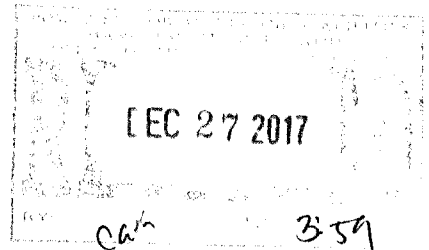


Republic of the Philippines
ENERGY REGULATORY COMMISSION
San Miguel Avenue, Pasig City

IN THE MATTER OF THE
APPLICATION FOR THE 1ST
TO 5TH AUTOMATIC COST
RECOVERY MECHANISM
(ACRM) TRUE-UP
ADJUSTMENT 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



D O C K E T E D
Date: DEC 27 2017
By: _____

ERC CASE No. 2011-115 RC
ERC CASE No. 2012-067 RC
ERC CASE No. 2013-092 RC
ERC CASE No. 2014-098 RC
ERC CASE No. 2015-124 RC

NATIONAL POWER
CORPORATION/ POWER
SECTOR ASSETS AND
LIABILITIES MANAGEMENT
CORPORATION NPC/PSALM,

Applicants.

x-----x

ORDER

On 20 June 2017, the Commission issued its Decision, authorizing PSALM to implement its recovery/refund of the 1st to 5th Automatic Cost Recovery Mechanism (ACRM). Considering the rate impact of the approval, PSALM was directed to submit a mechanism on the management and implementation of the said approved amount for the sixty-month (60 months) period.

PSALM in its *Compliance* dated 08 September 2017 submitted *Memorandum Circular No. 2017-001 Guidelines and Procedures Governing the Implementation of the Deferred Accounting Adjustments (DAAs) and Automatic Cost Recovery Mechanism (ACRM) true-up Adjustments*.

In the same compliance, PSALM also submitted the true-up Adjustment Allocation per Customer of the approved 1st to 5th ACRM true-up.

On 06 October 2017, PEPOA filed an “*Ex-Parte Motion for Leave to Intervene, Admit Motion Clarification and to Defer Implementation of the ACRM under the 10th – 17th GRAM and 15th – 16th ICERA*”. Notably, issues raised therein also relates to the implementation of the 1st-5th ACRM, as the mechanisms are the same in nature.

In an Order dated 19 October 2017, the Commission deferred the implementation of the approved ACRM to the January 2018 billing, pending the evaluation of the clarifications raised in PEPOA’s letter and motion.

DISCUSSION

PSALM’S COMPLIANCE

On June 20, 2017, the Commission issued its Decision, authorizing PSALM to implement its recovery/refund of the 1st to 5th ACRM. Considering the rate impact of the approval, PSALM was directed to submit a mechanism on how it will manage and implement the said approved amount within the sixty-month (60 months) period.

PSALM then filed its compliance last 20 September 2017. In the same compliance, the per customer allocation of the ACRM was likewise submitted.

Mechanism

The Guidelines covering both the DAA and ACRM submitted by PSALM provides for the following:

1. Coverage and Scope of Application

The guidelines specifically provided that it shall apply to PSALM/NPC customers that drew power during the test periods covered by the application.

As intended by the Commission's approval, these are deferred generation charges that should be shouldered by those who benefited from it, hence, should only cover customers during the relevant test period.

2. Billing Methodology

Under the guidelines, the billing methodology for each customer will differ depending on the customer classification as follows:

1. Existing PSALM Customers;
 - To be reflected in the regular monthly billings
2. PSALM Customers with expired TSC/CSEE¹;
 - Thru Debit/Credit Memo
3. NPC Customers attached to Successor Generation Companies (SGCs);
 - Thru Debit/Credit Memo
 - ACRM previously collected thru the SGCs shall be subject to adjustment.
4. Dormant accounts
 - Closed customers, recovery/refund shall be in accordance with relevant laws, rules and regulation.

The Commission finds the above proposal consistent with the Commission's approval that PSALM shall now directly bill the approved ACRM to the concerned customers. The

¹Transition Supply Contract/Contract for the Sale of Electric Energy

guidelines only further detailed the specific steps that PSALM shall undertake in billing its customers.

3. Exception Cases

The PSALM guidelines further provided for the granting of extension of recovery period (not to exceed 7 years), to cushion the rate impact to the end-users provided they meet the conditions provided in the guidelines.

The Commission finds this provision reasonable as this will help manage the rate impact to consumers and likewise allow PSALM to manage its cash flow.

Allocation

With regard to the submitted ACRM allocation, the Commission noted that the list of customers therein is consistent with the list submitted in the respective applications. The allocation was done using the energy purchased by each customer and consistent with the Commission's approval under the ACRM. Hence, the Commission hereby confirms said allocation.

