

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

IN THE MATTER OF THE 12TH
APPLICATION FOR THE RECOVERY OF
THE INCREMENTAL COSTS ON
FOREIGN CURRENCY EXCHANGE RATE
FLUCTUATIONS UNDER THE
INCREMENTAL CURRENCY EXCHANGE
RATE ADJUSTMENT (ICERA), WITH
PRAYER FOR PROVISIONAL
AUTHORITY

ERC CASE NO. 2009-031 RC

NATIONAL POWER CORPORATION
(NPC) AND POWER SECTOR ASSETS
AND LIABILITIES MANAGEMENT
CORPORATION (PSALM),

Applicants.

x ----- x

D O C K E T E D

Date: ~~JUN 17 2009~~

By: *[Signature]*

NOTICE OF PUBLIC HEARING

TO ALL INTERESTED PARTIES:

Notice is hereby given that on May 25, 2009, the National Power Corporation (NPC) and Power Sector Assets and Liabilities Management (PSALM) filed their 12th application for the recovery of the incremental costs on foreign currency exchange rate fluctuations under the Incremental Currency Exchange Rate Adjustment (ICERA), with prayer for provisional authority.

In the said application, NPC and PSALM alleged, among others, the following:

1. NPC is filing the instant 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 several Orders issued by the Commission. On the other hand, PSALM is filing the application in its capacity as transferee, owner and administrator of the generating assets of NPC pursuant to Section 49 of Republic Act No. 9136 (R.A. 9136);

ERC CASE NO. 2009-031 RC

Notice of Public Hearing/June 8, 2009

Page 2 of 6

2. 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 IPP costs;
3. The instant application covers the test period October 2008 to December 2008. They fully complied with all the Commission's monthly reportorial requirements in support of the calculated allowable costs covering the said test period;
4. They propose to recover/(refund) as Deferred Accounting Adjustment (DAA), corresponding to the additional or savings from foreign exchange fluctuations in the settlement of Debt Service and Operation Expenses (OPEX), and pertaining to the difference between actual or allowable Capacity and Infrastructure Fees for Build-Operate-Transfer (BOT) Plants and the billed amounts under the basic generation charge, as well as the corresponding carrying charges for the test period October 2008 to December 2008 for the Luzon, Visayas and Mindanao Grids;
5. Consistent with its previous ICERA applications, the Base Exchange Rates used in the calculation of the 12th ICERA DAA for OPEX is adjusted from CY 2000 to the average figures of CY 2002, or from PhP44.0494/US\$1 to PhP51.6036/US\$1 and from PhP0.4096/JP¥ 1 to PhP0.4128/JP¥1. However, Base Exchange Rates for Debt Service are maintained at the CY 2000 level, pending resolution on its "Supplemental Motion for Clarification" filed on May 31, 2006 seeking clarification on the disallowance of the Loss on FOREX fluctuations in the Decision on RORB-TOU application (ERC Case No. 2004-178). Resolution of said motion shall provide it with a better understanding of the Commission's intention particularly on the appropriate Base Exchange rate/price of Debt Service;
6. The calculation for the recovery/refund of costs on Capacity and Infrastructure Fees for Bakun Hydroelectric Power Plant and San Roque Multi-purpose Project is up to the authorized recoverable rate of PhP3.8299/kWh as contained in the Commission's Order on the 5th ICERA;
7. The total deferred accounting adjustments under this instant application are broken down in two (2) portions, current and balance. The current portion comprises of the deferred cost from foreign exchange fluctuations in the settlement of Debt Service and Operation Expenses (OPEX), and pertaining to the difference between the actual or allowable Capacity and Infrastructure Fees for Built-Operate-Transfer (BOT) and the corresponding carrying charges for the test period October 2008 to December 2008 for Luzon, Visayas and Mindanao Grids. The balance portion on the other hand, comprises the following:
 - a. DAA balances of previous ICERA applications:
 - a.1) The Balance of the 11th ICERA DAA as of April 26, 2009 for Luzon Grid;

- a.2) Balance of the 8th ICERA DAA as of April 26, 2009 for Visayas and Mindanao Grids; and
 - a.3) The Total DAA amounts applied under the 9th, 10th and 11th ICERA applications for Visayas and Mindanao Grids considering that as of April 25, 2009, NPC continues to implement the approved 8th ICERA charges in the Visayas and Mindanao Grids pursuant to ERC Decision dated December 15, 2008 in ERC Case No. 2008-032RC.
 - b) Total amount of DAAs covering the 8th GRAM to the 11th GRAM applications actually refunded to Successor Generating Companies (SGCs) in the Luzon Grid.
8. Considering the foregoing and pursuant to all the relevant Decisions and Orders previously issued by the Commission, they calculated the total deferred costs for recovery under the instant application comprising of deferred Debt Service, OPEX and Capacity Fees for BOT plants and the corresponding carrying charges for the Luzon, Visayas and Mindanao Grids covering the test period from October 2008 to December 2008 and the DAA balance of previously approved and pending approval. The table below shows the summary of the total deferred FOREX costs:

Total Deferred FOREX Costs, PhP

GRID	DAA, PhP
LUZON	(11,448,832,222)
VISAYAS	431,698,286
MINDANAO	(747,582,097)
PHILIPPINES	(11,764,716,034)

9. To recover/(refund) the above-stated deferred costs, they are proposing the approval of separate charges in PhP/kWh for the current and balance portions of the DAA. The approval of separate charges for these DAA components would allow a more reasonable basis for the recovery/(refund) of deferred costs to Successor Generation Companies (SGCs) and for a systematic and orderly monitoring of the implementation of the same. The proposed (three) 3 months recovery period for the current DAA in all the grids corresponds to the three (3) months test period (October 2008 to December 2008).

