

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

IN THE MATTER OF THE
ADOPTION OF THE GENERATION
RATE ADJUSTMENT MECHANISM
(4TH GRAM), WITH PRAYER FOR
PROVISIONAL AUTHORITY

ERC CASE NO. 2009-021 RC

IN THE MATTER OF THE 5TH
APPLICATION FOR THE
APPROVAL OF THE GENERATION
RATE ADJUSTMENT UNDER THE
GRAM RULES, WITH PRAYER FOR
PROVISIONAL AUTHORITY

ERC CASE NO. 2009-058 RC

IN THE MATTER OF THE 6TH
APPLICATION FOR THE APPROVAL
OF THE GENERATION RATE
ADJUSTMENT UNDER THE GRAM
RULES, WITH PRAYER FOR
PROVISIONAL AUTHORITY

ERC CASE NO. 2011-008 RC

NATIONAL POWER CORPORATION
SMALL POWER UTILITIES GROUP
(NPC-SPUG),

Applicant.

x-----x

DOCKETED
Date: DEC 21 2011
By: MC

DECISION

Before the Commission for resolution are the applications for the approval of generation rate adjustment under the Generation Rate Adjustment Mechanism (GRAM), with prayer for provisional authority, filed by the National Power Corporation-Small Power Utilities Group (NPC-SPUG) on various dates, as follows:

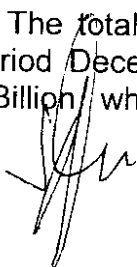


3

| ERC Case Nos. | Date Filed | Test Period |
|---------------|------------------|--|
| 2009-021 RC | March 27, 2009 | December 26, 2005 to December 25, 2007 |
| 2009-058 RC | August 18, 2009 | December 26, 2007 to December 25, 2008 |
| 2011-008 RC | January 20, 2011 | December 26, 2008 to December 26, 2009 |

In the said applications, NPC-SPUG alleged, among others, that:

1. Pursuant to Section 70 of Republic Act No. 9136, otherwise known as the Electric Power Industry Reform Act of 2001 or the EPIRA, it is responsible for providing power generation and associated power delivery systems in areas that are not connected to the transmission system;
2. In the performance of its missionary electrification function, it incurs additional fuel operating costs as a result of the fluctuation of the prices of fuel used in power generation as well as purchased power costs. The additional fuel and purchased power costs, which it has incurred without the benefit of any recovery through rates, has contributed to its deteriorating financial condition;
3. In an Order dated February 24, 2003, the Commission issued and adopted the Implementing Rules for the GRAM providing for, among others, the mechanisms for the recovery of deferred fuel costs and purchase power costs;
4. The GRAM Implementing Rules facilitated the approval of its applications for the recovery of deferred fuel costs in ERC Case Nos. 2004-421 (*In the Matter of the Adoption of the Generation Rate Mechanism [1st GRAM]*), 2005-038 RC (*In the Matter of the Adoption of Generation Rate Adjustment Mechanism [2nd GRAM]*) and 2007-097 RC (*In the Matter of the Adoption of Generation Rate Adjustment Mechanism [3rd GRAM]*);
5. While it ordered the charging of the DAA to the Universal Charge-Missionary Electrification (UC-ME), the Commission did not increase the UC-ME being collected from end-users. The Commission simply stated that *"in the event that the UC-ME is not sufficient to cover the recovery in a given year, the remaining balance will be carried over the next succeeding years until the full amount has been recovered by NPC-SPUG."*;
6. It is now submitting before the Commission its 4th, 5th and 6th GRAM petitions covering the period December 26, 2005 to December 25, 2007, December 26, 2007 to December 25, 2008 and December 26, 2008 to December 26, 2009. Shown below are the DAAs representing deferred fuel costs for the aforesaid test periods:
 - A. 4th GRAM. The total DAA representing deferred fuel costs for the test period December 26, 2005 to December 25, 2007 is PhP4.896 Billion, which includes PhP4.713 Billion in fuel costs




and PhP0.183 Billion in Carrying Charges as authorized by the Commission:

Deferred Fuel Costs for Recovery

| Area/Plant Name | Amount (Th PhP) | | |
|-----------------------------------|---------------------|-------------------|---------------------|
| | DAA | Carrying Charges | Total DAA |
| Total for 14 Areas for PSP | 3,966,574.87 | 153,094.35 | 4,119,669.23 |
| 1. Occidental Mindoro | 331,849.89 | 14,080.04 | 345,929.94 |
| 2. Oriental Mindoro | 909,193.30 | 33,665.87 | 942,859.17 |
| 3. Marinduque Area | 276,619.00 | 11,530.48 | 288,149.48 |
| 4. Palawan Area | 638,521.86 | 24,291.03 | 662,812.89 |
| 5. Catanduanes Area | 266,622.36 | 9,843.92 | 276,466.28 |
| 6. Masbate Area | 397,758.65 | 14,374.48 | 412,133.13 |
| 7. Tablas Area | 175,342.75 | 7,381.76 | 182,724.51 |
| 8. Romblon Area | 43,005.29 | 1,747.05 | 44,752.35 |
| 9. Bantayan Area | 62,605.88 | 3,311.78 | 65,917.66 |
| 10. Camotes Area | 58,342.00 | 2,214.65 | 60,556.65 |
| 11. Siquijor Area | 115,248.28 | 4,569.38 | 119,817.67 |
| 12. Tawi-Tawi Area | 145,050.08 | 5,233.98 | 150,284.06 |
| 13. Basilan Area | 206,473.26 | 8,050.49 | 214,523.76 |
| 14. Jolo (Sulu) Area | 339,942.26 | 12,799.43 | 352,741.69 |
| 15. Other Luzon Area | 477,259.50 | 19,136.94 | 496,396.44 |
| 16. Other Visayas Area | 50,262.67 | 1,981.67 | 52,244.33 |
| 17. Other Mindanao Area | 219,126.80 | 8,548.51 | 227,675.30 |
| Total SPUG | 4,713,223.84 | 182,761.47 | 4,895,985.30 |

