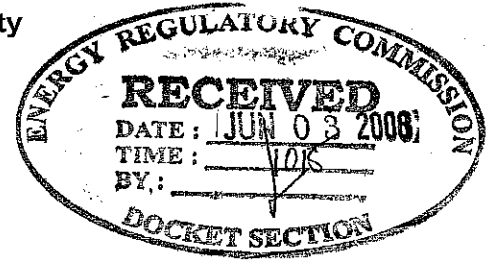


Republic of the Philippines
ENERGY REGULATORY COMMISSION
San Miguel Ave., Pasig City



APPLICATION FOR THE APPROVAL
OF THE REVISED BASIC
GENERATION RATES FOR LUZON,
VISAYAS AND MINDANAO GRIDS
WITH PRAYER FOR PROVISIONAL
AUTHORITY

ERC CASE NO. 2008- 020 RC

NATIONAL POWER CORPORATION
(NPC),

Applicant.

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APPLICATION

APPLICANT NATIONAL POWER CORPORATION (NPC), through the undersigned counsel and to this Honorable Commission, most respectfully state:

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 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 generation of power and the production of electricity from nuclear, geothermal and other sources of energy in order to attain, among others, the objective of providing adequate and reasonable price of electric power nationwide.

3. Applicant NPC is filing this application in its capacity as the owner of record of all the existing generation assets and energy, and also as implementing agency for the unbundled generation rates as approved by the Honorable Commission in its Orders dated September 6 & 20, 2002 under ERC Case No. 2001-901 and the ERC approved revised generation charges dated Sept. 3, 2004 and April 13, 2005 in ERC Case No. 2004-178.

4. On June 22, 2004, Applicant filed an application for the approval of the revised Return on Rate Base (RORB) and Time-of-Use (TOU)-based generation charges for the Luzon, Visayas and Mindanao Grids, based on CY 2002 audited financial statements. The application was docketed as ERC Case

No. 2004-178. On September 3, 2004, the Energy Regulatory Commission (ERC) issued an Order provisionally approving an adjustment in Applicant NPC's average generation rate per grid and authorizing the Applicant to implement the TOU rates subject to an irrevocable option of the customers either to avail or not to avail of the approved TOU Rates Schedules. On April 13, 2005, the ERC issued a Decision approving the final levels of NPC's average rate per grid as well as the final TOU Rates Schedules that shall be implemented on a mandatory basis to all customers.

5. In the same Decision the ERC mandated Applicant NPC to, among others, apply periodically for a rate adjustment to consider sale of assets, change in load profile and plant stacking.

6. Pursuant to Section 47 of Republic Act No. 9136 (Electric Power Industry Reform Act of 2001 or EPIRA), the Power Sector Assets and Liabilities Management ("PSALM") Corporation proceeded to dispose NPC's generation assets. As of this filing, PSALM has already sold/privatized a number of NPC generation assets representing more than forty percent (40%) of applicant's available generating capacity. A list of the generation assets already sold, transferred and disposed as of December 31, 2007 is hereto attached as **Annex "A"**. Also attached as **Annex "B"** is PSALM's GenCo Privatization Targets and Indicative Privatization Schedule as of 10 October 2007.

7. Applicant seeks the approval of the instant application for new Generation Rates to reflect the impact of the sale, transfer and disposal of NPC generation assets. Applicant likewise included in this application a proposal for the approval of revised generation rates to incorporate the impact of the further sale, transfer and disposal by PSALM of the other remaining generation assets of the applicant as contained in Annex "B" hereof.

8. Applicant's calculations took off from the ERC approved revenue requirements in ERC Decision dated April 13, 2005 comprising of the allowable fuel and independent power producer (IPP) costs during CY 2004 and all other allowable fixed generation costs as well as energy sales in CY 2002 including the authorized eight percent (8%) RORB based on allowable CY 2002 rate base. Table No. 1 below contains the components of the approved revenue requirements utilized by herein Applicant:

TABLE NO. 1
Approved Revenue Requirement

Revenue Requirement Component	in PHP 000		
	LUZON	VISAYAS	MINDANAO
Fuel	33,798,268	5,365,637	3,829,794
Purchased Power	16,828,283	3,830,953	4,670,404
Payroll	972,698	290,319	369,074
O & M (excluding Fuel, PP & Payroll)	1,483,434	165,908	482,758
Gain/Loss on FOREX Fluctuation	0	0	0
Depreciation Expenses	6,685,273	624,565	1,039,172
Actual Payments of Capacity Fees	36,698,415	0	268,003
Power Barge Operating Costs	0	143,500	0
Total	96,466,371	10,420,882	10,659,205
Return on Rate Base (RORB)	9,810,788	847,545	2,174,832
Gross Revenue Requirement	106,277,159	11,268,427	12,834,037
Less: Ancillary Services Revenues	(12,084,559)	(682,787)	(1,054,057)
ODPS Revenues	(3,595,031)	(665,023)	(48,935)
Net Revenue Requirement	90,597,569	9,920,617	11,731,045
Energy Sales, MWh	23,250,328	3,435,191	5,578,231
Average Generation Rate, P/kWh	3.8966	2.8879	2.1030

Attached as **Annex "C" and series** are the audited Results of Operation per plant covering calendar years 2002 and 2004 and the Actual Capacity & Infrastructure Fees – BOT Plants covering December 26, 2003 to December 25, 2004. These documents contain the financial figures used in adjusting the above-stated revenue requirements.

