

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

PSALM CORP.	
OFFICE OF THE GENERAL COUNSEL	
RECEIVED	
BY: <u>Anne (96 CPA)</u>	
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IN THE MATTER OF THE APPLICATION FOR THE TRUE-UP ADJUSTMENTS OF FUEL AND PURCHASED POWER COSTS (TAFPPC), AND FOREIGN EXCHANGE-RELATED COSTS (TAFxA) UNDER THE RULES FOR THE AUTOMATIC RECOVERY OF MONTHLY FUEL AND PURCHASED POWER COSTS AND FOREIGN EXCHANGE-RELATED COSTS BY THE NATIONAL POWER CORPORATION, AS AMENDED, WITH PRAYER FOR THE ISSUANCE OF PROVISIONAL AUTHORITY

ERC CASE NO. 2011-115 RC

POWER SECTOR ASSETS AND LIABILITIES MANAGEMENT CORPORATION (PSALM),
Applicant.

x ----- x

DOCKETED
Date: JUN 18 2012
By: [Signature]

NOTICE OF PUBLIC HEARING

TO ALL INTERESTED PARTIES:

Notice is hereby given that on August 18, 2011, the Power Sector Assets and Liabilities Management Corporation (PSALM) filed an application for the True-up Adjustments of Fuel and Purchased Power Costs (TAFPPC) and Foreign Exchange-Related Costs (TAFxA) under the Rules for the Automatic Recovery of Monthly Fuel and Purchased Power Costs and Foreign Exchange-Related Costs by the National Power Corporation (NPC), with prayer for the issuance of a provisional authority.

In the said application, PSALM alleged, among others, the following:

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In the said application, PSALM alleged, among others, the following:

1. The filing of the instant application is pursuant to the Implementing Rules and Regulations (IRR) of Republic Act No. 9136 (R.A. 9136), otherwise known as the "Electric Power Industry Reform Act (EPIRA), particularly Section 4 (e), Rule 3 thereof, Rule 6 of the Commission's Rules of Practice and Procedure and the Rules for the Automatic Recovery of Monthly Fuel and Purchased Power Costs and Foreign-Exchange Related Costs by the NPC (ACRM Rules), as amended;
2. Article V, Section 3 of the ACRM Rules, as amended, provide for the post verification by the Commission, at least every twelve (12) months of its recovery of the Fuel and Purchased Power Costs Adjustment (FPPCA) and Foreign Exchange-Related Cost Adjustment (FXA) by comparing the actual allowable costs incurred for the period with the actual revenues for the same period generated by the generation rates;
3. In its "Motion for Clarification" dated December 10, 2010 which was received by the Commission on December 13, 2010, it sought clarification as to the time frame for the filing of the initial true-up application of the Automatic Cost Adjustment (ACA) as well as the subsequent true-up applications;
4. On July 29, 2011, it received an Order dated June 29, 2011, wherein the Commission stated that it shall conduct an immediate verification of the ACA rates, i.e., FPPC and FX Cost. It was directed to file the true-up adjustments within twenty (20) days from receipt hereof, without further extension;
5. Hence, the timely filing of the instant application for the TAFPPC and TAFxA;
6. The true-up adjustment application covers the billing period March 2010 until February 2011. It has fully complied with the monthly reporting requirements as required under Article V, Section 1 of the ACRM Rules, timely submitting calculations for the monthly recovery/(refund) of the incremental/downward adjustments in FPPC and FX Costs, as well as supporting documents, as evidenced by the receipt of the Commission of such compliances;

I. TAFPPC

7. In accordance with Article V, Section 4 of the ACRM Rules, it computed the TAFPPC based on the following formula:

$$\text{TAFPPC} = \text{FPPCA}_{\text{afppc}} - \text{FPPC}_{\text{billed}} - \text{FPPC}_{\text{peso}}$$

Where:

$\text{FPPCA}_{\text{afppc}}$ = Actual allowable fuel and purchased power costs for the test period

$\text{FPPCA}_{\text{billed}}$ = Fuel and purchased power costs billed through the last ERC-approved base rate for the test period

$FPPCA_{\text{peso}}$ = Recovered/billed fuel and purchased power costs from customers

A. First Component of the TAFPPC: $FPPCA_{\text{afppc}}$

8. $FPPCA_{\text{afppc}}$ is determined by getting the: (i) allowable fuel cost; and (ii) allowable purchased power cost covering the relevant billing period March 2010 to February 2011;

