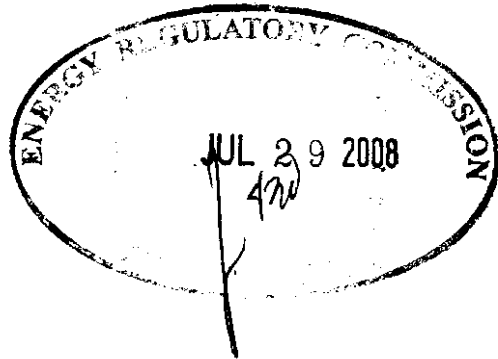


Republic of the Philippines
ENERGY REGULATORY COMMISSION
Pacific Center Building, San Miguel Avenue
Ortigas Center, Pasig City

IN THE MATTER OF THE APPLICATION
FOR THE RECOVERY OF
INCREMENTAL FUEL AND
INDEPENDENT POWER PRODUCER
(IPP) COSTS UNDER THE 10TH
GENERATION RATE ADJUSTMENT
MECHANISM (GRAM) WITH PRAYER
FOR PROVISIONAL AUTHORITY (PA)



ERC CASE NO. 2008- 042 RC

**NATIONAL POWER CORPORATION
(NPC)**

Applicant

x-----x

APPLICATION

Applicant **NATIONAL POWER CORPORATION** ("NPC"), through the undersigned counsels and to this Honorable Commission, most respectfully state that:

1. Applicant NPC is a government-owned and controlled corporation created and existing under and by virtue of Republic Act No. 6395, as amended, (the NPC Charter) with principal office address at NPC-Office Building Complex, corner Quezon Avenue and BIR Road, Diliman, Quezon City.

2. Applicant NPC is mandated under its Charter to undertake the development of hydroelectric power generation and the production of electricity from nuclear, geothermal and other sources of energy in order to attain, among others, the objective of providing an adequate supply of electric power nationwide at a reasonable price.

3. Applicant NPC is filing this Application in its capacity as the owner of record of all existing generation assets and energy, and also as implementing agency for the unbundled generation rates as stated in the Orders of this Commission dated September 6 & 20, 2002 in ERC Case No. 2001-901, revised generation charges in the Orders dated Sept. 3, 2004 and April 13, 2005 in ERC Case No. 2004-178 and the recovery of Deferred Charges through GRAM in Orders dated May 15, 2003 in ERC Case No. 2003-156, January 26, 2004 in ERC Case No. 2003-574, June 9, 2004 in ERC Case No. 2004-122, April 12, 2005 in ERC Case No. 2005-007RC, November 23, 2005 in ERC Case No. 2005-040RC, July 14 and 17, 2006 in ERC Case No. 2006-013RC, February 7, 2007 and June 12, 2007 in ERC Case No. 2007-073RC, September 5, 2007 and December 17, 2007 in ERC Case No. 2007-099RC and June 11, 2008 in ERC Case No. 2008-031RC.

4. Applications for the recovery of deferred charges were all consistent with the Order dated February 24, 2003 in ERC Case No. 2003-44 providing, among others, the required mechanism for the recovery of the deferred Fuel and Independent Power Producer (IPP) Costs.

5. This application is being filed consistent with the amended Section 4(e) Rule 3 of the Implementing Rules and Regulations (IRR) of Republic Act (RA) 9136 or otherwise known as Electric Power Industry Reform Act (EPIRA) dated June 21, 2008.

6. This Application covers the billing period from January 2007 to April 2008. Applicant NPC has fully complied with all of the Honorable Commission's monthly reportorial requirements in support of the calculated allowable costs covering the said test period as evidenced by the submitted reports/compliances duly received by the Honorable Commission and hereto attached as **Annex "A" and series.**

7. The Applicant proposes to recover/(refund) as Deferred Accounting Adjustment (DAA), the difference between the allowable fuel and purchased power costs and the amounts recovered through the basic generation rate covering the billing period from January 2007 to April 2008 and the estimated remaining balance as of August 26, 2008 of the DAAs for Luzon, Visayas and Mindanao grids, including the approved amount of under/over recoveries resulting from the Commission's issuance of the Final Decision on the RORB-TOU Rate application under ERC Case No. 2004-178.

8. Consistent with the Applicant's previous GRAM applications, this application likewise excludes the costs of purchased power from four (4) IPP contracts under Rehabilitation-Operation-Maintenance and Management (ROMM), Build-Rehabilitation-Operation and Transfer (BROT) and Build-Operate-Transfer (BOT) arrangements covering the Malaya, Naga (Salcon), CBK and Mindanao Coal (STEAG) power plants pending the Honorable Commission's approval on the recovery of the same through power rates.