9. The Applicant calculated the revised revenue requirement with due consideration to the removal of the expense, rate base and other revenue requirement components relative to the sale, transfer and disposal of NPC's generation assets/power plants in the Luzon grid as shown in Table No. 2 below. Adjustments were made with due consideration of the Honorable Commission's approval ratio for each affected revenue requirement component. Applicant determined that the privatization of these power plants would require an immediate adjustment in the existing Luzon grid average generation rate of P3.8966/kWh in order for the Applicant to be able to reasonably recover the operating expenses of the remaining power plants under its control and/or ownership as well as attain a reasonable return on rate base as authorized by the ERC. Applicant's calculations revealed that its average generation rate in the Luzon grid should be initially adjusted to P4.2651/kWh or an increase of P0.3685/kWh due to the impact of privatization of the following power plants:

TABLE NO. 2

Additional NPC Generation Assets/Power Plants Sold

NAME OF PLANT	RATED CAPACITY MW	LOCATION
Pantabangan-Masiway Hydroelectric Power Plant	112	Nueva Ecija
Magat Hydroelectric Power Plant	360	Isabela
Masinloc Coal-fired Thermal Power Plant	600	Zambales

10. Applicant proposes to adopt a revised TOU Rates Schedule for Luzon Grid hereto attached as **Annex "D"** to replace the TOU Rates Schedule approved by the Honorable Commission in its Decision dated April 13, 2005 (ERC Case No. 2004-178). In deriving the revised TOU hourly rates contained in the proposed revised TOU Rates Schedule, Applicant simply added the required P/kWh adjustment of P0.3685/kWh to the twenty four (24) hourly TOU rates under both the Monday to Saturday and Sunday/Holidays Rates Schedules.

11. Although other NPC generation assets/plants were already sold and transferred to their new owners prior to the sale of the power plants contained in Table No. 2 above (particularly Tolomo, Agusan, Barit, Cawayan and Loboc Hydroelectric Power Plants), the Applicant did not consider the sale of the said power plants in this instant application for the following reasons: 1.) the Honorable Commission has already imputed the impact of sale of these power plants in the approval of the existing generation rates in the Luzon grid and 2.) the impact of the sale of these small hydro plants is very minimal to affect the average generation rate.

12. Several other NPC generation assets/power plants are likewise part of PSALM's Privatization Schedule however, the sale of these power plants would not affect the existing generation rates considering that the same did not form part of the approved revenue requirements having been decommissioned and thus, non-operational during the test period covered by the approved revenue requirements. Table No. 3 below contains a list of power plants that are currently under decommissioned status but are scheduled for privatization within the next two (2) to three (3) years:

TABLE NO. 3

List of Decommissioned Plants for Privatization

PLANT	Unit	Date Decommissioned
LUZON GRID		
Bataan Oil-Fired-Thermal PP	1	1/1/2000
Bataan Oil-Fired-Thermal PP	2	2/1/1999
Manila Thermal PP	1	1/1/2000
Manila Thermal PP	2	1/1/2000
Sucac Thermal PP	1	4/1/2000
Sucac Thermal PP	2	1/1/2002
Sucac Thermal PP	3	1/1/2002
Sucac Thermal PP	4	1/1/2000
VISAYAS GRID		
Cebu Diesel Power Plant II	1	5/1/1997
Cebu Diesel Power Plant II	2	11/1/1997
Cebu Diesel Power Plant II	3	11/1/1997
MINDANAO GRID		
General Santos Diesel PP	1	4/1/1998
General Santos Diesel PP	2	4/1/1998
General Santos Diesel PP	3	4/1/1998
Aplaya Diesel Power Plant	1	10/7/1996
Aplaya Diesel Power Plant	2	10/7/1996
Aplaya Diesel Power Plant	3	3/1/1996
Aplaya Diesel Power Plant	4	3/1/1996
Aplaya Diesel Power Plant	5	3/1/1996
Aplaya Diesel Power Plant	6	3/1/1996
Aplaya Diesel Power Plant	7	3/1/1996
Aplaya Diesel Power Plant	8	3/1/1996

13. Applicant likewise calculated the required adjustments in the average generation rates brought about by the planned sale, transfer and disposal of other NPC generation assets/power plants over the next 2-3 years. A detailed listing of said power plants as well as the required adjustments in the average generation rates, revenue requirements and energy sales in the Luzon, Visayas and Mindanao grids are contained in the attached **Annex "E"**.