(i) Computation of the Allowable Fuel Cost

9. The Allowable Fuel Cost is calculated based on the lower of: (a) the Heat Rate Caps set by the Commission through its Order dated April 15, 2011 in ERC Case No. 2009-003 RC and (b) the computed actual heat rate per plant;
10. The Actual Heat Rate per plant is calculated by taking into consideration the following factors:
- a. Fuel Consumption (with and without generation);
 - b. Net Energy Generation (gross generation less station use with generation);
 - c. Fuel Heating Values; and
 - d. Other Conversion Factors (e.g. Fuel Density) relevant to the determination of the actual heat rate.
11. The computed Actual Heat Rates per plant are then compared with the latest Heat Rate Caps approved by the Commission;
12. In the event the computed Actual Heat Rate is lower than the Heat Rate Cap set forth by the Commission, the Actual Fuel Cost based on the Actual Heat Rate is considered as the Allowable Fuel Cost. Otherwise, if the Heat Rate Cap is lower than the Actual Heat Rate, the Allowable Fuel Cost is calculated by multiplying the Actual Fuel Cost with the ratio of the ERC-approved Heat Rate Cap and Actual Heat Rate;
13. The Allowable Fuel Costs were calculated for the following power plants:

Luzon	Visayas	Mindanao
Bauang DPP	CDPP	Iligan DPP I
Iligan CCGT	CTPP I	PB 104
	CTPP II	SPPC
	PB 101	WMPC
	PB 102	
	PB 103	

(ii) Computation of the Allowable Purchased Power Cost

14. In the calculation of the Allowable Purchased Power Cost, it considered, whichever is lower, (a) the actual purchased power cost and (b) the cap/base rate levels stated under the various decisions of the Commission and the then Energy Regulatory Board (ERB) involving the following power plants:

Luzon	Case No.
Leyte B	ERB Case No. 98-54
Northern Mini-Hydro Corporation (Benguet Mini-Hydro-Bakun Ampohaw)	ERB Case No. 93-13
Malaya TPP	ERC Case No. 2005-032 RC
Bauang DPP	ERB Case No. 95-203
CBK	ERC Case No. 2007-159 RC
Casecnan	ERC Case No. 2001-457
Ilijan CCGT	ERC Case No. 2001-814

Visayas	Case No.
Leyte (Bohol, Cebu, Samar)	ERB Case No. 98-54
Naga Power Plant Complex (CDPP, CTPP I and CTPP II)	ERC Case No. 2005-031 RC

Mindanao	Case No.
WMPC	ERB Case No. 98-51
SPPC	ERB Case No. 98-52
Mindanao Coal	ERC Case No. 2001-811
Mt. Apo I	ERB Case No. 98-54

15. For power plants which were privatized or transferred to a local government unit (LGU) within the March 2010 to February 2011 billing period, only the Allowable Fuel and Purchased Power Costs prior to privatization or turn over were included in the calculations. Shown below is the list of plant that were privatized or turned over and its cut-off date:

Plant	Cut-Off Date
Ilijan CCGT	June 25, 2010
Bauang DPP	July 25, 2010
Iligan DPP I	July 29, 2010

16. The instant application likewise considered, in the determination of the Allowable Purchased Power Cost, the Inflation Factor Adjustments (IFA) stipulated in the Independent Power Producer (IPP) contracts and billed by the IPP proponent during the covered billing period and accordingly paid by it. The IFA refer to costs under the IPP contracts wherein some of the payment obligations to IPPs are subject to escalation factor based on the formula given under each contracts;
17. The instant application similarly includes the escalation factor in the Rehabilitation, Operation Maintenance and Management Agreement of the 650 MW Malaya Thermal Power Plant Complex. While the IFA under this agreement pertains to March 2009 to September

2010 billing periods, nevertheless, these costs are now included in the instant application considering that the same costs were only paid by it on May 2011;

18. The Allowable Fuel and Purchased Power Costs included in the calculation reflect only the costs incurred for Transition Supply Contract (TSC) customers. These are derived by deducting from the Total Allowable Fuel and Purchased Power Cost, the Fuel and Purchased Power Costs associated with sales from the Wholesale Electricity Spot Market (WESM) using the proportion of the WESM kilowatt-hour sales to the total kilowatt-hour sales of the grid;

