

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

IN THE MATTER OF THE 14TH
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

ERC CASE NO. 2009-056 RC

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

Applicants.

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DOCKETED
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 Power Sector Assets and Liabilities Management Corporation (PSALM) filed their 14th 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, that:

1. Under Section 3 (g) of its 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 the instant application as implementing agency for the unbundled generation rates 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 the NPC pursuant to Section 49 of the EPIRA;
3. The applications for the recovery of deferred charges were all consistent with the Commission's Order dated February 24, 2003 in ERC Case No. 2003-44 providing, among others, the required mechanism for the recovery of the deferred IPP Costs;
4. The instant application is being filed consistent with Section 4 (e) Rule 3 of the Implementing Rules and Regulations (IRR), as amended, of R.A. 9136. It covers the billing period from January 2009 to March 2009. NPC has fully complied with all of the Commission's monthly reportorial requirements in support of the calculated allowable costs covering the said billing period as evidenced by the submitted reports/compliances duly received by the Commission;
5. 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, approved per ERC Case No. 2004-178, during the above-stated test/billing period, excluding the balance of previously approved GRAM applications and GRAM applications pending resolution by the Commission;
6. The instant application includes the costs of purchased power from Malaya and Caliraya-Botocan-Kalayaan (CBK), which were approved by the Commission on November 17, 2008. Consistent with the previous GRAM applications, purchased power costs from Mindanao Coal (STEAG) and Naga (Salcon) are to be included in the next applications that cover the test periods when these IPP contracts were approved by the Commission for recovery;
7. Similarly, they applied the same methodology and principles in the calculation of allowable fuel costs adopted in the 13th GRAM application filed on May 25, 2009 particularly the use of new heat rate caps on a per power plant basis, including the allowance for heat rate degradation as approved by this Commission in its Decision dated June 30, 2008 in ERC Case No. 2004-111;
8. Considering the foregoing and pursuant to all the relevant Decisions and Orders previously issued by the Commission, they have calculated the total deferred costs for recovery under this instant application comprising of the deferred fuel and IPP costs stated above and the corresponding carrying charges for the Luzon, Visayas and Mindanao Grids covering the test period from January 2009 to March 2009, current portion only. Shown below is the summary of the total deferred fuel and IPP costs:

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

GRID	DAA, PhP
LUZON	7,748,764,621
VISAYAS	1,875,827,373
MINDANAO	(134,704,314)
PHILIPPINES	9,489,887,680

9. To recover/(refund) the above-stated deferred costs over a period of three (3) months, they are proposing the approval of the following DAA Charges which were derived using the projected energy sales under the NPC's proposed CY 2007-2010 Budget:

Proposed DAA Charges, P/kWh

	LUZON	VISAYAS	MINDANAO
Total	1.3203	1.3136	(0.0625)

10. 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
January 2009 3/	4.6470%	3%	7.6470%
February 2009 3/	4.6470%	3%	7.6470%
March 2009	4.4080%	3%	7.4080%

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 month of February 2009 hence, rate utilized for these months was based on the average 91-day T-Bill Rates for the January 2009

11. 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 R. A. No. 9136 and all pertinent Orders/Decisions issued by the Commission;

12. They pray that a provisional authority be issued to implement the rates for the recovery/refund of the following:

- a. DAA under this instant application; and
- b. The estimated DAA balances under the 13th GRAM applications for Luzon, Visayas and Mindanao Grids.

13. As of this filing, they are implementing the 9th GRAM charges in the Visayas and Mindanao Grids pending resolution by the Commission of the 10th, 11th, and 12th GRAM applications;
14. They manifest that there is a need to establish new base prices for fuel and IPP costs to be used in the succeeding GRAM applications starting from the 15th GRAM. This is in line with the provisional approval of the Commission dated February 16, 2009 in ERC Case No. 2009-004 RC, 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;
15. They shall be filing an application for approval by the Commission of its proposed base prices for fuel and purchased power costs under ERC Case No. 2009-004 RC. The application will cover the provisionally approved revised Basic Generation Rates for Luzon, Visayas and Mindanao Grids; and
16. They further pray that consistent with ERC Case No. 2003-44 adopting the implementing rules for the recovery of fuel and IPP costs: GRAM and Section 4 (e) Rule 3 of the IRR, as amended, or RA 9136, the following deferred costs/(refund), recovery period, and proposed DAA charges for the current DAA be approved:

Particulars	Luzon	Visayas	Mindanao
Total Deferred Costs/ (Refund)	7,748,764,621	1,875,827,373	(134,704,314)
Total DAA Charge	1.3203	1.3136	(0.0625)
Proposed Recovery Period (in number of months)	3	3	3

17. They likewise pray for the issuance of a provisional authority for immediate implementation of the above proposed rates for Luzon, Visayas and Mindanao Grids, as well as the early resolution of the 10th to 13th GRAM 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, 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 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 15th day of February 2010 at Pasig City.


ATTY. FRANCIS SATURNINO C. JUAN
Executive Director III