9. ERC Decision dated June 12, 2007 confirmed the provisional approval on the 7th GRAM DAA Application (ERC Case No. 2007-073RC) granted under ERC Order dated February 7, 2007. The Commission did not concur with the Applicant's assumptions in the calculation of allowable fuel costs. Hence, on August 3, 2007, applicant NPC filed a Motion for Reconsideration which is yet to be resolved by the Honorable Commission. Pending the resolution of the said Motion for Reconsideration, applicant NPC maintains its assumptions in the calculation of allowable fuel costs under this instant application, similar to the assumptions used under the 7th and 8th GRAM applications which considered the following modifications:

a. Adjustment of the existing ERC-adopted heat rate caps.

a.1. In the determination of the allowable incremental fuel costs, a comparison is made between the actual average heat rates **per**

fuel type during any given application test period (July 2006 to December 2006 billing months for this instant Application) and the existing ERC-adopted heat rate caps **per fuel type** which were originally established and approved by the then Energy Regulatory Board (ERB) based on NPC's actual results of operations in 1996 for Luzon grid and 1993 for Visayas and Mindanao grids. Recovery of incremental fuel costs is limited to the lower of the two (2) heat rate levels (actual versus cap) in order to protect applicant NPC's customers from being burdened with unreasonable costs of fuel consumed. Although the intention of the Honorable Commission in applying the said methodology is clear and laudable, the same results to under-recovery of reasonable fuel costs for applicant NPC given that the existing ERC-adopted heat rate caps are significantly incomparable with the actual average plant heat rates as of July 2006 to December 2006. The proposed adjustment of the heat rate caps includes the application of a reasonable heat rate degradation factor (based on actual test result from some of applicant's contracted IPP plants) to bring the levels of the heat rate caps from 1996/1993 levels to 2006 levels. Applicant NPC, on the other hand, considered an assumed system heat rate improvement resulting from a major plant maintenance which should be conducted at least every four (4) years. Although the heat rate degradation may actually vary on a per plant basis, the methodology employed (which is across all fuel and plant types within each grid) is but reasonable given that the existing ERC-adopted heat rate caps are likewise on a-per grid and per fuel type basis. Should the Honorable Commission finally decides to approve the adoption of a heat rate cap per plant, then the methodology employed in this application can be modified accordingly. Nonetheless, until such time that the existing heat rate caps are designed as such, applicant NPC firmly believes that the

Honorable Commission should duly consider herein applicant's plea for the updating of the 1996-based and 1993-based heat rate caps for Luzon and Visayas/Mindanao grids, respectively.

b. Calculation of the average heat rates per fuel type and per grid during January 2007 to April 2008 billing months.

b.1. In the determination of the ERC-adopted heat rate caps, the then ERB included the volume of fuel reported as consumed but without any equivalent generation such as start-up fuel and heat run test fuel, among others. Thus, in the calculation of the average heat rates for each application's test period, the Honorable Commission and applicant NPC, continued the then ERB's calculation procedure for consistency purposes. Nonetheless, pending the Commission's Resolution on the applicant's Motion for Reconsideration on the 7th GRAM DAA Application, applicant NPC maintains its proposal in this instant application, with the assumption that the volume of fuel consumed without generation by plants that were commercially operated after the heat rate cap test year should be excluded considering that the inclusion of the same makes the comparison between the actual average heat rates and the heat rate caps irrelevant and unreasonable. Further, the inclusion of the afore-stated fuel consumed distorts the resulting average heat rate during the given test period. Nonetheless, the recovery of the corresponding cost of fuel consumed by plants that were commercially operated after the heat rate cap test year should be separately determined from the cost of fuel consumed by plants that were already operational in Luzon during 1996 and in the Visayas and Mindanao grids during 1993.

