

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

IN THE MATTER OF THE 13<sup>TH</sup>  
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 (PA)

ERC CASE NO. 2009-055 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: FEB 23 2010  
By: [Signature]

**NOTICE OF PUBLIC HEARING**

**TO ALL INTERESTED PARTIES:**

Notice is hereby given that on July 29, 2009, the National Power Corporation (NPC) and the Power Sector Assets and Liabilities Management Corporation (PSALM) filed their 13<sup>th</sup> 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, that:

1. Under Section 3 (g) of the NPC Charter, NPC has the authority to sell electric power in bulk to electric cooperatives, private distribution utilities, government owned distribution utilities or local government units which have exclusive franchise to operate a distribution system. Under Section 47 (j) of Republic Act No. 9136 ("Electric Power Industry Reform Act or EPIRA"), NPC may continue to generate and sell electricity from the undisposed generating assets and IPP contracts of PSALM Corporation;
2. NPC is filing this application as implementing agency for the unbundled generation rates as stated in the various Orders and Decision of the Commission. PSALM is filing the instant application in its capacity as transferee, owner and administrator of the generating assets of NPC pursuant to Section 49 of the EPIRA;
3. In the Order dated February 24, 2003, the Commission issued and adopted the Implementing Rules for the ICERA providing, among others, the required mechanisms for the recovery/(refund) of the deferred incremental costs/(savings) on foreign currency exchange rate fluctuations and carrying charges;
4. The instant application covers the billing period from January 2009 to March 2009. They have fully complied with the ICERA's monthly reportorial requirements to support the calculated allowable costs covering the billing period, as evidenced by the submitted reports/compliances duly received by the Commission;
5. They propose to recover/(refund) the Deferred Accounting Adjustments (DAAs), corresponding to additional costs or savings from foreign exchange fluctuations in the settlement of Debt Service (principal repayment portion) and Operating 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 billing period January 2009 to March 2009 for the Luzon, Visayas and Mindanao Grids;
6. Pursuant to the Commission's directive in its Order dated November 23, 2005 (approval of 4<sup>th</sup> ICERA DAA), the proposed 13<sup>th</sup> ICERA DAA charge is calculated on a per Grid basis;
7. Consistent with previous ICERA applications, the Base Exchange Rates used in the calculation of the 13<sup>th</sup> ICERA DAA for OPEX is adjusted from CY 2000 level to the average figures of CY 2002, or from PhP44.0494/US\$1 to PhP51.6036/US\$1 and from PhP0.4096/JPY1 to PhP0.4128/JPY1. However, Base Exchange Rates for Debt Service are maintained at the CY 2000 level, pending resolution of the Supplemental Motion for Clarification filed by NPC 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 applicant with a better understanding of the Commission's intention, particularly on the appropriate Base Exchange rate/price of Debt Service;

8. The calculation for the recovery/refund of Capacity and Infrastructure Fees for Bakun Hydroelectric Power Plant and San Roque Multi-purpose Project were pegged at PhP3.8299/kWh, as contained in the Commissions' Order under the 5<sup>th</sup> ICERA;
9. The instant application likewise includes the recovery/(refund) of the allowable capacity and infrastructure fees for CBK, based on the Commission's Decision in ERC Case No. 2007-159 dated November 17, 2008;
10. The instant application does not include any un-recovered or un-refunded balance from the previous ICERA applications, considering that the same are still pending resolution by the Commission;
11. Considering the foregoing, and pursuant to all the relevant Decisions and Orders issued by the Commission, they calculated the total deferred costs for recovery under this 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 January to March 2009 only. Shown below is the summary of the total deferred FOREX costs as follows:

**Table 1. Total Deferred FOREX Costs, in Pesos**

GRID	DAA (PhP)
LUZON	1,088,588,303
VISAYAS	35,193,748
MINDANAO	(70,525,934)
<b>PHILIPPINES</b>	<b>1,053,256,117</b>

12. They seek the Commission's approval for the recovery/refund of the above-stated total current deferred FOREX costs for the billing period January to March 2009, through the imposition of the following proposed DAA charges:

**Table 2. Proposed 13<sup>th</sup> ICERA DAA Charges, PhP/kWh**

Particulars	Luzon	Visayas	Mindanao
Total DAA Charge	0.1855	0.0246	(0.0327)

The balance from the implementation of the 12<sup>th</sup> ICERA applications, depending on the Commission's Resolution of the said cases, shall be added to the above rate.

