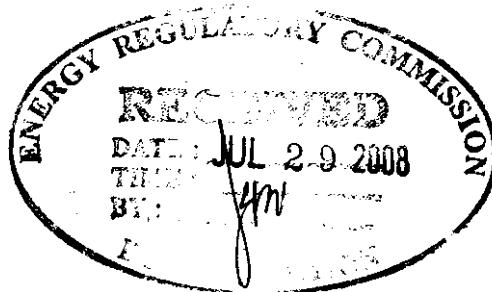


Republic of the Philippines
ENERGY REGULATORY COMMISSION
Pacific Center Building, San Miguel Avenue
Ortigas Center, Pasig City

IN THE MATTER OF THE
APPLICATION FOR THE
RECOVERY OF THE
INCREMENTAL COSTS ON
FOREIGN CURRENCY EXCHANGE
RATE FLUCTUATIONS UNDER
THE 9TH INCREMENTAL
CURRENCY EXCHANGE
RECOVERY ADJUSTMENT (ICERA)
WITH PRAYER FOR PROVISIONAL
AUTHORITY (PA)



ERC CASE NO. 2008 - 043 RC

**NATIONAL POWER CORPORATION
(NPC)**

Applicant.

x-----x

APPLICATION

Applicant **NATIONAL POWER CORPORATION (NPC)** by undersigned counsels and to this Honorable Commission, most respectfully state that:

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 NPC Charter) with principal office address at NPC-Office Building Complex (NPC-OBC), corner Quezon Avenue and BIR Road, Diliman, Quezon City.
2. Applicant NPC is mandated under its Charter to undertake the development of hydroelectric power generation and the production of electricity from nuclear, geothermal and other sources of energy in order to attain, among others, the objective of providing an adequate supply of electric power nationwide at a reasonable price.

3. Applicant NPC is filing this 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 Orders of this Commission dated September 6 & 20, 2002 in ERC Case No. 2001-901, revised generation charges in the Orders dated Sept. 3, 2004 and April 13, 2005 in ERC Case No. 2004-178 and for the recovery of Deferred Charges through ICERA in the Orders dated December 4, 2003 in ERC Case No. 2003-498, April 22, 2004 in ERC Case No. 2004-76, April 13, 2005 in ERC Case No. 2005-006RC, November 23, 2005 in ERC Case No. 2005-039RC, July 12, 2006 in ERC Case No. 2006-012RC, Feb 7, 2007 and June 12, 2007 in ERC Case No. 2006-072RC, Sept. 5, 2007 and Dec. 21, 2007 in ERC Case No. 2007-100RC and June 11, 2008 in ERC Case No. 2008-032RC.

4. In the Order dated February 24, 2003, the Honorable Commission issued and adopted the Implementing Rules for the Incremental Currency Exchange Rate Adjustment (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.

5. This application is being filed consistent with the amended Section 4(e) Rule 3 of the Implementing Rules and Regulations (IRR) of Republic Act (RA) 9136 or otherwise known as Electric Power Industry Reform Act (EPIRA) dated June 21, 2008.

6. The Application covers the billing period from January 2007 to April 2008. Applicant has complied with the ICERA's monthly reportorial requirements in support of the calculated allowable costs covering the test period as evidenced by the submitted reports duly received by this Honorable Commission and hereto attached as **Annex "A" and series**.

7. The applicant seeks to recover/(refund) the Deferred Accounting Adjustments (DAAs), the gain/(loss) from the foreign exchange fluctuations in settlement of Debt Service and Operation Expenses (OPEX) and the difference in actual and billed, through the generation charge, amortization of Capacity and Infrastructure Fees for Build-Operate-Transfer (BOT) Plants, and corresponding carrying charges for the billing period from January 2007 to April 2008 for the Luzon, Visayas and Mindanao grids, including the estimated balance and the carrying charges.

8. Pursuant to the Honorable Commission's directive contained in ERC Order dated November 23, 2005 (approval of 4th ICERA DAA), the proposed 9th ICERA DAA charge are calculated on a per grid basis.

9. Consistent with the Applicant's previous ICERA applications, the Base Exchange Rates used in the calculation of the 9th ICERA DAA for OPEX is adjusted to the average figures of CY 2002 as compared with those from CY 2000 or from P44.0494/US\$1 to P51.6036/US\$1 and P0.4096/JPY1 to P0.4128/JPY1. However, Base Exchange Rates for Debt Service are maintained at the CY 2000 level, pending resolution on the Supplemental Motion for Clarification filed by NPC on May 31, 2006 seeking for 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 Honorable Commission's intention particularly on the appropriate Base Exchange rate/price of Debt Service.

10. The calculation of DAA balances and carrying charges are broken down into a) not subject to Reformed Value Added Tax (RVAT) and b) subject to RVAT due to the implementation of the RVAT from November 1, 2005 consistent with Republic Act No. 9337 and ERC Resolution 20.

