

Republic of the Philippines  
ENERGY REGULATORY COMMISSION  
Pacific Center Building, San Miguel Avenue  
Ortigas Center, 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 2014, WITH  
PRAYER FOR THE ISSUANCE OF  
PROVISIONAL AUTHORITY (PA),

ERC CASE NO. 2015 - \_\_\_\_\_

POWER SECTOR ASSETS AND  
LIABILITIES MANAGEMENT  
CORPORATION (PSALM),

*Petitioner.*

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PETITION

Petitioner **POWER SECTOR ASSETS AND LIABILITIES  
MANAGEMENT CORPORATION (PSALM)**, through counsel,  
respectfully states:

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 2014 to be collected from all end-users of electricity, is being filed 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**") 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 ERC will approve inclusion of any under recovery in the current year's level of NPC Stranded Debts avilment 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 03 March 2015, PSALM requested from the Honorable Commission for an extension of the deadline to file the True-up Adjustment for the UC-SD for Calendar Year (CY) 2014, from 15 March 2015 to 31 July 2015, on the ground that the 15 March original deadline is no longer feasible considering that the CY 2014 certified financial statements of PSALM, which include the financial performance of its Independent Power Producer (hereinafter, "**IPP**") plants and owned generating plants under an Operation and Maintenance Agreement with NPC will only be available by April 2015. Further, as the VAR is required to be certified by an Independent Third Party auditor, ample time should be afforded to the Commission on Audit (hereinafter, "**COA**") to enable it to verify and validate the VAR before it can issue the certification, which is required to support the true-up adjustment.

4. In its letter-reply dated 12 March 2015, the Honorable Commission granted PSALM's request and directed it to file the UC-SD true-up adjustment petition for CY 2014 on or before 31 July 2015.

Attached as Annexes "**A**" and "**B**" are PSALM's letter dated 3 March 2015 and the Honorable Commission's letter-reply dated 12 March 2015, respectively.

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

### III.

#### PETITIONER

6. 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.

7. 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).

8. 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>

9. PSALM is likewise responsible for initiating true-up adjustments through the submission of the VAR certified by an Independent Third Party Auditor as well as the calculation and collation of supporting documents for UC-SD<sup>3</sup>.

### IV.

#### ANTECEDENTS

10. On 07 February 2011, the ERC 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 Stranded Contract Costs

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

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

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

(hereinafter, "**SCC**") and SD recovery, and defined the parameters in calculating said SCC and SD.

11. On 28 June 2011, PSALM filed its Petition for the recovery of NPC's SD portion of the UC as of 31 December 2010, docketed under ERC Case No. 2011-092 RC, seeking the Honorable Commission's approval to charge and collect a UC-SD amounting to PhP65,019.05 Million which translates to a UC-SD charge of PhP0.0313/kWh.

12. 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 (0) "*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.*"

13. 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 the ERC's approval to collect 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 PhP0.0382/kWh. The detailed VAR for this UC-SD True-up Adjustments, 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.

14. The ERC 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.

15. 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.

16. In a letter dated 3 March 2015, PSALM requested for an extension of the deadline to file the true-up adjustment of the NPC's SD portion of the UC for CY 2014 from 15 March 2015 to 31 July

2015, considering that the CY 2014 certified financial statements of PSALM will only be available by April 2015. This is aside from the unavailability of the VAR that would be used to support the true-up adjustment.

17. The ERC, in its letter-reply dated 12 March 2015, granted PSALM's request and directed PSALM to file the UC-SD true-up adjustment petition for CY 2014 on or before 31 July 2015.

## V.

### VARIANCE ANALYSIS REPORT TO SUPPORT THE UC-SD TRUE-UP ADJUSTMENT

18. 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*". The NPC SD shall be equivalent to the Gross Debt Service (hereinafter, "**GDS**")<sup>4</sup>, net of the calculated projected Privatization Proceeds<sup>5</sup> (hereinafter, "**PP**"), projected cash flow from NPC's operations<sup>6</sup> (hereinafter, "**PO**") and National Government absorption<sup>7</sup> shown in the formula below:

$$UCSDR = \left\{ \frac{GDS - PP - NGA}{\sum_{i=B+1}^n Projected\ Energy\ Sales_{B_i}} \right\} - \left\{ \frac{PO}{Projected\ Sales_t} \right\}$$

where:

<b>UCSDR</b>	= UC-SD rate base, in PhP/kWh
<b>GDS</b>	= Gross Debt Service
<b>PP</b>	= Privatization Proceeds
<b>NGA</b>	= National Government Absorption
<b>PO</b>	= One-year projected net proceeds from operations of NPC and TransCo
<b>B</b>	= Base year, i.e. 2010
<b>n</b>	= Number of years of recovery
<b>t</b>	= Filing year, i.e. B+1

19. 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

<sup>4</sup> Article V, Section 2

<sup>5</sup> Article V, Section 4

<sup>6</sup> Ibid

<sup>7</sup> Article V, Section 5

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, 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 2014

20. PSALM's total financial obligations serviced/paid in CY 2014 consist of i) regular 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, ii) BOT lease obligations pertaining to eligible and ineligible IPP contracts due for the said year, and iii) prepayments of debts and buyback of PSALM bonds in advance of maturity (hereinafter, “**debt prepayments**”) implemented in CY 2014.

21. For CY 2014, total debts and BOT lease obligations serviced, including debt prepayments, are summarized in the table below:

TOTAL FINANCIAL OBLIGATIONS	AMOUNT (In PhP)
i) NPC's outstanding financial obligations as of effectivity of EPIRA	53,090,829,573.76
- Debts	21,262,538,229.43
- Lease Obligation of all IPPs	31,828,291,344.33
ii) New loans contracted by NPC after the effectivity of EPIRA	5,665,018,434.05
iii) Loans incurred by PSALM in behalf of NPC	30,693,878,355.90
<b>Total Financial Obligations Serviced/Paid for CY 2014</b>	<b>89,449,726,363.71</b>

**Table 1: Summary of Financial Obligations Serviced in CY 2014**

22. The PhP89,449.73 Million total financial obligations serviced in CY 2014 includes the following:

- a. PhP16,960.33 Million payment for the current portion of new loans availed in CYs 2011 and 2012 (principal portion, corresponding interest, guarantee fee and other charges) which were contracted to pay off or refinance other debt maturities (new loans for refinancing) in said years namely LBP 75Bn Syndicated Term Loan, ROP Relending Facility and ROP Relent-\$500M Onshore Dollar Bond;
- b. PhP31,828.29 Million BOT lease obligations consisting of payment for capacity fees of eligible IPP contracts for Sual and Pagbilao Coal plants and non-eligible IPP contracts for San Roque Multi-Purpose Hydro, Bakun Hydro, Ilijan Natural Gas, Kalayaan 3 and 4 Hydro, and Mindanao Coal plants; and
- c. PhP11,424.37 Million debt prepayments consisting of the principal portion of various loans and PSALM bonds paid in advance of their maturity in CY 2014 which were funded from the privatization proceeds received by PSALM in July 2013 from the National Grid Corporation of the Philippines (hereinafter, "**NGCP**") as a result of the latter's prepayment of TransCo's Concession Fee.

Attached hereto are the schedules of Financial Obligations Serviced consisting of Actual Debt Service for CY 2014, Lease Obligations of Eligible and Ineligible IPPs as of 31 December 2014 and Prepayment of Debt for 2014 as **Annexes "C", "D" and "E"**, respectively.

## VII.

### GROSS DEBT SERVICE (GDS)

#### Recoverable Financial Obligations

23. 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:

- i) NPC's outstanding financial obligations as of the effectivity of the Electric Power Industry Reform Act (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.

24. 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.

25. 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**

26. 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 of SD in the loan proceeds. The percentage share 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 as SD (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 new loans incurred by PSALM in behalf of NPC in which the proceeds have not yet been fully utilized.

27. 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 eligible IPP contracts for Sual and Pagbilao Coal plants which are eligible for recovery under Stranded Contract Costs.

28. Out of the PhP89,449.73 Million total financial obligations serviced in CY 2014, actual Allowable GDS amounts to PhP60,291.46 Million, as shown below:



<b>GROSS DEBT SERVICE</b>	<b>AMOUNT (In PhP)</b>
i) NPC's outstanding financial obligations as of effectivity of EPIRA	33,260,801,941.31
- Debts	19,549,800,318.01
- Lease Obligation of non-eligible IPPs	13,711,001,623.30
ii) New loans contracted by NPC after effectivity of EPIRA	4,520,656,647.54
iii) Loans incurred by PSALM in behalf of NPC	22,510,001,030.21
<b>Total GDS for CY 2014</b>	<b>60,291,459,619.06</b>

**Table 2: Summary of Actual GDS for CY 2014**

29. The total actual allowable GDS of PhP60,291.46 Million requires further qualification as to the inclusion in the GDS of the debt service for the new loans used for refinancing and debt prepayments.