Proposed DAA Charges, In PhP/kWh

| Area/Plant Name | PhP/kWh | Area/Plant Name | PhP/kWh |
|-----------------------|---------------|-------------------------|----------------|
| 1. Occidental Mindoro | 4.8394 | 10. Camotes Area | 6.1807 |
| 2. Oriental Mindoro | 6.6259 | 11. Siquijor Area | 10.5684 |
| 3. Marinduque Area | 7.2765 | 12. Tawi-Tawi Area | 7.7873 |
| 4. Palawan Area | 4.5518 | 13. Basilan Area | 7.7509 |
| 5. Catanduanes Area | 8.1340 | 14. Jolo (Sulu) Area | 8.7033 |
| 6. Masbate Area | 8.6435 | 15. Other Luzon Area | 8.5343 |
| 7. Tablas Area | 9.0901 | 16. Other Visayas Area | 7.4828 |
| 8. Romblon Area | 4.7776 | 17. Other Mindanao Area | 8.2419 |
| 9. Bantayan Area | | | |

Carrying Charge Interest Rates

Test Period: 26 Dec. '05 to 25 Dec. '07

| Month | Prevailing 91-Day T-Bill Rates (%) | Authorized Allowance (%) | Allowable Rate (%) |
|-----------|------------------------------------|--------------------------|--------------------|
| 25-Jan-06 | 4.9120 | 3.0000 | 7.9120 |
| 25-Feb-06 | 5.1560 | 3.0000 | 8.1560 |
| 25-Mar-06 | 4.9980 | 3.0000 | 7.9980 |
| 25-Apr-06 | 4.7360 | 3.0000 | 7.7360 |
| 25-May-06 | 4.8400 | 3.0000 | 7.8400 |
| 25-Jun-06 | 6.5000 | 3.0000 | 9.5000 |
| 25-Jul-06 | 6.0760 | 3.0000 | 9.0760 |
| 25-Aug-06 | 5.4030 | 3.0000 | 8.4030 |
| 25-Sep-06 | 5.4440 | 3.0000 | 8.4440 |
| 25-Oct-06 | 5.4690 | 3.0000 | 8.4690 |
| 25-Nov-06 | 4.8370 | 3.0000 | 7.8370 |
| 25-Dec-06 | 4.8370 | 3.0000 | 7.8370 |
| 25-Jan-07 | 3.4830 | 3.0000 | 6.4830 |
| 25-Feb-07 | 2.9360 | 3.0000 | 5.9360 |
| 25-Mar-07 | 2.9720 | 3.0000 | 5.9720 |
| 25-Apr-07 | 2.9210 | 3.0000 | 5.9210 |
| 25-May-07 | 3.0310 | 3.0000 | 6.0310 |
| 25-Jun-07 | 3.0310 | 3.0000 | 6.0310 |
| 25-Jul-07 | 3.5510 | 3.0000 | 6.5510 |
| 25-Aug-07 | 3.7190 | 3.0000 | 6.7190 |
| 25-Sep-07 | 3.7640 | 3.0000 | 6.7640 |
| 25-Oct-07 | 3.7580 | 3.0000 | 6.7580 |
| 25-Nov-07 | 3.6890 | 3.0000 | 6.6890 |
| 25-Dec-07 | 3.6890 | 3.0000 | 6.6890 |

B. 5th GRAM. The total DAA representing deferred fuel costs for the test period December 26, 2007 to December 25, 2008 is PhP3.579 Billion which includes PhP3.427 Billion in fuel costs and PhP0.152 Billion in carrying charges authorized by the Commission:




Test Period: December 26, 2007 to December 25, 2008

| Island | Deferred Fuel Cost | Carrying Charge | DAA (In Pesos) |
|---------------------|----------------------|--------------------|----------------------|
| Mindoro Area | 906,586,724 | 39,271,468 | 945,858,192 |
| Marinduque | 189,493,047 | 7,678,227 | 197,171,274 |
| Mainland Palawan | 335,003,211 | 16,312,860 | 351,316,070 |
| Catanduanes | 142,734,014 | 6,128,597 | 148,862,611 |
| Masbate | 455,745,424 | 19,754,897 | 475,500,321 |
| Tablas | 139,879,054 | 5,531,690 | 145,410,744 |
| Romblon | 43,447,929 | 2,190,981 | 45,638,909 |
| Other Luzon Group 1 | 345,847,046 | 14,979,688 | 360,826,733 |
| Luzon | 2,558,736,448 | 111,848,408 | 2,670,584,856 |
| Bantayan | 0 | 0 | 0 |
| Camotes | 51,232,467 | 2,242,175 | 53,474,643 |
| Siquijor | 113,555,792 | 5,074,157 | 118,629,949 |
| Other Visayas | 47,162,255 | 2,025,835 | 49,188,090 |
| Visayas | 211,950,515 | 9,342,167 | 221,292,682 |
| Tawi-Tawi | 60,515,809 | 3,224,627 | 63,740,436 |
| Basilan | 210,416,454 | 9,832,898 | 220,249,352 |
| Sulu | 209,749,921 | 10,003,285 | 219,753,206 |
| Other Mindanao | 175,267,649 | 7,735,287 | 183,002,935 |
| Mindanao | 655,949,833 | 30,796,096 | 686,745,930 |
| Grand Total | 3,426,636,797 | 151,986,671 | 3,578,623,467 |

