

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

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

ERC CASE NO. 2008-030 RC

NATIONAL POWER CORPORATION  
(NPC),

Applicant.

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**NOTICE OF PUBLIC HEARING**

**D O C K E T E D**

Date: JUL 03 2008

By: [Signature]

**TO ALL INTERESTED PARTIES:**

Notice is hereby given that on June 8, 2008, the National Power corporation (NPC) filed with the Commission, pursuant to the provisions of Republic Act No. 9136, an application for the approval of the revised basic generation rates for Luzon, Visayas and Mindanao grids, with prayer for provisional authority.

In the said application, NPC alleged, among others, that:

1. It 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;

2. It is filing the instant 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 Commission in its Orders dated September 6 and 20, 2002 under ERC Case No. 2001-901 and the ERC approved revised generation charges dated September 3, 2004 and April 13, 2005 in ERC Case No. 2004-178;
3. On June 22, 2004, it 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 Commission issued an Order provisionally approving an adjustment in its average generation rate per grid and authorizing it 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 Commission issued a Decision approving the final levels of its average rate per grid as well as the final TOU Rates Schedules that shall be implemented on a mandatory basis to all customers;
4. In the same Decision the Commission mandated the applicant to, among others, apply periodically for a rate adjustment to consider sale of assets, change in load profile and plant stacking;
5. 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;

6. It seeks the approval of the instant application for new Generation Rates to reflect the impact of the sale, transfer and disposal of its generation assets. It likewise included in the instant 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;
  
7. Its calculations took off from the Commission's 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. Shown below are the components of the approved revenue requirements:

**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
<b>Total</b>	<b>96,466,371</b>	<b>10,420,882</b>	<b>10,659,205</b>
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
<b>Average Generation Rate, P/kWh</b>	<b>3.8966</b>	<b>2.8879</b>	<b>2.1030</b>

8. It 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. It determined that the privatization

of these power plants would require an immediate adjustment in the existing Luzon grid average generation rate of PhP3.8966/kWh in order for it 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. Its calculations revealed that its average generation rate in the Luzon grid should be initially adjusted to PhP4.2651/kWh or an increase of PhP0.3685/kWh due to the impact of privatization of the following power plants:

**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

9. It proposes to adopt a revised TOU Rates Schedule for Luzon Grid to replace the TOU Rates Schedule approved by the 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, it simply added the required PhP/kWh adjustment of PhP0.3685/kWh to the twenty four (24) hourly TOU rates under both the Monday to Saturday and Sunday/Holidays Rates Schedules;
  
10. Although other NPC generation assets/plants were already sold and transferred to their new owners prior to the sale of the power plants (particularly Tolomo, Agusan, Barit, Cawayan and Loboc Hydroelectric Power Plants), it did not consider the sale of the said power plants in this instant application for the following reasons: 1.) The 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;

11. 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. The table 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:

**List of Decommissioned Plants for Privatization**

PLANT	Unit	Date Decommissioned
<b>LUZON GRID</b>		
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
<b>VISAYAS GRID</b>		
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
<b>MINDANAO GRID</b>		
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

12. It 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;
13. 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 two (2) to (3) years ahead. In the instant application, it 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, it 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;

14. As an example, a revised TOU Rates Schedule for Luzon Grid shall have to be implemented by April 2008 upon provisional approval by the Commission to reflect the impact of the sale of its generation assets/power plants up to Masinloc Coal-fired Thermal Power Plant. 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;
15. 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 Commission, it also requests 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.
16. It 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 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 PhP/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 it relative to the privatization of its power plants;

17. The filing of the instant application is without prejudice to the filing of a flat rate as basic generation charge; and
18. It prays that the Commission approves the following after due notice and hearing:
  - a. The required adjustment to its Average Generation Rates for each plant privatized;
  - b. The automatic implementation in the succeeding quarter of the proposed adjusted TOU Rates or such approved adjustments corresponding to its generation assets/power plants in Luzon, Visayas and Mindanao grids privatized during the indicated previous quarter;
  - c. The methodology for deriving the revised TOU Rates Schedules; and
  - d. 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 Commission.

19. It further prays that a provisional authority be issued allowing NPC, during the pendency of this case, to immediately implement the proposed adjustment on its basic generation rate with its corresponding TOU Schedule for the Luzon Grid including the cost recovery of the remaining IPP contracts upon their approval.

The Commission has set the application for hearing on the following schedules:


<b>Date</b>	<b>Proceedings</b>	<b>Venue</b>
<b>Visayas</b>		
<b>July 30, 2008</b> at two o'clock in the afternoon (2:00 P.M.)	Jurisdictional, Expository and Pre-Trial Hearings	ERC Visayas Field Office, Machay Building, Gorordo Avenue, Cebu City
<b>July 31, 2008 and August 1, 2008</b> at two o'clock in the afternoon (2:00 P.M.)	Evidentiary Hearing	
<b>Luzon</b>		
<b>August 6, 2008</b> at two o'clock in the afternoon (2:00 P.M.)	Jurisdictional, Expository and Pre-Trial Hearings	ERC Hearing Room, 15 <sup>th</sup> Floor, Pacific Center Building, San Miguel Avenue Pasig City
<b>August 7, 2008</b> at nine o'clock in the morning (9:00 A.M.) to five o'clock in the afternoon (5:00 P.M.) and <b>August 8, 2008</b> at nine o'clock in the morning (9:00 A.M.) to twelve o'clock in the afternoon (12:00 P.M.)	Evidentiary Hearing	
<b>Mindanao</b>		
<b>August 12, 2008</b> at two o'clock in the afternoon (2:00 P.M.)	Jurisdictional, Expository and Pre-Trial Hearings	ERC Mindanao Field Office, Mintrade Building, Monteverde Avenue, corner Sales Street, Davao City
<b>August 13, 2008</b> – nine o'clock in the morning (9:00 A.M.) to five o'clock in the afternoon (5:00 P.M.) and <b>August 14, 2008</b> at nine o'clock in the morning (9:00 A.M.) to twelve o'clock in the afternoon (12:00 P.M.)	Evidentiary Hearing	

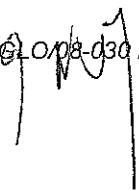
All persons who have an interest in the subject matter of the proceeding may become a party by filing, at least five (5) days prior to the initial hearing and subject to the requirements in the ERC's Rules of Practice and Procedure, a verified petition with the Commission giving the docket number and 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 applicant concludes the presentation of its 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 the initial hearing, that they be furnished with a copy of the application. The applicant is hereby directed to furnish all those making such 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, RODOLFO B. ALBANO, JR., Chairman, the Honorable Commissioners, RAUF A. TAN, ALEJANDRO Z. BARIN, MARIA TERESA A.R. CASTAÑEDA and JOSE C. REYES, Energy Regulatory Commission, this 25<sup>th</sup> day of June 2008 at Pasig City.

  
ATTY. FRANCIS SATURNINO C. JUAN  
Executive Director III

  
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