The proposed recovery period of three (3) months for DAA balance in all the grids corresponds to the three (3) months test period (October 2008 to December 2008). The proposed recovery period of three (3) months for DAA balance for Luzon Grid is consistent with an approval of the Commission in a previous ICERA application. On the other hand, the proposed twenty four (24) months recovery/(refund) period

for Visayas and Mindanao Grids corresponds to the number of months covering the test periods of the 9th, 10th and 11th ICERA applications or from January 2007 to September 2008, which are all pending resolution by the Commission. The proposed DAA charges in PhP/kWh were derived using the projected energy sales under NPC's proposed CY2007-2010 Budget. The table below shows the proposed DAA Charges in PhP/kWh for each grid and the proposed recovery/(refund) period in number of months:

	LUZON	VISAYAS	MINDANAO
Total	(1.8052)	0.1092	(0.0639)
Current Portion	0.1901	0.0820	(0.0246)
Balance Portion	(1.9954)	0.0272	(0.0639)
Recovery/(Refund) Period, No. of months			
Current Portion	3	3	3
Balance Portion	3	24	24

10. As authorized under the Implementing Rules of the ICERA, they utilized the carrying charge interest rates as shown below:

Allowable Carrying Charge Interest Rates

Test/Billing Months	Prevailing 91-day T-Bill Rate ¹	Authorized Allowance ²	Allowable Rate
October 2008 3/	5.6990%	3%	8.6990%
November 2008 3/	5.6990%	3%	8.6990%
December 2008	6.1220%	3%	9.1220%

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 October 2008 and November 2008, hence, the rate was computed based on the average T-Bill Rates for the preceding of the said months.

11. The total deferred accounting adjustments under the instant application represent the deferred cost from foreign exchange fluctuations for the test period October 2008 to December 2008 for Luzon, Visayas and Mindanao. The instant application includes the DAA balances of previous ICERA applications as follows: a) for Luzon Grid, the balance of 11th ICERA DAA; b) for Visayas and Mindanao Grids, the balance of the 8th CERA and the total DAA amounts applied under 9th, 10th and 11th CERA applications which are being evaluated by the Commission. As of April 25, 2009, NPC remains to implement the 8th ICERA charges in Visayas and Mindanao Grids in the absence of an Order from ERC for the 9th, 10th and 11th ICERA applications;
12. The proposed ICERA DAA is fair and reasonable as it allows the recovery of deferred costs consistent with the principles of a free and competitive electricity market as provided under R.A. No. 9136;

13. They pray that a provisional authority be issued to enable them to immediately implement the recovery/(refund) of the deferred costs particularly in the Visayas and Mindanao Grids to mitigate the impact of the accumulated DAA to customers and improve NPC's financial resources; and
14. They further pray for the approval of the following: a) the amounts of deferred costs; b) the proposed separate DAA charges; and c) the recovery periods for current DAA and the DAA balances, to wit:

	LUZON	VISAYAS	MINDANAO
Total	(1.8052)	0.1092	(0.0639)
Current Portion	0.1901	0.0820	(0.0246)
Balance Portion	(1.9954)	0.0272	(0.0639)
Recovery/(Refund) Period, No. of months			
Current Portion	3	3	3
Balance Portion	3	24	24

The Commission has set the application for initial hearing on July 14, 2009 (Tuesday) at ten o'clock in the morning (10:00 A.M.) at the ERC Hearing Room, 15th Floor, Pacific Center Building, San Miguel Avenue, Pasig City.

All persons who have an interest in the subject matter of the proceeding may become a party by filing, at least five (5) days prior to the initial hearing and subject to the requirements in the ERC's Rules of Practice and Procedure, a verified petition with the Commission giving the docket number and title of the proceeding and stating: (1) the petitioner's name and address; (2) the nature of petitioner's interest in the subject matter of the proceeding, and the way and manner in which such interest is affected by the issues involved in the proceeding; and (3) a statement of the relief desired.

All other persons who may want their views known to the Commission with respect to the subject matter of the proceeding may file their opposition to the application or comment thereon at any stage of the proceeding before the applicants conclude the presentation of their evidence. No particular form of opposition or comment is required, but the document, letter or writing should contain the name and address of such person and a concise statement of the opposition or comment and the grounds relied upon.

All such persons who may wish to have a copy of the application may request the applicants, prior to the date of the initial hearing, that they be furnished with a copy of the application. The applicants are hereby directed to furnish all those making a request with copies of the application and its attachments, subject to reimbursement of reasonable photocopying costs. Likewise, any such person may examine the application and other pertinent records filed with the Commission during the usual office hours.

WITNESS, the Honorable Chairperson, **ZENAIDA G. CRUZ-DUCUT**, and the Honorable Commissioners, **RAUF A. TAN**, **ALEJANDRO Z. BARIN**, **MARIA TERESA A.R. CASTAÑEDA**, and **JOSE C. REYES**, Energy Regulatory Commission, this 8th day of June 2009 at Pasig City.


ATTY. FRANCIS SATURNINO C. JUAN
Executive Director III