Proposed DAA Charges

| Areas | PhP/kWh | Areas | PhP/kWh |
|---------------------|---------|------------------------|---------|
| 1. Mindoro Area | 4.0308 | 9 Camotes Area | 4.9212 |
| 2. Marinduque Area | 4.8270 | 10 Siquijor Area | 8.9340 |
| 3. Palawan Area | 8.0547 | 11 Tawi-Tawi Area | 3.0735 |
| 4. Catanduanes Area | 4.1695 | 12 Basilan Area | 7.4289 |
| 5. Masbate Area | 8.6107 | 13 Jolo (Sulu) Area | 5.0740 |
| 6. Tablas Area | 6.6858 | 14 Other Luzon Area | 5.4081 |
| 7. Romblon Area | 4.3403 | 15 Other Visayas Area | 5.7666 |
| 8. Bantayan Area | | 16 Other Mindanao Area | 5.9472 |

Carrying Charge Interest Rates

Test Period: December 26, 2007 to December 25, 2008

| Month | Ave. 91-Day T-Bill Rate (%) | Plus 300 Basis Points |
|-----------|-----------------------------|-----------------------|
| 25-Jan-08 | 3.48300 | 6.4830 |
| 25-Feb-08 | 2.93600 | 5.9360 |
| 25-Mar-08 | 2.97200 | 5.9720 |
| 25-Apr-08 | 2.92100 | 5.9210 |
| 25-May-08 | 3.03100 | 6.0310 |
| 25-Jun-08 | 3.03100 | 6.0310 |
| 25-Jul-08 | 3.55100 | 6.5510 |
| 25-Aug-08 | 3.71900 | 6.7190 |
| 25-Sep-08 | 3.76400 | 6.7640 |
| 25-Oct-08 | 3.75800 | 6.7580 |
| 25-Nov-08 | 3.68900 | 6.6890 |
| 25-Dec-08 | 3.68900 | 6.6890 |

C. 6th GRAM. It proposes that it be allowed to recover the following Allowable Fuel Costs, DAAs and Carrying Charge for each province:

| Prov # | Prov Name | Allowable Fuel Cost, P | Prov # | Prov Name | Allowable |
|--------|--------------------|-------------------------|--------|-----------------------|-----------------------|
| 1 | Mindoro | 843,712,858.97 | 17 | Cebu | 61,880,712.35 |
| 2 | Batangas | 9,960,611.31 | 18 | Siquijor | 104,291,804.00 |
| 3 | Marinduque | 186,604,527.29 | 19 | Antique | 5,134,910.30 |
| 4 | Quezon | 30,611,114.09 | 20 | Ili-ilo | 1,570,498.75 |
| 5 | Palawan | 372,347,157.72 | 21 | Leyte | 2,490,790.07 |
| 6 | Catanduanes | 111,766,327.39 | 22 | Biliran | 3,837,767.86 |
| 7 | Albay | 11,281,410.59 | 23 | Samar | 31,783,943.06 |
| 8 | Romblon | 221,292,020.02 | | TOTAL VISAYAS | 210,990,426.39 |
| 9 | Batanes | 37,510,907.20 | 24 | Basilan | 183,036,612.27 |
| 10 | Cagayan | 2,366,779.78 | 25 | Sulu | 255,871,932.72 |
| 11 | Aurora | 29,017,634.01 | 26 | Dinagat | 52,861,709.83 |
| 12 | Apayao | 5,651,255.29 | 27 | Sultan Kudarat | 66,596,339.72 |
| 13 | Kalinga | 3,371,731.19 | 28 | Davao | 10,478,951.71 |
| 14 | Isabela | 2,844,098.15 | 29 | Surigao del Norte | 1,457,325.78 |
| 15 | Camarines Sur | 142,991.09 | 30 | Zamboanga | 645,205.17 |
| 16 | Masbate | 360,715,543.70 | 31 | Tawi-Tawi | 114,749,117.89 |
| | TOTAL LUZON | 2,229,196,967.80 | | TOTAL MINDANAO | 685,697,195.10 |

| | |
|--------------------------|-------------------------|
| TOTAL PHILIPPINES | 3,125,884,589.29 |
|--------------------------|-------------------------|

