

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

IN THE MATTER OF THE SECOND (2ND) 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), AS AMENDED, WITH PRAYER FOR THE ISSUANCE OF PROVISIONAL AUTHORITY

PSALM CORP.	
OFFICE OF THE GENERAL COUNSEL	
RECEIVED	
BY: <u>R. ANGM</u>	
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ERC CASE NO. 2012-067 RC

POWER SECTOR ASSETS AND
LIABILITIES MANAGEMENT
CORPORATION (PSALM),

Applicant.

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DOCKETED
Date: JUN 06 2012
By: AM

ORDER

On April 30, 2012, the Power Sector Assets and Liabilities Management Corporation (PSALM) filed a second (2nd) application for approval of its 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), as amended, with prayer for the issuance of provisional authority.

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

1. It is a government-owned and controlled corporation created by virtue of Republic Act No. 9136 (R.A. 9136) or the "*Electric Power Industry Reform Act of 2001*" or the EPIRA, with principal office address at 7th Floor, Bankmer Building, 6756 Ayala Avenue, Makati City;
2. The instant application is filed pursuant to the Implementing Rules and Regulations (IRR) of R.A. 9136 particularly Rule 3 Section 4 (e) and 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 NPC (ACRM Rules), as amended;
3. With the effectivity of the ACRM Rules on February 27, 2010, or fifteen (15) days after its publication in a newspaper of general circulation in the Philippines, It applied, beginning March 2010 billing period, the said Rules and calculated the monthly recovery/(refund) of incremental/downward adjustment in: (i) Fuel and Purchased Power Costs (FPPC); and (ii) Foreign Exchange-Related Costs (FX Costs) in accordance with the respective formulae as approved by the Commission;
4. Moreover, Article V Section 3 of the ACRM Rules, as amended, provided 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;
5. The application for the initial True-up Adjustments of TAFPPC and TAFXA covering the March, 2010 to February, 2011 billing months was filed on August 18, 2011;
6. In its "Manifestation with Motion" dated September 26, 2011 and received by the Commission on September 29, 2012, it prayed that the subsequent true-up application covering the March, 2011 to December, 2011 billing months be filed on the first week of May, 2012. Likewise, it prayed that the proposed subsequent True-Up Adjustments of TAFPPC and TAFXA filings for all major grids covering twelve (12) billing months starting January, 2012 be filed yearly every first week of May be considered and adopted;
7. While the Commission has yet to act on the above-mentioned motion, it is filing the instant True-Up application consistent with said motion. Hence, the timely filing of this subsequent application for the (TAFPPC) and (TAFXA);
8. The instant application covers the billing period March, 2011 until December, 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. **TRUE-UP ADJUSTMENT OF FUEL AND PURCHASED POWER COST (TAFPPC)**

9. In accordance with Article V, Section 4 of the ACRM Rules, PSALM computed for 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

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

First Component of the TAFPPC : $\text{FPPCA}_{\text{afppc}}$

10. $\text{FPPCA}_{\text{afppc}}$ is determined by getting the: (i) Allowable Fuel Cost, and (ii) Allowable Purchased Power Cost covering the relevant test period from March, 2011 to December, 2011.

Computation of the Allowable Fuel Cost

11. 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;
12. The Actual Heat Rate per plant is calculated by taking into consideration the following factors:
- i) Fuel Consumption (with and without Generation);
 - ii) Net Energy Generation (Gross generation less station use with generation);
 - iii) Fuel Heating Values; and
 - iv) Other Conversion Factors (e.g. Fuel Density) relevant to the determination of the actual heat rate.

