)	ERC Hearing Room, 15th Floor, Pacific Center Building, San Miguel Avenue, Pasig City	Jurisdictional and Expository Presentation
<b>19 July 2018</b> (Thursday) at ten o'clock in the morning (10:00 A.M.)	Energy Regulatory Commission- Visayas Field Office (ERC-VFO), St. Mary's Drive, Banilad, Cebu City	Expository Presentation

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**ERC CASE NO. 2016-150 RC**  
**NOTICE OF PUBLIC HEARING/16 April 2018**  
**PAGE 17 OF 18**

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<b>26 July 2018</b> (Thursday) at ten o'clock in the morning (10:00 A.M.)	Energy Regulatory Commission- Mindanao Field Office (ERC-MFO), Mezzanine Floor, Mintrade Building, Monteverde Avenue cor. Sales Street, Davao City	Expository Presentation
<b>02 August 2018</b> (Thursday) at ten o'clock in the morning (10:00 A.M.)	ERC Hearing Room, 15th Floor, Pacific Center Building, San Miguel Avenue, Pasig City	Pre-trial Conference and Evidentiary Hearing

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 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 Petitioner rests its case, subject to the requirements under Rule 9 of the 2006 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

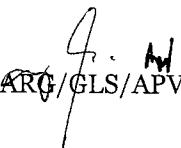


3) The grounds relied upon.

All such persons who wish to have a copy of the *Petition* may request from Petitioner that they be furnished with the same, prior to the date of the initial hearing. Petitioner is hereby directed to furnish all those making such request with copies of the *Petition* and its attachments, subject to the reimbursement of reasonable photocopying costs. Any such person may likewise examine the *Petition* 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 **ALFREDO J. NON**, **GLORIA VICTORIA C. YAP-TARUC**, and **GERONIMO D. STA. ANA**, Energy Regulatory Commission, this 16<sup>th</sup> day of April 2018 in Pasig City.

  
**JOSEFINA PATRICIA A. MAGPALE-ASIRIT**  
*Oversight Commissioner for Legal*

LS: /GLS/APV