Proposed GRAM DAA

| Province | Deferred Fuel Cost | Carrying Charge | DAA (In Pesos) | PROPOSED RATE (P/kWh) |
|------------------|----------------------|-------------------|----------------------|-----------------------|
| 1 Mindoro | 578,157,778 | 20,224,651 | 598,382,429 | 0.9949 |
| 2 Batangas | 7,959,831 | 308,395 | 8,268,225 | 1.7646 |
| 3 Marinduque | 123,403,799 | 4,360,918 | 127,764,717 | 1.1366 |
| 4 Quezon | 22,743,389 | 828,431 | 23,571,820 | 1.6261 |
| 5 Palawan | 282,318,241 | 10,843,414 | 293,161,655 | 2.1777 |
| 6 Catanduanes | 82,169,961 | 3,368,449 | 85,538,410 | 1.0180 |
| 7 Albay | 8,938,183 | 343,428 | 9,281,611 | 1.7705 |
| 8 Romblon | 160,091,908 | 5,997,541 | 166,089,449 | 1.9093 |
| 9 Batanes | 28,539,248 | 1,247,643 | 29,786,891 | 2.2369 |
| 10 Cagayan | 1,801,173 | 77,315 | 1,878,487 | 1.1049 |
| 11 Aurora | 22,080,507 | 860,030 | 22,940,537 | 2.0679 |
| 12 Apayao | 4,584,783 | 187,978 | 4,772,761 | 2.6024 |
| 13 Kalinga | 2,822,312 | 111,945 | 2,934,257 | 2.2291 |
| 14 Isabela | 2,233,156 | 91,201 | 2,324,357 | 1.7961 |
| 15 Camarines Sur | 107,100 | 2,739 | 109,839 | 0.1230 |
| 16 Masbate | 244,489,869 | 8,433,131 | 252,923,000 | 1.5593 |
| LUZON | 1,572,441,236 | 57,287,208 | 1,629,728,444 | 1.3169 |

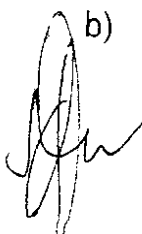
| | Province | Deferred Fuel Cost | Carrying Charge | DAA (In Pesos) | PROPOSED RATE (P/kWh) |
|----|-------------------|----------------------|-------------------|----------------------|-----------------------|
| 17 | Cebu | 33,124,911 | 1,243,329 | 34,368,240 | 1.3852 |
| 18 | Siquijor | 55,863,117 | 2,020,278 | 57,883,395 | 1.8676 |
| 19 | Antique | 3,182,456 | 108,126 | 3,290,581 | 1.1840 |
| 20 | Ilo-ilo | 1,049,160 | 37,868 | 1,087,028 | 0.9319 |
| 21 | Leyte | 1,443,663 | 56,067 | 1,499,730 | 0.4706 |
| 22 | Biliran | 2,349,241 | 89,039 | 2,438,280 | 0.9672 |
| 23 | Samar | 20,491,976 | 772,091 | 21,264,067 | 1.3303 |
| | VISAYAS | 117,504,524 | 4,326,797 | 121,831,321 | 1.4959 |
| 24 | Basilan | 92,105,146 | 3,152,875 | 95,258,021 | 1.2517 |
| 25 | Sulu | 137,161,791 | 4,967,600 | 142,129,391 | 1.4192 |
| 26 | Dinagat | 32,604,496 | 1,108,815 | 33,713,311 | 1.0544 |
| 27 | Sultan Kudarat | 40,757,196 | 1,473,542 | 42,230,738 | 1.3041 |
| 28 | Davao | 6,593,187 | 271,032 | 6,864,220 | 1.5834 |
| 29 | Surigao del Norte | 936,462 | 39,779 | 976,240 | 1.4088 |
| 30 | Zamboanga | 397,354 | 14,616 | 411,970 | 2.0578 |
| 31 | Tawi-Tawi | 63,577,900 | 2,405,299 | 65,983,199 | 1.0941 |
| | MINDANAO | 374,133,532 | 13,433,559 | 387,567,091 | 1.2660 |
| | TOTAL | 2,064,079,292 | 75,047,564 | 2,139,126,856 | 1.3163 |

Carrying Charge Interest

| Test/Billing Mos. | Prevailing 91-day T-Bill Rate | Authorized Allowance | Allowable Rate |
|-------------------|-------------------------------|----------------------|----------------|
| January | 4.64700 | 3.00000 | 7.64700 |
| February | 4.64700 | 3.00000 | 7.64700 |
| March | 4.40800 | 3.00000 | 7.40800 |
| April | 4.32000 | 3.00000 | 7.32000 |
| May | 4.29400 | 3.00000 | 7.29400 |
| June | 4.43700 | 3.00000 | 7.43700 |
| July | 4.17300 | 3.00000 | 7.17300 |
| August | 3.94800 | 3.00000 | 6.94800 |
| September | 3.99200 | 3.00000 | 6.99200 |
| October | 3.87300 | 3.00000 | 6.87300 |
| November | 3.80900 | 3.00000 | 6.80900 |
| December | 3.85000 | 3.00000 | 6.85000 |

1. Source: Bangko Sentral ng Pilipinas
2. As authorized in the GRAM Implementing Rules

7. The proposed GRAM is just, fair and reasonable as it permits the recovery of only allowable costs under the GRAM guidelines.
8. It prays that:
 - a) The implementation of the proposed revised basic generation rates and DAAs be approved by the Commission in order for its revenues to meet its costs and ultimately reduce the burden of the UC-ME on all electricity end-users;
 - b) It be allowed to recover through this and the succeeding GRAM applications the fuel costs actually incurred from previous test periods but were disallowed due to unavailability of supporting




documents. This is being requested in consideration of the administrative difficulty in collecting and processing data from one hundred twelve (112) power plants in ninety-seven (97) small islands or isolated areas throughout the country;

- c) It be allowed to file its GRAM petitions at a later date beyond the prescribed thirty (30) - day period after the adjustment date as stipulated in Section 5, Paragraph 3 of the GRAM IRR, due to administrative difficulties in securing reports and supporting documents from all of its 112 power plants in 97 areas; and
- d) An Order be issued provisionally authorizing the implementation of the proposed rates and DAAs for the immediate recovery of deferred fuel costs within the above indicated 1 – year recovery period.