11. The calculation for the recovery/refund of costs on Actual Capacity and Infrastructure Fees for Bakun Hydroelectric Power Plant and San Roque Multi-purpose Project is up to the authorized recoverable rate of P3.8299/kWh contained in the Honorable Commissions' Order on the 5th ICERA.

12. The proposed 9th ICERA DAA charges shall be billed on top of the existing RORB-TOU-based generation charge. Pursuant to the Implementing Rules of the ICERA, Applicant proposes to recover/refund the following deferred FOREX adjustments and the corresponding carrying charges based on the BSP-established 91-day Treasury Bills rates plus 3%, through the proposed 9th ICERA DAA charges for Luzon, Visayas and Mindanao grids for the period from January 2007 to April 2008. The Table 1 below contains the summary of the total deferred cost on ICERA and its breakdown as to not subject to RVAT and deferred cost subject to RVAT while Table 2 shows the allowable carrying charge interest rates under this application.

Table 1. Total Deferred Cost on ICERA, in Pesos

	Luzon	Visayas	Mindanao	Phils.
TOTAL	<u>(11,291,611,338)</u>	<u>384,530,163</u>	<u>(518,708,976)</u>	<u>(11,425,790,151)</u>
Subject to RVAT	(10,374,321,614)	(4,562,439)	(584,118,845)	(10,963,002,898)
Not Subject to RVAT	(917,289,724)	389,092,603	65,409,869	(462,787,253)

Table 2. Allowable Carrying Charge Interest Rates

Test/Billing Months	Prevailing 91-day T-Bill Rate ^{1/}	Authorized Allowance ^{2/}	Allowable Rate
January 2007	3.483%	3.00%	6.483%
February	2.936%	3.00%	5.936%
March	2.972%	3.00%	5.972%
April	2.921%	3.00%	5.921%
May	3.031%	3.00%	6.031%
June ^{3/}	2.973%	3.00%	5.973%
July	3.551%	3.00%	6.551%
August	3.719%	3.00%	6.719%
September	3.764%	3.00%	6.764%
October	3.758%	3.00%	6.758%
November	3.689%	3.00%	6.689%
December ^{4/}	3.7235%	3.00%	6.7235%

January 2008	3.673%	3.00%	6.673%
February ^{5/}	3.673%	3.00%	6.673%
March ^{5/}	3.673%	3.00%	6.673%
April ^{5/}	3.673%	3.00%	6.673%

- 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 June 2007, December 2007, February to April 2008 hence, rate was computed based on the average T-Bill Rates for the preceding of the said months.

13. The application seeks to obtain approval for the recovery/refund of the total deferred FOREX fluctuation costs and the balance of previously approved ICERA DAAs through the imposition of the proposed ICERA DAA charges in P/kWh as follows:

Table 3. Proposed 9th ICERA DAA Charges, P/kWh

	LUZON	VISAYAS	MINDANAO
ICERA DAA Charge	(0.3689)	0.0522	(0.0461)

14. 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.

15. Applicant NPC hereby seeks the approval to recover the above-stated deferred costs over the sixteen (16) months recovery periods to coincide with the 16-months test period of January 2007 to April 2008, as shown in Table 4 below:

Table 4. Proposed Recovery Period

	Luzon	Visayas	Mindanao
Recovery Period, in months			
Vatable	16	16	16
Non-Vatable	16	16	16

16. In support of the amounts comprising the DAA, attached hereto are the various computations and information on the following:

Calculation of Deferred Cost and Proposed Charges
From January 2007 to April 2008 **Annex "B" and series**

The Projected Energy Sales (in gWh) per NPC's Proposed CY 2007 Budget used to calculate the proposed DAA charges in P/kWh	Annex C and Series
Calculation of Deferred Debt Service /OPEX and corresponding carrying charges, January 2007 to April 2008	Annex "D" and series
Calculation of estimated balance of the previous DAA (Debt Service/OPEX) as of August 26, 2008	Annex "E" and series
Calculation of Deferred Over/(Under) Recovered Actual Payments of Capacity Fees for IPPs under BOT Agreement	Annex "F" and series
Calculation of estimated balance of the previous DAA (Amortization of Capacity Fees for IPPs under BOT Agreement), as of August 26, 2008	Annex "G" and series
91-day Treasury Bill Rates for CY 2007 and Jan-Apr 2008	Annex "H" and Series
Actual energy sales from January 2007 to May 2008	Annex "I"

PRAYER

WHEREFORE, applicant NPC respectfully prays of this Honorable Commission that consistent with ERC Case No. 2003-44 Adopting the Implementing Rules for the Recovery of Incremental Currency Exchange Recovery Adjustment (ICERA) and the amended Section 4(e) Rule 3 of the IRR of RA 9136 or EPIRA, the proposed Deferred Accounting Adjustment (DAA) charges of (0.3689/kWh) for Luzon grid, P0.0522/kWh for Visayas grid and (P0.0461) for Mindanao grid be **APPROVED** or **PROVISIONALLY APPROVED**.

Applicant prays for other just and equitable reliefs.