10. Considering the foregoing and pursuant to all the relevant Decisions and Orders previously issued by the Honorable Commission, the Applicant has calculated its total deferred costs for recovery under this instant Application comprising of deferred fuel and IPP costs and the corresponding carrying charges for the Luzon, Visayas and Mindanao grids covering the test period from January 2007 to April 2008 (also referred to as the Current Portion of the deferred costs) and the estimated balance of the DAAs for Luzon, Visayas and Mindanao as of August 26, 2008. Table 1 contains the summary of the total deferred fuel and IPP costs as follows:

Table 1. Total Deferred Fuel and IPP Costs for Recovery, in Pesos

GRID	DAA, P
LUZON	(5,881,243,954.19)
VISAYAS	3,599,652,294.72
MINDANAO	900,679,252.84
PHILIPPINES	(1,380,912,406.63)

11. Consistent with the ERC Decision dated June 12, 2007 on the 7th GRAM DAA Application, and in compliance with R. A. 9337 – Reformed Value Added Tax (RVAT) and ERC Resolution No. 20 -, Implementing the Recovery of Value Added Tax (VAT) and Other Provisions of Republic Act No. 9337 Affecting the Electric Power Industry, the total amount of DAA in this instant Application was likewise broken down into Vatable and Non-Vatable portions.

	LUZON	VISAYAS	MINDANAO	PHIL
VATABLE	144,148,433.58	(2,155,841,594.14)	674,736,714.12	(1,336,956,446.44)
NON-VATABLE	(6,025,392,387.76)	5,755,493,888.85	225,942,538.72	(43,955,960.19)
TOTAL	(5,881,243,954.19)	3,599,652,294.72	900,679,252.84	(1,380,912,406.63)

12. The application seeks to obtain approval for the recovery/refund of the total deferred fuel and IPP costs for the billing period January 2007 to April 2008 and the estimated remaining balance of DAAs for Luzon, Visayas and Mindanao grids through the imposition of the proposed DAA charges in P/kWh also broken down into Vatable and Non-Vatable as follows:

Table 4. Proposed DAA Charges, P/kWh

	LUZON	VISAYAS	MINDANAO
VARIABLE	0.0047	(0.2928)	0.0600
NON-VARIABLE	(0.1968)	0.7817	0.0201
TOTAL	(0.1921)	0.4889	0.0801

13. As authorized under the Implementing Rules of the GRAM, Applicant utilized the following carrying charge interest rates shown in Table 2 below:

Table 2. Allowable Carrying Charge Interest Rates

Test/Billing Months	Prevailing 91-day T-Bill Rate 1/	Authorized Allowance 2/	Allowable Rate
January 2007	3.4830%	3%	6.4830%
February 2007	2.9360%	3%	5.9360%
March 2007	2.9720%	3%	5.9720%
April 2007	2.9210%	3%	5.9210%
May 2007	3.0310%	3%	6.0310%
June 2007	2.9730%	3%	5.9730%
July 2007	3.5510%	3%	6.5510%
August 2007	3.7190%	3%	6.7190%
September 2007	3.7640%	3%	6.7640%
October 2007	3.7580%	3%	6.7580%
November 2007	3.6890%	3%	6.6890%
December 2007	3.7235%	3%	6.7235%
January 2008	3.6730%	3%	6.6730%
February 2008	3.6730%	3%	6.6730%
March 2008	3.6730%	3%	6.6730%
April 2008	3.6730%	3%	6.6730%

1- Source: *Bangko Sentral ng Pilipinas*

2- As authorized in the *ICERA Implementing Rules*

3- There was No Issue(NI) T-Bill Rate for the month of June 2007, December 2007, February to April 2008 hence, rate was computed based on the average T-Bill Rates for the preceding of the said months.

14. The proposed DAA charges in P/kWh are fair and reasonable as imposition of the same would allow Applicant NPC to recover/refund allowable change in fuel and IPP costs that formed part of its deferred generation costs account pursuant to the Honorable Commission's existing rate adjustment policies and that the reasonable recovery/refund of the same is consistent with the principles of a free and competitive electricity market as provided for under the EPIRA.

15. Applicant NPC proposes to recover/refund the above-stated deferred costs over the following recovery periods as shown in Table 3:

Table 3. Proposed Spread (No. of Months)

	Luzon	Visayas	Mindanao
VARIABLE	16	16	16
NON-VARIABLE	16	16	16

16. The proposed DAA charges in P/kWh were derived using the projected energy sales under the Applicant's proposed CY2007-2010 Budget.

