

Republic of the Philippines
ENERGY REGULATORY COMMISSION
Pasig City

**IN THE MATTER OF THE
PETITION FOR THE
APPROVAL OF THE
AVAILMENT FROM THE
UNIVERSAL CHARGE FOR
MISSIONARY
ELECTRIFICATION (UCME)
FOR CY 2022 WITH PRAYER
FOR THE ISSUANCE OF
PROVISIONAL AUTHORITY**

ERC CASE NO. 2021-022 RC

**NATIONAL POWER
CORPORATION,**
Petitioner.

Promulgated:
April 22, 2021

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NOTICE OF VIRTUAL HEARING

TO ALL INTERESTED PARTIES:

Notice is hereby given that on 31 March 2021, National Power Corporation (NPC) filed a *Petition* dated 10 March 2021, seeking the Commission's approval of the availment from the Universal Charge for Missionary Electrification (UCME) for Calendar Year (CY) 2022, with prayer for the issuance of provisional authority.

The pertinent portions of the said *Petition* are hereunder quoted as follows:

1. Petitioner NPC is a government owned and controlled corporation created and existing under Republic Act No. 6395 as amended ("NPC Charter"), with principal address at NPC Office Building Complex, corner Quezon Avenue and BIR Road, Diliman, Quezon City, where it may be served summons and other processes of the Honorable Commission.
2. Pursuant to Section 70 of Republic Act No. 9136 (Electric Power Industry Reform Act or "EPIRA"), NPC shall remain as a National-Government Owned and Controlled Corporation to perform the Missionary Electrification function through its Small

Power Utilities Group (hereafter, "NPC-SPUG") and shall be responsible for providing power generation and its associated power delivery systems in areas that are not connected to the transmission system.

3. On 22 August 2011, the Honorable Commission approved and issued Resolution No. 21 Series of 2011 entitled "*Amended Guidelines for the Setting and Approval of Electricity Generation Rates and Subsidies for Missionary Electrification Areas*" providing for the guidelines for the setting and approval of electricity generation rate and subsidies for missionary electrification areas, for the fixing and availment of subsidies for missionary electrification areas, as well as the Cash Incentives for the Renewable Energy ("RE") Developers in the missionary areas from the Universal Charge for Missionary Electrification ("UCME"). The said resolution is in accordance with Chapter VII Section 15 (b) of the Republic Act No. 9153,¹ which provides for the basis in the calculation of the Cash Incentive of the Renewable Energy Developers for Missionary Electrification, and ERC Resolution 7, series of 2014.²
4. Pursuant to Section 4 of Republic Act no. 6395, as amended, and Executive Order No. 83,³ issued by virtue of the authority granted to the President of the Republic of the Philippines under R.A. 7648,⁴ Petitioner NPC is duly authorized to include twelve percent (12%) return on its rate base composed of the sum of its net assets in operation plus two (2) months operating capital in the Revenue Requirement.
5. As the implementing agency for Missionary Electrification ("ME"), NPC is duty-bound to ensure the provision of the estimated ME subsidy requirements needed in the missionary areas from the Universal Charge ("UC") to be collected from all electricity end-users as determined by the Energy Regulatory Commission (ERC) and as provided under Section 2 (a) of the EPIRA Implementing Rules and Regulations.
6. Given the apparent energy shortage especially in small island grids in the country, and with the connection of the households in these areas to the main grid not being financially feasible due to low levels of demand, low population density and geographical constraints, it is admittedly a challenge for NPC to bring these areas to their viable level. The costs involved in the off-grid electrification are also often beyond the capacity of most of the household consumers to pay because of lack of resources and opportunity or option that the progressive or viable areas could provide or are providing. Hence, NPC must endeavor to fully and efficiently meet its missionary electrification function in order to bring these areas to a viable and competitive level for private

¹ Otherwise known as Renewable Act of 2008 or RE Act of 2008.

² A Resolution adopting the Rules to Govern the Availment and Disbursement of Cash Incentive to Renewable Energy (RE) Developers operating in Missionary Areas.

³ Fixing the Rate of Return on Rate Base of the National Power Corporation at twelve percent (12%) of the Rate base as Defined in Section 4 of Republic Act No. 6395, as Amended.

⁴ Electric Power Crises Act of 1993.

sector participation. NPC believes that through the mandated UCME subsidy, the provision of electricity becomes affordable and, at the same time, spurs economic activity, in addition to the fact that it facilitates the delivery of basic services to the off-grid consumers. Also, the UCME subsidy is an avenue to support government's thrust of total electrification. Unelectrified, unserved, or underserved off-grid areas are given provision of electricity through this subsidy. Moreover, the UCME subsidy essentially helps NPC maintain its power plants/facilities and allow the same to remain in proper and working condition, which is beneficial to the electricity consumers in the off-grid areas.