30. The inclusion in the GDS of the debt service for new loans used for refinancing may be allowed pursuant to Section 3, Article V of the Amended Rules for Recovery<sup>8</sup>. This is also supported by Section 8, Article V of the Amended Rules for Recovery which provides that the cost of refinancing may be included as obligations provided that such refinancing of unpaid obligations shall not result in increasing the UC burden<sup>9</sup>. Guided by these provisions, it is deemed that, only the cost of refinancing, namely the interest and other charges portions serviced in CY 2014 for the new loans shall be included in the allowable GDS while the principal repayment portion for these new loans serviced in CY 2014 in the amount of PhP8,757.47 Million shall be carved out of the allowable GDS to avoid double recovery since effectively, said principal repayment portion of new loans were used to service the debt maturities included in the CYs 2011 and 2012 GDS.

31. Furthermore, the debt prepayments in CY 2014 which were funded from the balance of the NGCP prepayment proceeds in CY 2013, effectively do not constitute stranded debts, as such, debt prepayments amounting to PhP11,118.17 Million shall be carved out of the allowable GDS.

<sup>8</sup> Section 3, Article V of the Amended Rules for Recovery provides that PSALM may include in the GDS the current portion of maturing obligations arising from the refinancing of NPC's liabilities pursuant to Rule 18 of the Implementing Rules and Regulations of the Electric Power Industry Reform Act (EPIRA-IRR).

<sup>9</sup> In accordance with Rule 4(hhhh) of the EPIRA-IRR, PSALM may include as obligations the cost of refinancing provided that such refinancing of unpaid obligations shall not result in increasing the UC burden.

32. Hence, the allowable GDS net of the principal repayment portion of the loans for refinancing and debt prepayments amounts to PhP40,415.82 Million, as shown below:

<b>NET GROSS DEBT SERVICE</b>	<b>AMOUNT (in PhP)</b>
Allowable GDS	60,291,459,619.06
LESS: Principal Repayment Portion of New Loans for Refinancing	8,757,468,607.00
LESS: Debt Prepayment	11,118,172,529.72
<i>NPC's outstanding financial obligations as of the effectivity of EPIRA</i>	9,696,373,857.35
<i>New loans contracted by NPC after the effectivity of EPIRA</i>	1,269,419,241.49
<i>New loans contracted by PSALM in behalf of NPC</i>	152,379,430.88
<b>Net GDS for CY 2014</b>	<b>40,415,818,482.34</b>

**Table 3: Summary of Net GDS for CY 2014**

Attached hereto are the schedules of the Actual GDS for CY 2014 and Lease Obligations of Ineligible IPP Plants as of 31 December 2014, as **Annexes "F" and "G"**, respectively.

### VIII.

#### **PRIVATIZATION PROCEEDS (PP)**

33. 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;
- ii) Proceeds from the privatization of non-eligible IPP contracts; and
- iii) Proceeds from the concession of operations of the transmission system.

34. Guided by the considerations on PP in the ERC Decision, the detailed PP for CY 2014 is shown below:

<b>PRIVATIZATION PROCEEDS</b>	<b>AMOUNT (In PhP)</b>
Sale of Generation Assets	17,710,428,546.80
IPP Administrator Monthly Payment	11,274,755,771.77
TransCo Concession Fee	4,605,610,254.72
Other Privatization-Related Transactions	755,073,908.76
<b>TOTAL PP</b>	<b>34,345,868,482.05</b>

**Table 4: Details of Privatization Proceeds for CY 2014**

35. The details of the privatization proceeds for CY 2014 are as follows:

- a. Sale of generation assets amounting to PhP17,710.43 Million from the privatization of Angat Hydroelectric Power Plant and Naga Power Plant Complex, both of which were remitted to PSALM in full by the winning bidders and which is net of Value Added Tax (hereinafter, "VAT") expense amounting to PhP2,415.06 Million.
- b. IPP administrator monthly payments amounting to PhP11,274.76 Million for the Bakun, San Roque and Ilijan IPPAs, the latter of which is net of VAT expense in the amount of PhP880.84 Million.
- c. Deferred payment on interest amounting to PhP4,605.61 Million representing the semi-annual interest payments made by the NGCP corresponding to the interest on the balance of the concession fee under the Concession Agreement; and
- d. Additional income on other privatization-related transactions amounting to PhP755.07 Million realized by PSALM as a consequence of its privatization activities net of VAT expense amounting to PhP81.60 Million.