B. Second Component of the TAFPPC: $FPPCA_{billed}$

19. $FPPCA_{billed}$ is the fuel and purchased power costs billed through the ERC- approved base rate for the billing period. It is calculated by multiplying the TSC sales (in kWh) with the fuel and purchased power cost component (in PhP/kWh) of the provisionally-approved Basic Generation Rate (BGC) under the ERC Case no. 2009-004 RC;

C. Third Component of the TAFPPC: $FPPCA_{peso}$

20. $FPPCA_{peso}$ refers to the recovered or billed fuel and purchased power cost from customers through the monthly recovery/(refund) of incremental/downward adjustment in FPPC. This is calculated by getting the total FPPC billed from customers sourced from the Abstract of Power Bills;

TOTAL TAFPPC

21. Considering the foregoing, and pursuant to all the relevant Decisions and Orders issued by the Commission, it calculated the TAFPPC for Luzon, Visayas and Mindanao Grids covering the billing period March 2010 to February 2011 as follows:

Grid	$FPPCA_{afppc}$ (PhP)	$FPPCA_{billed}$ (PhP)	$FPPCA_{peso}$ (PhP)	TAFPPC (PhP)
Luzon	24,919,716,928.78	21,047,133,378.49	1,491,311,611.63	2,381,271,938.66
Visayas	15,185,486,706.81	12,042,086,733.26	931,075,212.44	2,212,324,761.11
Mindanao	12,609,970,994.53	12,933,409,179.59	546,101,779.89	(869,539,964.94)

II. TAFXA

22. In accordance with Article V, Section 4 of the ACRM Rules, it calculated the TAFXA based on the following formula:

$$\text{TAFxA} = \text{FxA}_{\text{afxc}} - \text{FxA}_{\text{peso}}$$

Where:

- TAFxA** = True-up Adjustment of Foreign Exchange-Related Costs in Peso
- FxA_{afxc}** = Actual Foreign Exchange-Related costs for the Test Period
- FxA_{peso}** = Recovered/billed Foreign Exchange-Related Cost from Customers

A. First Component of TAFxA: FxA_{afxc}

23. **FxA_{afxc}** is calculated based on the difference between: a) principal debt payments made during the covered billing period converted into Philippine Peso using the actual exchange rate as of the date of payment; and 2) principal debt payments during the same period converted to Philippine Peso using the base foreign exchange rate of PhP44.0494/US\$1.00 as stated in ERC order dated February 3, 2010;
24. The **FxA_{afxc}** is adjusted correspondingly to reflect costs associated with TSC customers. Similar to the adjustments in the Actual Allowable Fuel and Purchased Cost, **FxA_{afxc}** is derived by deducting from the Total Foreign Exchange-Related Cost of Foreign Exchange-Related Cost associated with sales from WESM using the proportion of the WESM kilowatt-hour sales to the total kilowatt-hour sales of the grid;

B. Second Component of TAFxA: FxA_{peso}

25. **FxA_{peso}** refers to the recovered/billed foreign exchange-related costs through the monthly recovery/(refund) of incremental/downward adjustment in FX Costs. This is calculated by getting the total FxA billed from customers sourced from the Abstract of power bills;

TOTAL TAFxA

26. Considering the foregoing, and pursuant to all the relevant Decisions and Orders issued by the Commission, it calculated the TAFxA for Luzon, Visayas and Mindanao Grids covering the billing period of March 2010 to February 2011 as follows:

Grid	FxA _{afxc} (PhP)	FxA _{peso} (PhP)	TAFxA (PhP)
Luzon	736,914,691.11	386,720,460.53	347,194,230.59
Visayas	85,208,966.58	100,825,261.95	(15,616,295.37)
Mindanao	54,822,115.75	43,317,235.43	11,504,880.32

III. ADJUSTMENT TO TAFPPC and TAFxA

27. The TAFPPCA and TAFxA are adjusted to reflect debit/credit issue adjustments on customers' power bills. Debit/Credit issue adjustments are issued to customers in order to reflect the adjustment in Customer's Power Bills due to adjustments in sales and recalculation of FPPCA and FxA. Shown below is the summary of the debit/credit issue adjustments per grid:

Grid	FPPCA and FxA Debit/Credit Issue Adjustment (PhP)
Luzon	(85,979,240.33)
Visayas	(6,318,957.30)
Mindanao	161,329.00