14. In PSALM's GenCo Privatization Targets and Indicative Privatization Schedule, there were indicative bidding dates as well as closing dates or ownership transfer dates to the supposed winning bidders starting from the second half of CY2008 to as far as 2-3 years ahead. Applicant in this instant application, is likewise seeking for the approval of revised TOU Rates Schedules to be determined using the similar add/deduct approach/methodology in the adjustment of the hourly TOU Rates by the required increase/decrease in the average generation rates of the particular grid affected by the sale. However, applicant proposes that the revision of the applicable TOU Rates Schedules shall be made on a quarterly basis and that applicant be authorized to implement amended TOU Rates Schedules reflective of the impact of a sale, transfer and disposal of NPC generation assets/power plants within the quarter. The prevailing TOU Rates Schedule shall remain until such time that an NPC power plant or plants, as the case maybe, are sold, transferred and disposed by PSALM.

15. As shown in Annex "F" for example, a revised TOU Rates Schedule for Luzon Grid shall have to be implemented by applicant by April 2008 upon

sale of NPC generation assets/power plants up to Masinloc Coal-fired Thermal Power Plant and again, a revised TOU Rates Schedule by July 2008 to reflect the impact of the sale of additional plants namely Calaca Coal-fired Thermal Power Plant, Ambuklao and Binga Hydro Power Plants assuming PSALM's Privatization Schedule shall materialize as planned.

16. Moreover, as the pending applications for the allowable recovery of the remaining IPP contracts for Malaya Thermal Power Plant, Caliraya-Botocan-Kalayaan Hydro Power Plants, Naga Thermal/Diesel/Gas Turbine Power Plants and Mindanao Coal-Fired Thermal Power Plant are approved by the Honorable Commission, we also request that these be included as part of the prevailing basic rate of NPC. These applications are docketed as ERC Cases No. 2005-32RC, 2007-159RC, 2005-31RC and 2001-811, respectively.

17. Herein Applicant proposes that the approved rate for recovery for any of the Luzon Grid IPP plant stated above shall be multiplied by the energy delivered by the same IPP plant in CY2004 to get the required amount of adjustment in the Purchased Power and Capacity and Infrastructure Fees components of the revenue requirement corresponding to the prevailing Luzon Grid Generation Rate. As regards Mindanao Coal-fired Thermal Power Plant, the amount of adjustment in revenue requirement for Mindanao Grid shall be based on the recoverable rate as approved by the Honorable Commission and the actual energy delivered by the IPP plant based on the most recent twelve (12) months operation. The adjusted revenue requirement shall then be the basis for determining the new average generation rate and the resulting adjustment in P/kWh shall likewise be applied uniformly to the prevailing hourly TOU generation rates to come up with a new TOU Rates Schedule. This is the same methodology in adjusting the prevailing TOU Rates Schedules being proposed by applicant relative to the privatization of its power plants as briefly discussed in item 10 above.

18. Pursuant to the amended Section 4 (e) of Rule 3 of the Implementing Rules and Regulations (IRR) of R.A. No. 9136 which took effect June 26, 2007 and to ERC Resolution No. 38, Series 2006, attached herewith are the following:

- a. NP Board Resolution approving the filing of the Proposed Adjusted Generation Charge of NPC as **Annex "F"**
- b. Certification by the City Secretary of the Sangguniang Panlungsod of Quezon City as **Annex "G"**;

- c. Certification by the City Secretary of the Sangguniang Panlungsod of the City of Makati as **Annex "H"**;
 - d. Copy of the newspaper of general circulation wherein the instant Application was published, together with the Affidavit of Publication executed by the editor-in-chief or other responsible officer of the Newspaper as **Annexes "I"** and **"J"**, respectively.
19. The filing of this application is without prejudice to the filing by NPC of a flat rate as basic generation charge.

PRAYER

WHEREFORE, premises considered, it is most respectfully prayed that, after due notice and hearing, the Honorable Commission **APPROVE**:

1. The required adjustment to NPC's Average Generation Rates for each plant privatized in Annex "E".
2. The automatic implementation in the succeeding quarter of the proposed adjusted TOU Rates or such approved adjustments corresponding to NPC generation assets/power plants in Luzon, Visayas and Mindanao grids privatized during the indicated previous quarter.
3. The methodology for deriving the revised TOU Rates Schedules.
4. The adjustment of the prevailing basic generation and its corresponding TOU Rates Schedule once the application for recovery of the costs for the remaining IPP contracts (Malaya Thermal Power Plant, Caliraya-Botocan-Kalayaan Hydro Power Plants, Naga Thermal/Diesel/Gas Turbine Power Plants and Mindanao Coal-Fired Power Plant) are approved by the Honorable Commission.

Applicant also prays for the issuance of a provisional authority allowing NPC, during the pendency of this case, to immediately implement the proposed adjustment on NPC's basic generation rate with its corresponding TOU Schedule for the Luzon Grid including the cost recovery of the remaining IPP contracts upon their approval.

Applicant prays for other just and equitable relief.

Quezon City for Pasig City. March 31, 2008.

FOR THE SOLICITOR GENERAL



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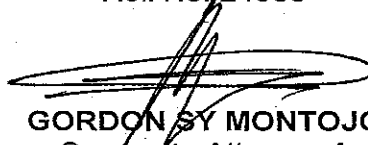
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