Attached hereto is the schedule of Actual Privatization Proceeds for CY 2014, as **Annex "H"**.

## IX.

### PROCEEDS FROM OPERATIONS (PO)

36. 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 are the details of the actual PO of the remaining generating assets and ineligible IPP contracts for CY 2014 that were considered in the SD true-up calculations:

<b>PROCEEDS FROM OPERATIONS</b>	<b>AMOUNT (In PhP)</b>
<b>REVENUES</b>	
Net Utility Revenue (NUR)	32,459,718,031.77
Generation Payment Billings	34,456,304,593.13
Net, Other Income	624,092,780.67
<b>Total Revenues</b>	<b>67,540,115,405.57</b>
<b>COSTS</b>	
Fuel	39,762,937,478.35
Purchased Power Cost (PPC)	12,492,812,901.01
Fixed Costs of Plants under IPPA	2,236,855,397.34
Variable Costs of Plants under IPPA	725,774,651.03
Energy Purchased from PEMC	101,161,228.57
Station Use	104,821,346.31
Pumping Cost	4,345,371,716.31
Other OPEX (Genco and IPPs)	2,834,764,511.44
Other OPEX of Plants under IPPA	239,211,927.53
<b>Total Costs</b>	<b>62,843,711,157.90</b>
RPT Adjustment	21,318,818.47
<b>NET CASH FLOW / PO</b>	<b>4,717,723,066.14</b>

**Table 4: Summary of Proceeds from Operations for CY 2014**

37. The components of the PO for CY 2014 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>10</sup>. These revenues were based on the Operating Results, Cash Flow or the Results of Operation (hereinafter, “**ROO**”) for CY 2014 broken down into Ineligible and Eligible Plants, attached hereto as **Annex “I”**.

In addition to the revenues reflected in the ROO, the revenues from monthly foreign exchange adjustments (hereinafter, “**FxA**”) for ineligible plants, which is part of the ACRM, were added to the NUR. This is based on the total FxA revenue per grid allocated using the Transition Supply Contract (hereinafter, “**TSC**”) energy sales of these ineligible plants as provided in the Operating

<sup>10</sup> In accordance with Decision on ERC Case No. 2011-091 RC dated 28 January 2013

Results, Cash Flow or ROO for CY 2014 Per Grid, attached hereto as **Annex "I-1"**. Also attached as **Annexes "J"** and **"K"** are the schedules of Foreign Exchange Adjustment per Grid and Foreign Exchange Adjustment broken down into Ineligible and Eligible Plants, respectively.

- b. Generation Payments represent billings made to IPP Administrators (hereinafter, "**IPPA**") of ineligible IPP plants, namely Bakun, San Roque and Ilijan. Attached is the Summary of IPPA Billings – Generation Payments, as **Annex "L"**;
- c. Net Other Income consists of other income less other expenses not directly attributable to the operations of existing power plants. This is based on the ROO.
- d. Costs incurred for PSALM's remaining generating assets and ineligible IPP plants include fuel, purchased power costs such as fixed O&M-other power supply, variable costs-other power supply, energy purchased from Philippine Electricity Market Corporation (hereinafter, "**PEMC**"), station use, pumping costs and other plant operating expenses (hereinafter, "**other OPEX**"). Real Property Tax (hereinafter, "**RPT**") payments due to the local government units where the remaining generating assets and ineligible IPP plants are located, are part of other OPEX. These cost components are based on the ROO.
- e. For IPP plants under IPPA, costs incurred include fixed operating and maintenance fee, other OPEX, fuel and energy fees. The schedules of Fixed Cost of Ineligible Plants under IPPAA and Variable Cost of Ineligible Plants under IPPAA for CY 2014 are attached hereto as **Annexes "M"** and **"N"**, respectively. The VAT Expense under the schedule of Fixed Cost of Ineligible Plants under IPPA was not included in the PO since this was netted out in the PP as these represent VAT of the IPPA Monthly Payments.
- f. Lastly, RPT Adjustment refers to the 2014 RPT that was paid in advance in 2013 and is included under other OPEX. To avoid double recovery, this was added in the PO since this was already included in the CY 2013 UC-SD True-Up Adjustment that was submitted to the Honorable Commission as PSALM's compliance. The

schedule of Real Property Tax Adjustment is attached hereto as **Annex “O”**.