Having found the said applications sufficient in form and in substance with the required fees having been paid, several Orders and Notices of Public Hearings were issued setting the instant applications for jurisdictional hearings, expository presentation, pre-trial conference and evidentiary hearings.

The Office of the Solicitor General (OSG), the Commission on Audit (COA) and the Committees on Energy of both Houses of Congress were furnished with copies of the Order and the Notice of Public Hearing and were requested to have their respective duly authorized representatives present at the aforesaid initial hearings.

Likewise, the Offices of the Mayors of Quezon City and the Municipalities/Cities where NPC-SPUG operates were furnished with copies of the Order and Notice of Public Hearing for the appropriate posting thereof on their respective bulletin boards.




Proceedings

A. ERC Case No. 2009-021 RC (4th GRAM)

The Commission noted the following submissions made by the parties:

1. The "Pre-Trial Brief" filed on June 19, 2009 by NPC-SPUG;
2. The "Opposition" and "Manifestation and Motion to Admit Opposition of LGU and Other Organizations Within the Area Coverage of TIELCO" filed on June 23, 2009 by Tablas Island Electric Cooperative, Inc. (TIELCO);
3. "Resolution No. 06-2009-58" filed on June 25, 2009 by the Office of the Sangguniang Panlalawigan of Romblon;
4. The "Jurisdictional Compliance" filed on June 25, 2009 by NPC-SPUG;
5. The "Supplemental Manifestation and Motion to Admit Opposition of LGU and Letter of Rep. Madrona of Romblon" filed on June 25, 2009 by TIELCO;
6. The "Pre-Trial Brief for Intervenors" filed on June 26, 2009 by TIELCO, Palawan Electric Cooperative, Inc. (PALECO), Marinduque Electric Cooperative, Inc. (MARELCO), Busuanga Electric Cooperative, Inc. (BISELCO) and Lubang Island Electric Cooperative, Inc. (LUBELCO);
7. The "Comment/Opposition" filed on June 29, 2009 by the Province of Romblon;
8. The "Pre-Trial Brief" filed on July 13, 2009 by the Philippine Chamber of Commerce and Industry (PCCI);
9. The "Position Paper" filed on August 3, 2009 by Province of Siquijor Electric Cooperative, Inc. (PROSIELCO);
10. The "Opposition" filed on August 7, 2009 by the Provincial Government of Oriental Mindoro;
11. The "Compliance" filed on August 25, 2009 by NPC-SPUG;
12. The "Motion for Leave to Intervene and to Admit the Attached Petition for Intervention and Pre-Trial Brief" filed on September 14, 2009 by the Association of Isolated Electric Cooperatives Inc. (AIEC); and
13. The "Manifestation and Motion to Set Case for Hearing for the Continuation of Cross-examination of Witness for Applicant and Presentation of Evidence for Oppositors/Intervenors" filed on October 2, 2009 by TIELCO, BISELCO, MARELCO and BANELCO.



Luzon SPUG Areas

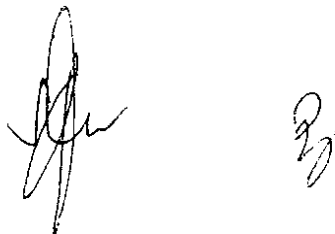
During the June 25 and 26, 2009 hearings of this case, the following entered their appearances: a) NPC-SPUG; b) Atty. Carlos R.L. Uybarreta as counsel for Oriental Mindoro Electric Cooperative, Inc. (ORMECO) and Occidental Mindoro Electric Cooperative, Inc. (OMECO); and c) Atty. Zenon Suarez as counsel for TIELCO, MARELCO, PALECO, BISELCO and LUBELCO.

At the said hearing, NPC-SPUG presented its proofs of compliance with the Commission's posting and publication of notice requirements for Luzon SPUG areas which were duly marked as Exhibits "A" to "KK", inclusive. Thereafter, it made an expository presentation of its application.

At the termination of the expository presentation, the Commission conducted a pre-trial hearing where the parties stipulated on facts and issues relative to the instant application.

NPC presented its sole witness, Ms. Biverly B. Estella, its Corporate Staff Specialist A of Planning and Technical Services Department, who testified on the following matters: a) the design, evaluation and the filing of the calculated and management approved tariff rates; and b) the determination of the required cost recovery due to deferred fuel and purchased power expense fluctuations thru the GRAM. In the course thereof, the witness identified various documents which were duly marked as exhibits.

The direct examination having been terminated, Atty. Uybareta and Atty. Suarez conducted their respective cross-examinations on the said witness.

The image shows two handwritten signatures in black ink. The signature on the left is larger and more stylized, while the signature on the right is smaller and more compact. Both appear to be cursive or semi-cursive.

Mindanao SPUG Areas

During the July 2 and 3, 2009 hearings, only NPC-SPUG and BISELCO appeared.

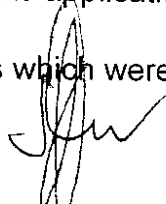
At the said hearing, NPC-SPUG presented its proofs of compliance with the Commission's posting and publication of notice requirements for Visayas SPUG areas which were duly marked as exhibits. Thereafter, it made an expository presentation of its application and presented its lone witness, Ms. Judith M. Mojica, who testified on the financial data in the computation of the proposed GRAM adjustments. In the course thereof, additional documents were presented and marked as exhibits.

The direct examination having been terminated, BISELCO propounded clarificatory questions on the said witness.

Visayas SPUG Areas

At the hearings on July 9 and 10, 2009, NPC-SPUG and a representative of the Provincial Government of Siquijor appeared.