Quezon City for Pasig City, 29 July 2008.



MELCHOR P. RIDULME
General Counsel
Special Attorney-OSG
IBP Lifetime No. 01748/Ilocos Sur
PTR No. 9811044/01.08.08/Q.C.
Roll No. 37784
MCLE Compliance No. II – 0003935/6-10-08

COMIE P. DOROMAL
Department Manager
Special Attorney-OSG
IBP Lifetime No. 594567/Q.C.
PTR No. 8493609/01.10.08/Q.C.
Roll No. 24988
MCLE Compliance No. II – 0003913/6-10-08



GORDON SY MONTOJO
OIC, Manager LLLRD
Special Attorney-OSG
IBP No. 737738/Q.C.
PTR No. 9810845/01.08.07/Q.C.
Roll No. 44910
MCLE Compliance No. II – 0003923/6-10-08



JULIETA S. BACCUTAN-ESTAMO
Corporate Attorney A
Special Attorney-OSG
IBP No. 737747/01.09.08/Bulacan
PTR No. 9811043/01.08.08/Q.C.
Roll No. 39024
MCLE Compliance No. II – 0003914/6-10-08

Counsel for National Power Corporation
Office of the General Counsel
National Power Corporation
BIR Road cor. Quezon Avenue
Diliman, Quezon City
Tel. No. 02-926-1837

VERIFICATION AND CERTIFICATION

REPUBLIC OF THE PHILIPPINES)
QUEZON CITY) S.S.

I, CYRIL C. DEL CALLAR of legal age, married with office address at NPC Office Building Complex, corner Quezon Avenue and BIR Road, Diliman Quezon City, after having been sworn to in accordance with law, hereby depose and state that:

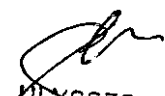
1. I am the President of applicant National Power Corporation;
2. I have caused the preparation of the foregoing Application and that I have read and understood the allegations contained therein and that they are true and correct to my personal knowledge; and
3. I have not theretofore commenced any action or filed any claim involving the same issues in any court, tribunal or quasi-judicial agency and, to the best of my knowledge, no such other action or claim is pending therein; and that if I should thereafter learn that the same or similar action or claim has been filed or is pending in any court, tribunal or quasi-judicial agency, I hereby undertake to report the same within five (5) days therefrom to this Commission.

Quezon City for Pasig City, Philippines. July 29, 2008.


CYRIL C. DEL CALLAR
Affiant

SUBSCRIBED AND SWORN TO before me this _____ day of JUL 29 2008, affiant CYRIL C. DEL CALLAR presented to me his Community Tax Certificate No. 16249228 on January 08, 2008 at Quezon City, known to me and to me known to be the same person who executed the foregoing Verification and Certification.

Doc. No. 216;
Page No. 45;
Book No. I ;
Series of 2008.


ATTY. RUEL OLYSSES E. DE GUZMAN
Notary Public for Quezon City
App. No. 239
Comm. No. 2009
Notary Public
Roll of Attorneys No. 52265
PTR No. 9811042 Quezon City
IBP Lifetime No. 66311 Quezon City
4th Flr., OGC, National Power Corp.
BIR Road cor. Quezon Ave.,
Diliman, Quezon City

SWORN STATEMENT

This is to certify that the pertinent documents submitted to the Energy Regulatory Commission (ERC) in support of the 9th Incremental Currency Exchange Rate Adjustment (ICERA) Application of the National Power Corporation (NPC) covering the Test/Billing Period from 26 December 2006 to 25 April 2008, containing data on the following:

- a. Calculation of the Proposed 9th ICERA DAAs (Pesos/kWh)
- b. Projected Energy Sales (GWh)
- c. Calculation of Deferred Debt Service and OPEX – Current and Previous DAAs (Pesos)
- d. Calculation of Deferred Over/(Under) Recovered Actual Payments of Capacity Fees for IPPs Under BOT Agreement (Pesos)
- e. Calculation of Estimated Balance of the Previous DAAs - Amortization of Capacity & Infra Fees for IPPs Under BOT Agreement (Pesos)
- f. Actual Energy Sales (kWh)

are true and correct to the best of my personal knowledge based on submission by the respective power plant managers/Independent Power Producers-Contract Management Department (IPP-CM) and Finance Department of the National Power Corporation.



URBANO C. MENDIOLA, JR.
Manager
Power Economics Dept.

SUBSCRIBED AND SWORN TO before me this April 29 2008 day of April 2008, affiant presented to me his Community Tax Certificate No. 16772698 issued on 10 January 2008 at Valenzuela City.



ATTY. NYERSON DEXTER TITO Q. TUALLA
Notary Public for Quezon City
Appointment No.
Commission until December 31,
Roll of Attorney No. 52294
PTR No. Quezon City
ISP Lifetime No. 07135, Quezon City
4th Flr., OGC, National Power Corp.
BIR Road cor Quezon Ave.,
Diliman, Quezon City

Doc. No. ;
Page No. ;
Book No. ;
Series of 2008.