- g. It should be noted that the calculated UC-SD for CY 2014 does not include the downward adjustment in revenues 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 03 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”*. In the event the PEMC adjustments are reflected, the UC-SD would have increased by PhP 3,598.09 Million, representing the amount returned by PSALM to PEMC under dispute in CY 2014 for the traded energy of the ineligible IPPs.

The detailed PO for CY 2014 is attached hereto as **Annex “P”**.

## X.

### NPC’s STRANDED DEBTS

38. The NPC Stranded Debts shall be equivalent to the Allowable GDS net of the calculated PP and PO. The calculated Stranded Debts for CY 2014 amounts to PhP1,352.23 Million as shown below.

<b>STRANDED DEBTS</b>	<b>CY 2014 (In PhP)</b>
GDS	40,415,818,482.34
Less: PP	34,345,868,482.05
PO	4,717,723,066.14
<b>SD</b>	<b>1,352,226,934.15</b>

**Table 5: UC-SD for CY 2014**

## XI.

### COST VARIANCE

39. 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.

40. In arriving at the Cost Variance, the two (2) items mentioned above need to be established. Since there is no approved level of SD when the ERC 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 2014 will necessarily be equivalent to the CV for 2014, amounting to **PhP1,352.23 Million** as summarized below:

Particulars	Actual (In PhP)	SD Approved for Recovery	Cost Variance (In PhP)
Gross Debt Service	40,415,818,482.34	0	40,415,818,482.34
Less: Privatization Proceeds	34,345,868,482.05	0	34,345,868,482.05
Proceeds from Operation	4,717,723,066.14	0	4,717,723,066.14
<b>SD</b>	<b>1,352,226,934.15</b>	<b>0</b>	<b>1,352,226,934.15</b>

Table 6: Cost Variance for CY 2014

## XII.

### QUANTITY VARIANCE

41. 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.

42. To determine the QV in absolute amount, QV is multiplied by the PhP/kWh SD approved by the ERC. Since the ERC 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**

43. In accordance with the ERC Amended Rules for Recovery, the True-up Adjustment for CY 2014 representing the sum of CV and the peso value of the QV amounted to **PhP1,352.23 Million**, as shown below:

<b>Particulars</b>	<b>Amount (In PhP)</b>
Cost Variance	1,352,226,934.15
Add: Quantity Variance	0.00
<b>True-up Adjustment</b>	<b>1,352,226,934.15</b>

**Table 7: True-up Adjustment for CY 2014**

44. A copy of the CY 2014 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”**.

45. The equivalent rate of the CY 2014 UC-SD True-up Adjustment is **PhP 0.0013/kWh** calculated by dividing **PhP1,352,226,934.15** with the projected energy sales for January 2016 to June 2026 based on the Department of Energy’s Power Development Plan (2014-2030)<sup>11</sup> with details as follows:

<b>UC-SD True-Up Adjustment for CY 2014 (in PhP)</b>	<b>Energy Sales Forecast (GWh)</b>	<b>UC-SD Rate (PhP/kWh)</b>
<b>1,352,226,934.15</b>	<b>1,058,288.14</b>	<b>0.0013</b>

**Table 8: UC-SD True-up Adjustment and Rate for CY 2014**

<sup>11</sup> Electricity Sales forecast for 2016 to June 2026 is based on the DOE’s PDP for 2014-2030 in the absence of updated sales forecast under the PDP for 2015-2030 which is yet to be released by the DOE.



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

**XIV.**

**ACTUAL OUTSTANDING DEBT SERVICE  
AS OF 31 DECEMBER 2014**

46. 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.