NPC-SPUG presented its proofs of compliance with the Commission's posting and publication of notice requirements for Visayas SPUG areas which were duly marked as Exhibits "A" to "K", inclusive. Thereafter, it made an expository presentation of its application. It presented the same witness for Visayas SPUG areas, Ms. Estella, who testified and reiterated her participation in the preparation of the instant application. In the course thereof, the witness identified various documents which were duly marked as exhibits.



At the continuation of the hearing on September 29, 2009, PCCI conducted its cross-examination on the said witness. At the termination of the said cross-examination, NPC-SPUG was directed to file its formal offer of evidence.

On October 8, 2009, NPC-SPUG filed its "Formal Offer of Evidence".

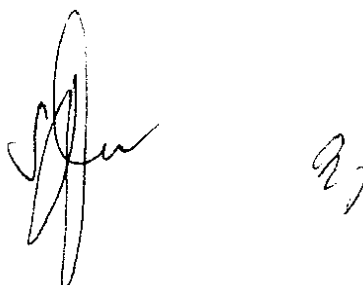
On October 13, 2009, AIEC filed its "Comment (Re: Applicant's Formal Offer of Evidence)".

On November 3, 2009, the Province of Catanduanes filed its "Comment/Opposition to the Formal Offer of Petitioner's Exhibits Dated October 7, 2009."

B. ERC Case No. 2009-058 RC

The Commission noted the following submissions made by the parties:

1. The "Pre-Trial Brief" filed on October 21, 2009 by NPC-SPUG;
2. The "Motion for Leave to Intervene and to Admit the Attached Opposition" and "Comment/Opposition" filed on October 23, 2009 by Hon. Abraham Kahlil B. Mitra;
3. The "Petition for Intervention" and "Pre-Trial Brief (for Intervenor AIEC)" filed on October 30, 2009 by AIEC;
4. The "Intervention" filed on November 5, 2009 by PALECO; and
5. The "Opposition" filed on November 6, 2009 by the Provincial Government of Oriental Mindoro.

The image shows two handwritten marks at the bottom of the page. On the left is a large, stylized signature in black ink. To its right are smaller, less distinct initials or a mark, also in black ink.

Luzon SPUG Areas

During the November 5, 2009 initial hearing, the following entered their appearances: a) NPC-SPUG; b) AIEC; c) ORMECO; d) PALECO; and e) a representative of the City Government of Calapan.

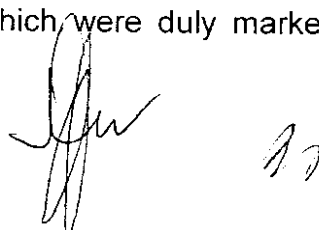
At the said hearing, NPC-SPUG presented its proofs of compliance with the Commission's posting and publication of notice requirements for Luzon SPUG Areas which were duly marked as Exhibits "A" to "T-12", inclusive. Thereafter, it made an expository presentation of its application.

At the termination of the expository presentation, the Commission conducted a pre-trial hearing where the parties stipulated on facts and issues relative to the instant application.

In view of the absence of other interested parties, NPC-SPUG moved that a declaration of general default be issued. Said motion was granted. It, then, presented its sole witness, Mr. Carlo Romero V. Borlaza, its Corporate Staff, who testified on the basis and calculations of the proposed 5th generation rate adjustment under the GRAM. In the course thereof, additional documents were presented and marked as exhibits.

Visayas and Mindanao SPUG Areas

At the hearings on November 12 and 18, 2009 for Visayas and Mindanao SPUG areas, only NPC-SPUG appeared and presented its proofs of compliance with the Commission's posting and publication of notice requirements for Visayas and Mindanao SPUG areas which were duly marked as Exhibits "A" to "LL", inclusive.

Handwritten signature and initials in black ink, appearing to be 'JRM' and 'A2'.

In view of the absence of intervenors and oppositors, NPC-SPUG moved for the declaration of a general default. Said motion was granted. It then presented its lone witness, Mr. Borlaza, who testified on the basis and calculations of the proposed 5th generation rate adjustment under the GRAM in the Visayas and Mindanao SPUG areas.

At the continuation of the hearing on December 9, 2009, only NPC-SPUG and AIEC appeared. PALECO and ORMECO failed to appear despite due notice. AIEC conducted its cross-examination on the witness presented by NPC-SPUG.

The cross-examination of the witness having been terminated, NPC-SPUG moved to declare PALECO and ORMECO to have waived their rights to cross-examine its witness. Said motion was granted. NPC-SPUG was, then, directed to file its formal offer of evidence. AIEC manifested its intention to present its witness.

On January 6, 2009, NPC-SPUG filed its "Formal Offer of Evidence."

During the January 7, 2009 hearing, AIEC presented its witness, Mr. Rene M. Fajilagutan, its President, who testified in support of its opposition on the instant application. In the course thereof, several documents were presented and marked as Exhibits "1" and "1-A".

The direct examination having been terminated, NPC-SPUG conducted its cross-examination on the said witness while the Commission propounded clarificatory questions, particularly, on the opposition of Hon. Mitra. Meantime, AIEC was directed to file its formal offer of evidence. In compliance therewith, on January 22, 2010, AIEC filed its "Formal Offer of Evidence".