13. They seek the approval of the Commission to recover the above-stated deferred costs over the following recovery periods:

**Table 3. Proposed Spread (No. of Months)**

Luzon	Visayas	Mindanao
3	3	3

14. As authorized under the Implementing Rules of the ICERA, Applicants utilized the carrying charge interest rates, as shown in Table 4 below:

**Table 4. Allowable Carrying Charge Interest Rates**

Test/Billing Months	Prevailing 91-day T-Bill Rate <sup>1/</sup>	Authorized Allowance <sup>2/</sup>	Allowable Rate
January	4.647%	3.00%	7.647%
February <sup>3/</sup>	4.647%	3.00%	7.647%
March	4.408%	3.00%	7.408%

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 February 2009, hence, the data used was based on the T-Bill rates for January 2009.*

15. 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;
16. To date, they are implementing the 8<sup>th</sup> ICERA charges in Visayas and Mindanao Grids pending resolution by the Commission of the 9<sup>th</sup> to 12<sup>th</sup> ICERA Applications;
17. They pray that a provisional authority be issued to enable them to immediately implement the recovery or (refund) of the deferred costs particularly in the Visayas and Mindanao Grids in order to mitigate the accumulated DAA to customers and improve NPC's financials;
18. They also would like to manifest that there is a need to establish new base exchange rates in US Dollar and Japanese Yen for Forex I (debt service) and Forex II (insurance and spare parts), and a new base price for capacity and infrastructure fees to be used in the succeeding ICERA applications starting from the 14<sup>th</sup> ICERA. This is in line with the provisional approval (PA) of the Commission dated 16 February 2009 in ERC Case No. 2009-004RC, where a new basic generation charge based on test year 2007 was implemented for the Luzon, Visayas, and Mindanao Grids effective March 2009 billing period; and
19. They shall be filing their proposed base prices and base exchange rates for approval by the Commission under ERC Case No. 2009-004RC, the application covering the provisionally approved (PA) revised Basic Generation Rates for Luzon, Visayas and Mindanao Grids;

20. They further pray that the following deferred costs/(refund), recovery period, and proposed Deferred Accounting Adjustment (DAA) charges covering the current DAA be approved by the Commission consistent with the Implementing Rules for the Recovery of Incremental Currency Exchange Rate Adjustment (ICERA) and Section 4 (e) Rule 3 of the IRR, as amended, of RA 9136 or EPIRA:

Particulars	Luzon	Visayas	Mindanao
Total Deferred Costs/(Refund)	1,088,588,303	35,193,748	(70,525,934)
Total DAA Charge	0.1855	0.0246	(0.0327)
Proposed Recovery Period (in number of months)	3	3	3

21. Finally, they pray for the issuance of a Provisional Authority (PA) for immediate implementation of the above proposed rates for Luzon, Visayas and Mindanao Grids, as well as the early resolution of the 9<sup>th</sup> to 12<sup>th</sup> ICERA applications.

The Commission has set the application for initial hearing and pre-trial conference on **March 24, 2010 (Wednesday)** at two o'clock in the afternoon (2:00 P.M.) at the **ERC Hearing Room, 15<sup>th</sup> 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 Commission'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 15<sup>th</sup> day of February 2010 at Pasig City.

  
**ATTY. FRANCIS SATURNINO C. JUAN**  
Executive Director III