47. Shown below is the actual outstanding GDS as of 31 December 2014 as compared with the outstanding GDS as of 31 December 2010 considered in the ERC Decision, as of 31 December 2011 and 2012 as reported in PSALM's petition under ERC Case No. 2013-195 RC, and as of 31 December 2013 as submitted in PSALM's compliance to the ERC dated 30 July 2014, to wit:

<b>Particulars</b>	<b>As of 31 Dec. 2010 (PhP Million)</b>	<b>As of 31 Dec. 2011 (PhP Million)</b>	<b>As of 31 Dec. 2012 (PhP Million)</b>	<b>As of 31 Dec. 2013 (PhP Million)</b>	<b>As of 31 Dec. 2014 (PhP Million)</b>
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
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
iii) Loans incurred by PSALM in behalf of NPC	201,117.09	260,665.13	311,414.89	268,359.69	260,494.00
<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>

**Table 8: Outstanding GDS as of 31 December 2010, 2011, 2012, 2013 and 2014**

The Inventory of Financial Obligations (Principal) and Inventory of Financial Obligations (Interest, Guarantee Fee and Other Charges) as of 31 December 2014 are attached as **Annexes "S" and "T"**,

respectively. The details of the Outstanding GDS as of 31 December 2014 is attached hereto as **Annex "U"**.

48. 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 "V"**. 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 "W"**.

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

49. The petition covers the true- up adjustment for the UC-SD for CY 2014. The aggregate amount, if collected, would lessen additional loans to be incurred by PSALM in behalf of the NPC. Provisional approval of this UC-SD will also keep PSALM from resorting to refinancing to service its maturing debt and lease obligations, thus reducing, if not totally eliminating, additional borrowing costs so as not to increase the UC burden.

50. 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.

51. 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 2014 amounting to **PhP1,352,226,934.15**, with an equivalent rate of PhP 0.0013 / kWh based on a ten and one half (10 ½) years recovery period, be **APPROVED**.

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 2014 (**Annex "S"**);
  - b.) Inventory of Financial Obligations (Interest, Guarantee Fee and Other Charges) as of 31 December 2014 (**Annex "T"**);
  - c.) Outstanding Lease Obligations of Eligible and Ineligible IPPs as of 31 December 2014 (**Annex "D"**);
  - d.) Details of Outstanding GDS as of 31 December 2014 (**Annex "U"**); and
  - e.) Outstanding Lease Obligations of Ineligible IPP Plants as of 31 December 2014 (**Annex "G"**).

Other reliefs just and equitable are likewise prayed for.


Makati City for Pasig City, 24 July 2015.

*-signatories on the following page-*



**CÉCILIO B. GELLADA, JR.**

*Acting Vice President and General Counsel*  
IBP No. 987973 (01-08-15, Quezon City)  
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Roll of Attorney No. 30354



*Marni B. V. Mamaril*

**MARNI BENJAMIN V. MAMARIL**

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*Maria Ilyn C. Geronimo-Albito*

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**POWER SECTOR ASSETS AND LIABILITIES  
MANAGEMENT CORPORATION**

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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**), 7<sup>th</sup> 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:

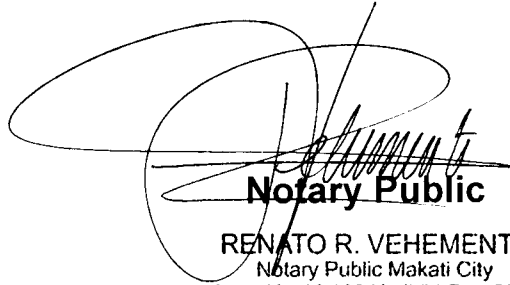
- (1) I am the designated Officer-in-Charge of the Power Sector Assets and Liabilities Management Corporation (**PSALM**) with authority to commence, initiate and file the foregoing Petition pursuant to PSALM Board Resolution No. 2015-0616-04 dated 16 June 2015.
- (2) I have read the Petition and the 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.

\_\_\_\_ 2015 July 2015, Makati City, Philippines.

  
**LOURDES S. ALZONA**  
Affiant

**SUBSCRIBED and SWORN TO** before me this 10 day of July 2015, 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.



**Notary Public**

**RENATO R. VEHEMENTE**  
Notary Public Makati City  
Appt. No. M-109 Until 31 Dec 2016  
Roll of Attorney No 56568  
IBP 978709 12-11-2014 Mkt City  
PTR No. 4753315 1-6-2015 Mkt City  
3672 A. Cuenco St. Pasay, Mkt City

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