C. ERC Case No. 2011-008 RC

The Commission noted the following submissions made by the parties:

1. The "Petition for Intervention" filed on February 23, 2011 by AIEC;
2. The "Pre-Trial Brief" filed on February 24, 2011 by NPC-SPUG;
3. The "Comment/Opposition (for the Province of Palawan)" filed on March 15, 2011 by the Province of Palawan;
4. The letter dated March 15, 2011 of NPC-SPUG filed on March 17, 2011;
5. The "Consolidated Motion for Additional Time to Submit Compliance" filed on March 17, 2011 by NPC-SPUG;
6. The "Motion with Manifestation (For: Production of Documents and Data)" filed on March 22, 2011 by AIEC;
7. The "Compliance with Jurisdictional Requirements with Manifestation and Motion" filed on March 25, 2011 by NPC-SPUG;
8. The "Petition for Intervention" filed on March 25, 2011 by NASECORE;
9. "Resolution No. 198-2011" filed on March 31, 2011 by the Office of the Sanggunang Panlungsod of Puerto Princesa;
10. The "Motion for Intervention" filed on March 31, 2011 by PALECO;
11. The "Ex-Parte Consolidated Motion for Substitution of Documents" filed on April 29, 2011 by NPC-SPUG;
12. "Resolution No. 11-64" filed on May 10, 2011 by ORMECO;
13. The "Consolidated Compliance with Manifestation" filed on June 29, 2011 by NPC-SPUG;
14. The "Manifestation and Comment to the Applicant's Consolidated Compliance and Formal Offer of Evidence" filed on July 22, 2011 by the City of Zamboanga; and
15. The "Reply" filed on August 16, 2011 by NPC-SPUG.

Luzon SPUG Areas

During the February 28, 2011 initial hearing, only NPC-SPUG and AIEC appeared.



At the said hearing, NPC-SPUG presented its proofs of compliance with the Commission's posting and publication of notice requirements for Luzon SPUG Areas which were duly marked as Exhibits "A" to "V", inclusive. Thereafter, it made an expository presentation of its application. In the course thereof, the Commission propounded clarificatory questions. NPC-SPUG was, then, directed to submit various documents.

At the termination of the expository presentation, the Commission conducted a pre-trial hearing where the parties stipulated on facts and issues relative to the instant application.

At the hearings on March 24 and 31, 2011, NPC-SPUG presented its lone witness, Ms. Maria Annabel P. Versoza, its Corporate Staff Officer B, who testified on the following: a) the calculation of allowable fuel costs; b) the determination of deferred fuel costs during the test period covered by the instant application; and c) the calculation of the corresponding carrying charges as authorized under the GRAM. In the course thereof, the witness identified various documents which were duly marked as exhibits.

The direct examination having been terminated, PALECO conducted its cross-examination on the said witness.

Mindanao SPUG Areas

During the March 3, 2011 hearing, only NPC-SPUG appeared and presented its proofs of compliance with the Commission's posting and publication of notice requirements for Mindanao SPUG areas which were duly marked as



Exhibits "A" to "AM", inclusive. Thereafter, it conducted an expository presentation of its application.

In view of the failure of NPC-SPUG to submit several Certificates of Posting, the hearing set on March 4, 2011 was cancelled.

At the continuation of the hearing on May 31, 2011, NPC-SPUG presented the same witness, Ms. Versoza, who testified in support of the application. In the course thereof, she identified several documents which were duly marked as exhibits.

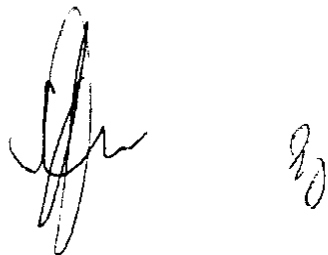
The direct examination of the said witness having been terminated, NPC-SPUG was directed to file its formal offer of evidence.

Visayas SPUG Areas

At the April 7, 2011 hearing, only NPC-SPUG appeared and submitted its proofs of compliance with the Commission's posting and publication of notice requirements for Visayas SPUG areas which were duly marked as Exhibits "A" to "AD-1". It then presented its lone witness, Ms. Versoza, who testified in support of the instant application.

On June 13, 2011, NPC-SPUG filed its "Formal Offer of Evidence."

The formal offer of evidence filed by NPC-SPUG and AIEC in the aforesaid cases are hereby admitted for being relevant and material in the final resolution of these cases.



DISCUSSION

Considering that the applications of NPC-SPUG involve the same issues and based substantially on the same transactions, the Commission deems it appropriate to consolidate its resolution thereon, pursuant to Section 1, Rule 31 of the Rules of Court, to wit:

“Section 1. Consolidation. – When actions involving a common question of law or fact are pending before the court, it may order a joint hearing or trial of any or all matters in issue in the actions; it may order all the actions consolidated; and it may make such orders concerning proceedings therein as may tend to avoid unnecessary costs or delay.”

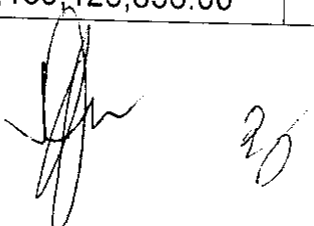
In the case of Jaime S. Domdom vs. Sandiganbayan¹, the Supreme Court held that:

“It need not be underscored that consolidation of cases, when proper, results the simplification of proceedings which saves time, the resources of the parties and the courts, and a possible major abbreviation of trial. It contributes to the swift dispensation of justice, and is in accord with the aim of affording the parties a just, speedy and inexpensive determination of their cases before the courts. Above all, consolidation avoids the possibility of rendering conflicting decisions in two or more cases which would otherwise require a single judgment.”

