

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

IN THE MATTER OF THE 13TH
APPLICATION FOR THE
RECOVERY OF THE
INCREMENTAL FUEL AND
INDEPENDENT POWER
PRODUCER (IPP) COST UNDER
THE GENERATION RATE
ADJUSTMENT MECHANISM
(GRAM), WITH PRAYER FOR
PROVISIONAL AUTHORITY

ERC CASE NO. 2009-032 RC

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

Applicants.

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DOCKETED
Date: JUN 17 2009
By: _____

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 13th application for the recovery of incremental fuel and Independent Power Producer (IPP) costs under the Generation Rate Adjustment Mechanism (GRAM), 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);

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), the difference between the allowable fuel and purchased power costs and the amounts recovered through the basic generation rate for the above-mentioned billing period and the balance of previously approved GRAM applications;
5. Consistent with its previous GRAM applications, the instant application 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), Caliraya-Botocan-Kalayaan (CBK) and Mindanao Coal (STEAG) power plants. The allowable costs for recovery for these IPP plants are to be included in the next GRAM applications that shall cover the test periods when these IPP contracts were duly approved by the Commission;
6. NPC already utilized the new heat rate caps on a per power plant basis including the allowance for heat rate degradation approved by the Commission in its Decision dated June 30, 2008 in ERC Case No. 2004-111. NPC, however, included a reasonable recovery of cost of fuel consumed without generation considering that its exclusion would mean an additional loss for NPC amounting to almost Php90 Million for the 3-month test period;
7. NPC believes that there is always an occasion for a power plant to shut down (scheduled and unscheduled) during a year. Once a plant shuts down and starts-up, it would necessarily consume fuel without generation. However, unlike the main fuel of thermal power plants, efficient use of start-up fuel is difficult to determine. For one, the start-up fuel consumption of the plant must not be limited to scheduled shutdowns or those instructed by the System Operations (SO) or at the instance of the Market Operator (MO). The plant would rather stay online at all times to ensure its revenues and maintain the reliability, security and stability of the system. To monitor and classify start-ups will be cumbersome, notwithstanding that such will require exchange of information between NPC and PSALM, which may be inappropriate under Wholesale Electricity Spot Market (WESM) Rules. Moreover, coordination with System Operations (SO) of the National Transmission Corporation or TRANSCO (and now with the National Grid Corporation of the Philippines or NGCP) and/or MOs of WESM will likewise require the consent of PSALM;

8. In view of the foregoing circumstances, NPC utilized its proposed methodology of determining the allowable cost of fuel without generation under ERC Case No. 2009-003RC which is basically the average monthly amount of the lowest yearly costs of fuel without generation during Calendar Years (CYs) 2005 to 2007 or the actual cost of fuel without generation during each of the test month covered by this application, whichever is lower, plus any savings from previous test months;

9. 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 fuel and IPP costs 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 GRAM applications:
 - a.1) The Balance of the 12th GRAM DAA as of April 26, 2009 for Luzon Grid;
 - a.2) Balance of the 9th GRAM DAA as of April 26, 2009 for Visayas and Mindanao Grids; and
 - a.3) Total DAA amounts applied under the 10th, 11th and 12th GRAM applications for Visayas and Mindanao Grids considering that as of April 25, 2009, NPC continues to implement the approved 9th GRAM charges in the Visayas and Mindanao grids pursuant to ERC Decision dated December 15, 2008 in ERC Case No. 2008-031RC.
 - b) Total amount of DAAs covering the 9th GRAM to the 12th GRAM applications actually refunded to Successor Generating Companies (SGCs) in the Luzon Grid

10. 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 all the deferred fuel and IPP costs and the corresponding carrying charges for the Luzon, Visayas and Mindanao Grids covering the test period from October 2008 to December 2008. The following is the summary of the total deferred fuel and IPP costs:

Total Deferred Fuel and IPP Costs for Recovery/(Refund)

GRID	DAA, PhP
LUZON	10,242,338,156
VISAYAS	7,030,282,609
MINDANAO	(388,628,024)
PHILIPPINES	16,883,992,741

11. 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 for Luzon Grid is consistent with the approval of the Commission in the previous GRAM 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 10th, 11th and 12th GRAM applications or from January 2007 to September 2008, which are all pending resolution by the Commission. The proposed DAA charges in P/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:

Proposed DAA Charges, PhP/kWh

	LUZON	VISAYAS	MINDANAO
Total	1.6150	1.9993	0.0892
Current Portion	1.4183	1.5872	0.1264
Balance Portion	0.1967	0.4120	(0.0371)
Recovery/(Refund) Period, No. of months			
Current Portion	3	3	3
Balance Portion	3	24	24

12. As authorized under the Implementing Rules of the GRAM, they utilized the following carrying charge interest rates which apply to both deferred costs for recovery and (refund):

Allowable Carrying Charge 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- Pursuant to the GRAM Implementing Rules
 3- There was No Issue (NI) of a 91-day T-Bill Rate for the months of October 2008 and November 2008, hence, the rate utilized for these months was based on the average 91-day T-Bill Rates for the 3rd Quarter of 2008

13. The proposed GRAM DAA is fair and reasonable as it allows the recovery/(refund) of deferred costs consistent with the principles of a free and competitive electricity market as provided under Republic Act No. 9136 and all pertinent Orders/Decisions issued by the Commission;
14. 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
15. They further pray for the approval of the following: a) the deferred costs; b) the proposed separate DAA charges; and c) the recovery periods for current DAA and the DAA balances.

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 applicant, prior to the date of 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