28. In summary, the Total True-up Adjustment for the billing period March 2010 to February 2011 is as follows:

Grid	TAFPPCA	TAFxA	FPPCA and FxA Debit/Credit Issue Adjustment (PhP)	Total True-up Adjustment (PhP)
Luzon	2,381,271,938.66	347,194,230.59	(85,979,240.33)	2814445409.57
Visayas	2,212,324,761.11	(15,616,295.37)	(6,318,957.30)	2203027423.04
Mindanao	(869,539,964.94)	11,504,880.32	161,329.00	(858196413.63)

29. It seeks the Commission's approval for the recovery/refund of the above-stated Total True-Up Adjustment for the billing period March 2010 to February 2011. It likewise seeks the approval of the Commission to recover the above-stated Total True-up Adjustment over the following recovery periods:

Proposed Spread (No. of Years)

Luzon	Visayas	Mindanao
5	5	5

30. Applying the proposed recovery period, the Peso per kilowatt-hour (PhP/kWh) rate for the relevant grids as follows:

Grid	TAFPPCA (PhP/kWh) A	TAFxA (PhP/kWh) B	FPPCA and FxA Debit/Credit Issue Adjustment (PhP/kWh) C	Total True-up Adjustment (PhP/kWh) A+B+C
Luzon	0.0896	0.0131	(0.0032)	0.1059
Visayas	0.1162	(0.0008)	(0.0003)	0.1157
Mindanao	(0.0261)	0.0003	0.0000	(0.0258)

31. The above-stated PhP/kWh rates were computed by dividing the True-up Adjustment with five-year energy sales;
32. It prays that a provisional authority be issued to implement the True-up Adjustment in PhP/kWh rate to improve its financial standing, allowing it to efficiently comply with its mandate under the EPIRA to liquidate all NPC financial obligations and stranded contract costs in an optimal manner;
33. Pursuant to the Commission's Rules of Practice and Procedures, the Commission may exercise its discretion by granting provisional authority or interim relief prior to a final decision;
34. It understands that the interim relief sought that may be granted by the Commission shall be subject to adjustments and other conditions that the Commission may impose after hearing and final determination of the Commission; and
35. It further prays that the following True-up Adjustment (TAFPPC + TAFxA) covering the billing period March 2010 to February 2011 and consistent with ERC Resolution No. 19, Series of 2009, as amended, and Section 4 (e), Rule 3 of the Implementing Rules and Regulations (IRR) of the EPIRA be approved by the Commission:

Grid	TAFPPCA (In PhP and PhP/kWh)	TAFxA (In PhP and PhP/kWh)	FPPCA and FxA Debit/Credit Issue Adjustment (In PhP and PhP/kWh)	Total True-up Adjustment (In PhP and PhP/kWh)
Luzon	2,381,271,938.66	347,194,230.59	(85,979,240.33)	2814445409.57
	0.0896	0.0131	(0.0032)	0.1059
Visayas	2,212,324,761.11	(15,616,295.37)	(6,318,957.30)	2203027423.04
	0.1162	(0.0008)	(0.0003)	0.1157
Mindanao	(869,539,964.94)	11,504,880.32	161,329.00	(858196413.63)
	(0.0261)	0.0003	0.0000	(0.0258)

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

Date and Time	Venue	Particulars
Luzon		
July 19, 2012 (Thursday) at two o'clock in the afternoon (2:00 P.M.)	ERC Hearing Room, 15 th Floor, Pacific Center Building San Miguel Avenue, Pasig City.	Jurisdictional, Expository Presentation, Pre-Trial Conference and Evidentiary Hearings
Visayas		
July 26, 2012 (Thursday) at ten o'clock in the morning (10:00 A.M.)	Energy Regulatory Commission - Visayas Field Office (ERC-VFO), Machay Building, Gorordo Avenue, Lahug, Cebu City	Expository Presentation, Pre-Trial Conference and Evidentiary Hearing
Mindanao		
July 31, 2012 (Tuesday) at two o'clock in the afternoon (2:00 P.M.)	Energy Regulatory Commission - Mindanao Field Office (ERC-MFO), Mezzanine Floor, Mintrade Building, Monteverde Avenue corner Sales Street, Davao City	Expository Presentation, Pre-Trial Conference and 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 Chairperson, **ZENaida G. CRUZ-DUCUT**, and the Honorable Commissioners, **MARIA TERESA A.R. CASTAÑEDA**, **JOSE C. REYES**, **ALFREDO J. NON** and **GLORIA VICTORIA C. YAP-TARUC**, Energy Regulatory Commission, this 11th day of June 2012 at Pasig City.


ATTY. FRANCIS SATURNINO C. JUAN
Executive Director III


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