In the instant applications, NPC-SPUG proposed to recover the following GRAM DAA:

| Particulars | DAA (PhP) | Proposed Average Rate (PhP/kWh) |
|----------------------|------------------|---------------------------------|
| 4 th GRAM | 4,895,985,310.00 | 6.8808 |
| 5 th GRAM | 3,578,623,467.68 | 5.3719 |
| 6 th GRAM | 2,139,126,856.00 | 1.3163 |

¹ G.R. No. 182382-83, February 24, 2010



In the evaluation of the instant application, the Commission considered the following factors: a) Relevant Test Period; b) Fuel Cost; c) Purchased Power Cost (PPC); and d) Calculation of the total GRAM DAA.

A. Relevant Test Period

In calculating the proposed GRAM DAA, the Commission adopted the January 2006 to December 2009 as the test period.

B. Fuel Cost

The fuel costs for the test period were computed taking into consideration the approved heat rate caps or actual heat rates, whichever is lower, and the actual energy sales for the test period January 2006 to December 2009.

C. Heat Rates

The Commission used the following approved heat rate caps for Luzon, Visayas and Mindanao:

| SPUG Areas | Heat Rate Cap (Btu/kWh) |
|-------------------|------------------------------------|
| Luzon | 10,653 |
| Visayas | 12,097 |
| Mindanao | 11,669 |

D. Purchased Power Costs (PPC)

The Commission excluded the PPC adjustment pending the approval of NPC's purchased power agreements covering the aforesaid test period.



E. Calculation of the total GRAM DAA

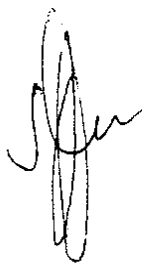
Pursuant to the GRAM Guidelines, the GRAM DAA and Carrying Charges were computed using the applicable test period and allowable fuel costs.

Based on the documents submitted, the Commission arrived at lower fuel costs compared to NPC-SPUG's proposed fuel costs, to wit:

| Particulars | Proposed DAA (PhP) | Allowable DAA (PhP) |
|----------------------|--------------------------|-------------------------|
| 4 th GRAM | 4,895,985,310.00 | 3,768,959,203.24 |
| 5 th GRAM | 3,578,623,467.68 | 2,487,607,142.35 |
| 6 th GRAM | 2,139,126,856.00 | 1,070,645,085.83 |
| TOTAL | 10,613,735,633.60 | 7,277,211,431.42 |

Using the applicable test period of January 2006 to December 2009, Carrying Charges were imposed on the allowable fuel costs to arrive at the allowable DAA of **PhP7,277,211,431.42** on the basis of the projected energy sales of NPC-SPUG for the years 2011 to 2014.

To mitigate the impact of the allowable GRAM DAA and pursuant to the GRAM Guidelines, the Commission deems it appropriate to allow NPC-SPUG to recover from the Universal Charge-Missionary Electrification (UC-ME) fifty percent (50%) of the PhP7,277,211,431.42, i.e., PhP3,638,605,715.71. The remaining PhP3,638,605,715.71 shall be recovered from the consumers within the SPUG Areas.




WHEREFORE, the foregoing premises considered, the applications filed by the National Power Corporation-Small Power Utilities Group (NPC-SPUG) for the approval of its generation rate adjustment under the Generation Rate Adjustment Mechanism (GRAM) are hereby **APPROVED with modification**.

Accordingly, NPC-SPUG is hereby authorized to recover the amount of Three Billion Six Hundred Thirty Eight Million Six Hundred Five Thousand Seven Hundred Fifteen Pesos and Seventy One Centavos (PhP3,638,605,715.71) equivalent to PhP1.2532/kWh within a period of four (4) years starting the next billing cycle from receipt of this Decision.

Further, NPC-SPUG is directed to inform all concerned distribution utilities, within five (5) days from receipt hereof and submit its compliance therewith, within three (3) days before the implementation of this Decision.

SO ORDERED.

Pasig City, August 1, 2011.


ZENAIDA G. CRUZ-DUCUT
Chairperson


MARIA TERESA A. R. CASTAÑEDA
Commissioner


JOSE C. REYES
Commissioner

Copy furnished:

1. **Atty. Melchor P. Ridulme**
Atty. Comie P. Doromal
Atty. Gordon Sy Montojo
Atty. Julieta S. Baccutan-Estamo
National Power Corporation
BIR Road cor. Quezon Avenue
Diliman, Quezon City
2. **The Office of the Solicitor General**
234 Amorsolo Street, Legaspi Village, Makati City
Metro Manila
3. **The Commission On Audit**
Don Mariano Marcos Avenue
Diliman, Quezon City, Metro Manila
4. **The Committee On Energy**
Senate of the Philippines
GSIS Building, Roxas Blvd., Pasay City, Metro Manila
5. **The Committee On Energy**
House of Representatives
Batasan Hills, Quezon City, Metro Manila
7. **The General Manager**
Philippine Rural Electric Cooperatives Association (PHILRECA)
4th Floor, Casman Building
372 Quezon Avenue, Quezon City
Metro Manila
8. **Ms. Edith Bueno**
Administrator
National Electrification Administration
ODFC Building, 1050 Quezon Avenue
Quezon City, Metro Manila
9. **All Electric Cooperatives**
10. **Atty. Carlos Roman L. Uybarreta**
Dechavez Bugayong Concepcion & Sagayo
1609-1610 16/F, Tycoon Centre Condominium
Pearl Drive, Ortigas Center
Pasig City