7. Hence, by and pursuant to Article V Section 2 of ERC Resolution No. 21, Series of 2011, Petitioner NPC is filing this petition to seek approval from this Honorable Commission to set the UCME for Missionary Electrification subsidy that would sufficiently cover the estimated requirements for areas served by NPC SPUG, New Power Providers ("NPPs") and Qualified Third Parties ("QTPs") that have taken over in full or part the generation function of NPC-SPUG in certain missionary areas, as well as the operating costs in mini-grids including the fixed cost of transmission/substations, and the cash incentive payment to RE Developers.

AVAILMENT FROM THE UNIVERSAL CHARGE
OF THE SHARE IN MISSIONARY ELECTRIFICATION (UCME)
SUBSIDY FOR CY 2022

8. The calculation of the total Basic UCME Subsidy as herein proposed is based on the formula as specifically provided in Article V Section 2 of ERC Resolution No. 21, Series of 2011.
9. In view of the foregoing and in compliance with the above-cited provisions of law and ERC resolutions, particularly as regards the requirement prescribed in the determination of corresponding subsidy, NPC calculated the estimated UCME requirements for the following: A) NPC SPUG Subsidy; B) Delegated SPUG areas (NPP) Subsidy; C) Qualified Third Parties (QTP) Subsidy and D) Cash Incentive of RE Developers, to wit:

ABSTRACT OF THE PROPOSED BASIC UCME SUBSIDY

10. Consistent with the NPC Missionary Electrification Plan ("MEP"), its forecasts on the demand and sales growth, scheduled generation and transmission projects and improvement in service level as well as the expansion of coverage to other missionary areas, upgrading its services and facilities and optimizing divestment of power generation functions for private sector participation and taking into account the afore-mentioned guidelines and provisions, NPC considered the key parameters and assumptions used in the projections in the determination of proposed UCME subsidy for the calendar year 2022, as follows:

A. Basic UCME Subsidy for NPC SPUG

11. In the calculation of NPC revenue requirements, the following accounts and costs were considered:

- a. Results of Operations for CY 2019
- b. Fuel Cost for CY 2022 – calculated based on actual 2019 fuel cost in P/kWh (for existing Power Plants) multiplied by the NPC projected energy sales; For New Areas, based on CY 2022 Projected Fuel Cost;
- c. Other Operating Expenses for CY 2022-other operating cost of existing Power Plants based on CY 2021 budget level;
- d. Cost of Personnel Services for CY 2022 is based on CY 2021 budget level;
- e. Depreciation as of December 2019;
- f. Return on Rate Base for CY 2022 – based on Net of Electric Plant in Service 2019 including allowable assets as shown in the calculation;
- g. The calculated Revenue from sales for CY 2022 based on the existing NPC-SPUG SAGR as of January 2021 multiplied by the projected energy sales;
- h. NPC-SPUG Projected Energy Sales, kWh for CY 2022 based on the CY 2022-2026 NPC MEP;
- i. NPC-SPUG Projected Results of Operations for CY 2022 shows the calculated total NPC projected revenue requirement for CY 2022;
- j. Philippine Electricity Sales Forecast based on the Department of Energy's ("DOE") Philippine Power Development Plan 2015-2030 (PDP).

The detailed breakdown of the Basic UCME Subsidy for NPC SPUG is shown in the NPC SPUG Projected Results of Operation for CY 2022, the summary of which is hereto attached as ANNEX "A", which shall form an integral part of this instant petition.

12. Petitioner NPC has utilized the authorized RORB methodology using the year 2019 base rate being the most recent financial statement available during the calculation stage. The twelve percent 12% RORB is also based on Executive Order No. 86 and consistent with the ERC approval on ERC Case No. 2011-074 RC and ERC Case No. 2012-085 RC.

B. UCME Subsidy for Delegated NPC SPUG areas (NPP/QTP)

13. The amounts corresponding the NPPs and QTP subsidies

considered were based on the following:

- a. Forecasted Energy Sales based on their submission of Forecasted generation and/or minimum off-take as provided in their respective ERC approved Power Supply Agreement (PSA);
- b. NPP TCGR/QTP FCRR and SAGR/SARR - TCGR/FCRR calculated based on the most recent subsidy invoice paid to each NPP and QTP claims at the time of calculation. On the other hand, the SAGR considered is based on the NPC SPUG existing effective rate as of January 2021 and the SARR is based on the ERC approved SARR of the QTPs;

The detailed breakdown of the NPP and QTP Subsidy requirement for CY 2022 and its supporting documents are attached herewith as ANNEXES "B", "B-1" to "B-21", which shall form an integral part of this instant petition.