PEPOA'S CLARIFICATION

It is worth emphasizing that the DAA and ACRM true-up are the same in nature, (deferred generation charges). Hence, implementation of the ACRM true-up poses the same issues as raised in PEPOA's clarification for the DAA. Hence, the resolution of the issues raised by PEPOA in its motion (deferment and collection, etc.) shall be applied to both DAA and ACRM implementation.

- a) *Should DUs charge ACRM to customers who are now part of the Contestable Market but were part of the Captive Market when the ACRM was incurred? Considering that these customers are no longer customers of the DU, can the ACRM be coursed thru their Retail Electricity Suppliers (RES).*

In its Order dated 20 June 2017 the Commission approved that the allocated ACRM for each customer and shall be recovered by PSALM/NPC on a fixed monthly basis or in absolute amount. It should be noted that the customers covered by the ACRM allocation are those customers whose electricity requirements were supplied by NPC/PSALM during the entire period of the 1st-5th ACRM.

Further, the said ACRM allocation was derived using the total energy purchased by the DU from PSALM during the said period. Since, the allocation was based on total energy of the DU during the test period, prior to some of the customers being in the contestable market, these customers who were then part of the DU's captive market during the test period has a share on the ACRM allocated for each DU.

Accordingly, the Commission rules that these contestable customers should be charged by the DU since the same was considered and reflected in the energy sales used in the allocation of the ACRM. The said customers shall be billed in absolute amount allocated to them through their RES.

b) Should new customers (Who were connected to the DU after the test period) be also charged the ACRM considering they were not customers of the DU during the test period?

As stated above, the derivation of the approved ACRM was based on the sales of the DU. Thus, allowing the DU to charge the ACRM to its new customers would lead to overcharging of ACRM. These customers were not included in the allocation of the ACRM and pertain only to those supplied by DU during the test period. Hence, the approved ACRM shall be recovered only by the DU from its customers during the test period.

Thus, in the same manner that former captive customers (who are now with their RES) are liable for the ACRM, The Commission clarifies that new customers should not be charged the approved ACRM.

c) Are DUs considered mere collectors of the ACRM, such that the DUs shall remit the ACRM to PSALM/NPC only upon collection from the end-users (similar to VAT on generation)?

d) Is PSALM/NPC authorized to charge interest/surcharge for late/overdue payment/account based on their existing credit and collection policy?

e) Can DUs pass-on any interest/surcharge only to delinquent accounts who caused the interest/surcharge.

The ACRM true-up are deferred adjustments, which were incurred by PSALM/NPC in supplying energy during the corresponding period thus, it should be recovered/refunded by PSALM/NPC to its customers. Hence, the said DUs are not just mere collectors of the said ACRM true-up but these are charges that they

should pay to NPC/PSALM and charged to their customers as part of their generation charge.

Considering that there are DUs whose customers switched from being captive to contestable, the following rules should be observed:

1. For **captive** customers: this should **be treated as power bill which should be paid in full** to PSALM on or before its due date. It is worth noting that the DU has the capacity to enforce collection from said customers

The DUs remedy as to delinquent accounts shall be governed by its collection policy (e.g. charging of interest, disconnection, etc.); and

2. For **contestable** customers: since these are no longer customers of the DU, the DU may encounter issue in collecting the deferred charges. **Hence, payment to PSALM should only be made upon collection from the customer.** To facilitate such collection and imposition of **any interest**, the DU together with the RES, the contestable customer and PSALM should negotiate and agree on the collection term taking into consideration the Commission approved recovery period for the ACRM of sixty (60) months.

f) Are DUs pre-authorized by the Order of 20 June 2017 to reformat their electric bills to customers to add separate line items therein to include ACRM under the 1st-5th true-up adjustment, and the corresponding VAT?

As discussed earlier, customers covered by the ACRM allocation are those PSALM/NPC customers during the relevant billing period, as the same was incurred when they were drawing power from PSALM/NPC.

Since these customers are no longer customers of PSALM/NPC, the recovery should not be based on PhP/kWh as there would be no basis of kWh purchases or billing determinant. Thus, in the Commission's Order dated 20 June 2017, PSALM was authorized to recover the ACRM on a fixed monthly basis or in absolute amount. Consequently, the DU shall be allowed to pass-on the derived ACRM rate using the current kWh sales of the relevant end users² of the DUs. With this methodology the DUs will be ensured full recovery of the amount paid to PSALM for the ACRM.

² Existing end users during the covered test period


Hence, The Commission confirms that the ACRM should be a separate line item, since the generation charge is based on Total Power Purchased and Generated (TPG) while the ACRM is based on the kWh sales.

WHEREFORE, the foregoing premises considered, PSALM and the DUs are hereby directed to abide with the above clarifications issued by the Commission.

PSALM's guidelines and procedures under Memorandum Circular No. 2017-001 is hereby approved, subject to the clarifications/modifications discussed herein.


SO ORDERED.

Pasig City, 19 December 2017.

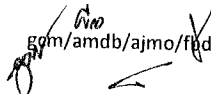

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