17. In support of the amounts comprising the proposed recovery/refund due to the change in fuel and IPP costs in this Application, attached hereto are the various computations and information on the following:

Total DAA (Current & Calculated Balance) broken into Vatable & Non-Vatable	Annex "B"
Fuel & IPP Costs Under/Over Recoveries	Annex "C" & series
Details of ERC Order dated June 11, 2008 (9 th GRAM)	Annex "D"
BSP's 91-day Treasury Bill Rates	Annex "E"
Actual energy sales from January 2007 to March 2008	Annex "F"
Net Generation per fuel type covering the billing period from December 2006 to March 2008	Annex "G" & Series
Generation Mix per grid covering the billing period from December 2006 to March 2008	Annex "H"
Adjusted ERC-adopted heat rate caps per fuel type and per grid	Annex "I"
Tabulation of the NPC power plants that became operational after the heat rate cap test period	Annex "J"
Projected regular energy sales from the proposed CY2007 to CY2010 budget	Annex "K"

PRAYER

WHEREFORE, applicant NPC respectfully prays of this Honorable Commission that consistent with ERC Case No. 2003-44 adopting the Implementing Rules for the Recovery of Fuel and Independent Power Producer Costs: Generation Rate Adjustment Mechanism (GRAM) and the amended Section 4(e) Rule 3 of the IRR of RA 9136 or EPIRA, the proposed Deferred Accounting Adjustment (DAA) charges of P(0.1921)/kWh for the Luzon grid, P0.4889/kWh for the Visayas grid and P0.0801/kWh for the Mindanao grid be **APPROVED** or **PROVISIONALLY APPROVED** .

Other reliefs just and equitable under the circumstances are likewise prayed for.

Quezon City for Pasig City, 30 July 2008



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VERIFICATION AND CERTIFICATION

REPUBLIC OF THE PHILIPPINES)
QUEZON CITY) S.S.


I, CYRIL C. DEL CALLAR of legal age, married with office address at NPC Office Building Complex, corner Quezon Avenue and BIR Road, Diliman Quezon City, after having been sworn to in accordance with law, hereby depose and state that:

1. I am the President of applicant National Power Corporation;
2. I have caused the preparation of the foregoing Application and that I have read and understood the allegations contained therein and that they are true and correct to my personal knowledge; and
3. I have not theretofore commenced any action or filed any claim involving the same issues in any court, tribunal or quasi-judicial agency and, to the best of my knowledge, no such other action or claim is pending therein; and that if I should thereafter learn that the same or similar action or claim has been filed or is pending in any court, tribunal or quasi-judicial agency, I hereby undertake to report the same within five (5) days therefrom to this Commission.

Quezon City for Pasig City, Philippines. July 29, 2008.


CYRIL C. DEL CALLAR
Affiant

SUBSCRIBED AND SWORN TO before me this _____ day of _____, affiant CYRIL C. DEL CALLAR presented to me his Community Tax Certificate No. 16249228 on January 08, 2008 at Quezon City, known to me and to me known to be the same person who executed the foregoing Verification and Certification.


ATTY. RUEL OLYSSES E. DE GUZMAN
Notary Public for Quezon City
Appointment No. 339
Notary Public
Commission Expires December 31, 2009
Roll of Attorneys No. 02285
PTR No. 9811045 Quezon City
IDP Lifetime No. 0381 Quezon City
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BIR Road cor. Quezon Ave.,
Diliman, Quezon City

Doc. No. 216;
Page No. 45;
Book No. I;
Series of 2008.

SWORN STATEMENT


This is to certify that the pertinent documents submitted to the Energy Regulatory Commission (ERC) in support of the 9th Incremental Currency Exchange Rate Adjustment (ICERA) Application of the National Power Corporation (NPC) covering the Test/Billing Period from 26 December 2006 to 25 April 2008, containing data on the following:

- a. Calculation of the Proposed 9th ICERA DAAs (Pesos/kWh)
- b. Projected Energy Sales (GWh)
- c. Calculation of Deferred Debt Service and OPEX – Current and Previous DAAs (Pesos)
- d. Calculation of Deferred Over/(Under) Recovered Actual Payments of Capacity Fees for IPPs Under BOT Agreement (Pesos)
- e. Calculation of Estimated Balance of the Previous DAAs - Amortization of Capacity & Infra Fees for IPPs Under BOT Agreement (Pesos)
- f. Actual Energy Sales (kWh)

are true and correct to the best of my personal knowledge based on submission by the respective power plant managers/Independent Power Producers-Contract Management Department (IPP-CM) and Finance Department of the National Power Corporation.


URBANO C. MENDIOLA, JR.
Manager
Power Economics Dept.

SUBSCRIBED AND SWORN TO before me this 30 ³⁰29 day of April 2008, affiant presented to me his Community Tax Certificate No. 16772698 issued on 10 January 2008 at Valenzuela City.


ATTY. NYERSON DEXTER TITO Q. TUALLA
Notary Public for Quezon City
~~Notary Public~~ 259
Commission until December 31, 2009
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