- C. UCME Subsidy for the Cash Generation-Based Incentive for Renewable Energy (RE) Developer in the Off-grid

14. The renewable energy cash incentive (RE-CI), on the other hand, is based on the following:

- a. Total Projected Off-grid Energy Sales - sum of the NPC SPUG and NPP/QTP Projected Energy Sales;
- b. Blended TCGR - calculated based on the average of the NPC SPUG cost of generation and NPP true cost of generation;
- c. SAGR/SARR - based on the NPC SPUG SAGR as of January 2021 and ERC approved SARR per QTP;
- d. Cash Incentive Rate - equivalent to 50% of the calculated UCME Subsidy Rate;

The calculation of the proposed amount required for RED-CI is shown in the attached ANNEX "C". Likewise, attached as ANNEXES "C-1" to "C-8" are the submitted energy forecast and corresponding ERC Orders of RE Developers which shall likewise form an integral part of this instant petition.

PROPOSED BASIC UCME SUBSIDY PER COMPONENT

15. Based on the results of the calculation made, the total proposed UCME Subsidy requirement for the missionary electrification will amount to Php20,209,687,236.96 for CY 2022 inclusive of the Cash Incentive for Renewable Energy as shown in Table 1 below.

Table 1. Proposed UCME Requirement and Proposed UCME Subsidy rate for CY 2022

Item	Particulars	Proposed UCME for CY 2022	Impact to UCME P/kWh	% Share in UCME
1	TOTAL ME Subsidy NPC-SPUG	9,619,362,311.69	0.0908	47.60%
2	TOTAL ME Subsidy for New Power Providers (NPPs)	10,025,811,734.94	0.0947	49.61%
3	TOTAL ME Subsidy for Qualified Third Parties (QTPs)	217,060,133.43	0.0020	1.07%
	TOTAL UCME Subsidy for NPC, NPPs/QTPs	19,862,234,180.06	0.1875	
4	Renewable Energy Developer Cash Incentive	347,453,052.90	0.0033	1.72%
5	TOTAL UCME, PhP	20,209,687,232.96		100.00%
6	Philippine Forecasted Energy Sales, GWh	108,871		
7	Rate Impact on UCME, P/kWh		0.1908	

16. The Philippine Electricity Sales Forecast under DOE's Power Development Plan (PDP) for CY 2022 was utilized to determine the proposed UCME charges of PhPo.1908/kWh.

IMPLICATIONS OF UCME SUBSIDY AND THE PROPOSED RATES

17. The proposed basic UCME for CY 2022 of PhPo.1908/kWh (inclusive of Cash Incentive to RE Developer of PhPo.0033/kWh), purposely to finance the operation for the year will result to an increase of PhPo.0728/kWh in UCME from provisionally approved basic UCME rate of PhPo.1163/kWh for NPC-SPUG and NPPs/QTPs and for RED-CI of PhPo.0017/kWh. Table 2 below shows the rate calculation of the Proposed Subsidy amount and the corresponding rates in P/kWh:

Table 2. Proposed CY 2022 UCME & Rates

PARTICULARS	NPC	NPPs	QTPs	TOTAL	REDO	GRAND TOTAL
Revenue Requirement PhP	11,535,562,311.69	10,025,811,734.94	217,060,133.43	21,778,434,180.06		21,778,434,180.06
Less:						
Revenue for Sales	2,672,234,180.06	2,672,234,180.06	217,060,133.43	5,561,528,493.55		5,561,528,493.55
UCME (NPC, NPP, QTP)	9,863,328,131.63	7,353,577,554.88	217,060,133.43	17,433,965,819.94		17,433,965,819.94
Add Renewable Energy Developer Cash Incentive (RED-CI)					347,453,052.90	347,453,052.90
TOTAL UCME SUBSIDY CY 2022	9,863,328,131.63	7,353,577,554.88	217,060,133.43	17,433,965,819.94	347,453,052.90	17,781,418,872.84
Rate Impact on UCME, P/kWh	0.0908	0.0947	0.0020	0.1875	0.0033	0.1908
Philippine Energy Sales Forecast, QTP CY 2022	108,871					
% Share	47.60%	49.61%	1.07%	98%	1.72%	100%

18. The UCME Subsidy for the Cash Incentive will be remitted to Power Assets Sector Assets and Liabilities Management Corporation ("PSALM") since it is mandated to directly disburse the same to eligible RE Developer under Article IV, Section 2 of Resolution 21, series of 2011. Hence, the Proposed UCME Subsidy Requirement that will be managed by NPC is Net of Cash Incentive.

19. The proposed UCME rate considered the commitment of NPC in ensuring that:

- a. the required volume of fuel will be timely paid to NPC suppliers to avoid non-delivery of fuel supply;
- b. the payment of NPPs & QTPs subsidy are timely made; and
- c. the missionary electrification functions in SPUG areas are fulfilled through continues operation of existing generating units and implement power development plans for each islands/grid by providing 24/7 power service.
- d. the provision of CI amount for payment to RE Developers, as mandated.

20. The National Power Board approved the filling of this instant petition as evidenced by the Secretary Certificate dated 24 February 2021, hereto attached as ANNEX "D".

21. The proposed UCME for CY 2022 is based on the following pertinent documents attached herewith and correspondingly marked, as follows:

Annex "E" Results of Operations for CY 2019

Annex "F" Condensed Statement of Financial Position as of December 31, 2019 and Condensed Statement of Financial Performance, December 31, 2019

Annex "G" Projected Philippines Electricity Sales Forecast (PDP 2015-2030)

Annex "H" NPC SPUG Projected Gross Generation and Energy Sales for CY 2022 with fuel volume

Annex "I" NPC SPUG Projected Results of Operations for CY 2022

Annex "J" Rate Base per Region as of December 2019 (Electric Plant in Service)

Annex "K" NPC-SPUG Effective Rate as of January 2021

Annex "L" Personnel Services for FY 2021

Annex "M" Maintenance and Other Operating Expense for FY 2021

Annex "N" Return on Rate Base (RORB) calculation

Annex "O" Schedule of Depreciation Expense for CY 2019

ALLEGATIONS IN SUPPORT OF THE PRAYER
FOR THE ISSUANCE OF A PROVISIONAL AUTHORITY

22. The issuance of a provisional authority under the instant petition is appropriate based on the following justifications:

- a. The recovery of the proposed Basic UCME rate of Php0.1908/kWh inclusive of RE Cash Incentive for CY 2022 is vital to NPC's subsidy requirements to maintain a reliable and stable funding source for its operating costs requirements and to ensure sufficient subsidy for payment to NPPs/QTPs and RE Developers.
- b. The aim to further improve and guarantee sustainable economic development in the off-grid areas.
- c. The opinion of the Department of Justice ("DOJ") which suspended NPC's authority to borrow funds or enter into a loan agreement, affecting NPC's fiscal flexibility in funding and operations.
- d. The proposal, when approved, will allow NPC to deliver its commitment to provide a reliable and sufficient power supply and efficient operation of its plants and its associated power delivery systems consistent with the specific programs in the missionary areas that NPC is currently serving. NPC operates numerous small power plants, and it is widely known that electricity in Small Islands and Isolated Grids (SIIGs) is relatively very expensive.
- e. The provision of electricity to unelectrified, unserved and underserved off-grid areas will enable NPC to perform its mandate and fulfill the government's objective of total electrification.

23. The issuance of a provisional authority is authorized under Section 3 Rule 14 of the Rules of Practice and Procedure. Likewise, the authority of the Honorable Commission to issue a provisional authority is confirmed by the Supreme Court in the case of *Freedom from Debt Coalition, et. al. vs. ERC, et. al.*,⁵ when it held that "the power to approve provisional rate increases is included among the powers transferred to the ERC by virtue of Section 44 since the grant of that authority is not inconsistent with the EPIRA; rather, it is in full harmony with the thrust of the law which is to strengthen the ERC as the new regulatory body."

24. Petitioner NPC is thus imploring the kind consideration of this Honorable Commission and respectfully prays for the issuance of a provisional authority under the foregoing premises.

⁵ G.R. No. 161113, 15 June 2004.

COMPLIANCE

25. In support of this petition and in compliance with Rule 6 of the ERC Rules of Practice and Procedures under ERC Resolution No. 01, Series of 2021 as well as Section 4(e) Rule 3 of the EPIRA Implementing Rules and Regulations, Petitioner NPC attaches and submits the following:

- a. Proof of Publication of the Petition once in a newspaper of general circulation hereto attached as ANNEX "P"
- b. Proof of service of this Petition to the Legislative Bodies of the Local Government Units where NPC principally operates, hereto attached as ANNEX "Q"

PRAYER

WHEREFORE, premises considered, Petitioner National Power Corporation respectfully prays that:

- a. Pending the hearing on the merits, an Order be issued granting PROVISIONAL APPROVAL to the proposed Basic UCME for CY 2022 amounting to PhP 20,209,687,236.96 or equivalent rate of PhP 0.1908/kWh
- b. The approval of the proposed Basic UCME for CY 2022 be on a per item basis as identified in Table 2, to wit:

	ABSOLUTE AMOUNT	P/KWh
NPC	9,619,362,315.69	0.0908
NPPs	10,025,811,734.94	0.0947
QTPs	217,060,133.43	0.0020
REDCl	347,453,052.90	0.0033
TOTAL UCME	20,209,687,236.96	0.1908

- c. After the hearing on the merits, the instant petition be GRANTED by the Honorable Commission.

Other reliefs, just and equitable, are likewise prayed for.

The Commission has set the instant *Petition* for determination of compliance with the jurisdictional requirements, expository presentation, pre-trial conference and presentation of evidence on the following dates and online platform for the conduct thereof, pursuant to Resolution No. 09, Series of 2020⁶ dated 24 September 2020:

⁶ Entitled: "A Resolution Adopting the Guidelines Governing Electronic Applications, Filings and Virtual Hearings Before the Energy Regulatory Commission".

Date	Platform	Activity
02 June 2021 (Wednesday) at two o'clock in the afternoon (2:00 P.M.)	Microsoft Teams Application	Determination of compliance with jurisdictional requirements and Expository Presentation for Luzon Stakeholders
09 June 2021 (Wednesday) at two o'clock in the afternoon (2:00 P.M.)	Microsoft Teams Application	Expository Presentation for Visayas Stakeholders
30 June 2021 (Wednesday) at two o'clock in the afternoon (2:00 P.M.)	Microsoft Teams Application	Expository Presentation for Mindanao Stakeholders
07 July 2021 (Wednesday) at two o'clock in the afternoon (2:00 P.M.)	Microsoft Teams Application	Pre-Trial Conference
16 July 2021 (Friday) at nine o'clock in the afternoon (9:00 A.M.)	Microsoft Teams Application	Presentation of Evidence
23 July 2021 (Friday) at nine o'clock in the afternoon (9:00 A.M.)	Microsoft Teams Application	Presentation of Evidence
30 July 2021 (Friday) at nine o'clock in the afternoon (9:00 A.M.)	Microsoft Teams Application	Presentation of Evidence

Any interested stakeholder may submit its comments and/or clarifications at least one (1) calendar day prior to the scheduled virtual hearing, via electronic mail (e-mail) at docket@erc.ph, copy furnish the Legal Service through legal@erc.ph. The Commission shall give priority to the stakeholders who have duly submitted their respective comments and/or clarifications, to discuss the same and propound questions during the course of the expository presentation.

Moreover, all persons who have an interest in the subject matter of the instant case may become a party by filing with the Commission via e-mail at docket@erc.ph, copy furnish the Legal Service through legal@erc.ph, a verified Petition to Intervene at least five (5) calendar days prior to the date of the initial virtual hearing and subject to the requirements under Rule 9 of the ERC Revised Rules of Practice and Procedure, indicating therein the docket number and title of the case and stating the following:

- 1) The petitioner's name, mailing address, and e-mail 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.

Likewise, all other persons who may want their views known to the Commission with respect to the subject matter of the case may file through e-mail at docket@erc.ph, copy furnish the Legal Service through legal@erc.ph, their Opposition or Comment thereon at least five (5) calendar days prior to the initial virtual hearing and subject to the requirements under Rule 9 of the ERC Revised Rules of Practice and Procedure. No particular form of Opposition or Comment is required, but the document, letter, or writing should contain the following:

- 1) The name, mailing address, and e-mail address of such person;
- 2) A concise statement of the Opposition or Comment; and
- 3) The grounds relied upon.

Any person mentioned in the preceding paragraphs may access the *Petition* on the Commission's official website at www.erc.gov.ph.

Finally, all interested persons may be allowed to join the scheduled initial virtual hearing by providing the Commission, thru legal.virtualhearings@erc.ph, with their respective e-mail addresses and indicating therein the case number of the instant *Petition*. The Commission will send the access link/s to the aforementioned hearing platform within five (5) working days prior to the scheduled hearing.

WITNESS, the Honorable Commissioners ALEXIS M. LUMBATAN, CATHERINE P. MACEDA, FLORESINDA G. BALDO-DIGAL and MARKO ROMEO L. FUENTES, Energy Regulatory Commission, this 12th day of April 2021 in Pasig City.


AGNES VST DEVANADERA
Chairperson and CEO


LS: VMA/LSP/MCCG