13. The computed Actual Heat Rates per plant are then compared with the Heat Rate Caps approved by the Commission ERC Case No. 2009-003 RC;
14. 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, the Allowable Fuel Cost is calculated by multiplying the ERC-approved Heat Rate Cap by the Actual Fuel Cost, and dividing the amount by the computed Actual Heat Rate;
15. The Allowable Fuel Costs pertains only to the fuel consumed for the following power plants¹:

Luzon	Visayas	Mindanao
Malaya TPP	Cebu DPP Cebu TPP I Cebu TPP II PB 101 PB 102 PB 103	PB 104 SPPC WMPC

Computation of the Allowable Purchased Power Cost

16. In the calculation of the Allowable Purchased Power Cost, Applicant PSALM considered, whichever is lower of the: (a) actual purchased power cost, and (b) 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
Ampohaw-Hedcor	ERB Case No. 93-13
Casecnan	ERC Case No. 2001-457
Caliraya-Botokan-Kalayaan	ERC Case No. 2007-159 RC
Malaya TPP	ERC Case No. 2005-032 RC

¹ If the power plant was privatized or transferred to the Local Government Unit, fuel costs included covers only the period prior to such transfer or turn-over within the relevant test period.

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

Mindanao	Case No.
Western Mindanao Power Corp.	ERB Case No. 98-51
Southern Philippines Power Corp.	ERB Case No. 98-52
Mindanao Coal	ERC Case No. 2001-811
Mt. Apo I ²	ERB Case No. 98-54

17. The **FPPCA_{afppc}** included in the calculation reflects only the costs incurred for Transition Supply Contract (TSC) customers. These costs are derived by multiplying the **FPPCA_{afppc}** to the proportion of TSC sales relative to the total sales of the grid (TSC Sales Ratio);

Second component of the TAFPPC: FPPCA_{billed}

18. **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 the purchased power cost component (in PhP/kWh) of the provisionally-approved Basic Generation Rate (BGR) under ERC Case No. 2009-004 RC;

Third component of the TAFPPC: FPPCA_{peso}

19. **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 FPPCA billed from customers sourced from the Abstract of Power Bills;

² ERC approval of Mt. Apo II was only up to June, 2009 as per ERB Case No. 2001-714

TOTAL TAFPPC

20. It calculated the **TAFPPC** for Luzon, Visayas, and Mindanao Grids covering the billing period March, 2011 to December, 2011 as follows:

Grid	FPPCA _{afppc} (PhP)	FPPCA _{billed} (PhP)	FPPCA _{peso} (PhP)	TAFPPC (PhP)
Luzon	8,294,722,337.41	5,195,285,793.88	583,178,567.41	2,516,257,976.11
Visayas	9,119,124,979.33	6,889,974,097.41	514,994,385.05	1,714,156,496.87
Mindanao	11,381,677,361.05	12,587,133,656.73	504,449,275.21	(1,709,905,570.90)

II. TRUE-UP OF FOREIGN-EXCHANGE RELATED COST (TAFXA)

21. In accordance with Article V, Section 5 of the ACRM Rules, it shall calculate the TAFXA based on the following formula:

$$TAFXA = FxA_{afxc} - FxA_{peso}$$

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

First Component of TAFxA: FxA_{afxc}

22. FxA_{afxc} is calculated based on the difference between the: 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 b) 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, 2010³;
23. 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 multiplying the amount to the TSC Sales Ratio;

Second Component of TAFxA: FxA_{peso}

24. 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

25. It calculated the TAFxA for Luzon, Visayas, and Mindanao grids covering the billing period of March, 2011 to December, 2011 as follows:

Grid	FxA _{afxc} (PhP)	FxA _{peso} (PhP)	TAFxA (PhP)
Luzon	(46,595,207.59)	270,142,791.50	(316,737,999.09)
Visayas	(20,120,931.61)	44,315,253.70	(64,436,185.32)
Mindanao	9,921,029.49	36,526,446.04	(26,605,416.55)

III. ADJUSTMENT TO TAFPPC and TAFxA

26. In summary, the total True-Up Adjustment for the billing period March, 2011 to December, 2011 is as follows:

³ Principal payments that are not denominated in US dollars are converted first into US Dollars using the actual rate as of the date of payment, then converted to Philippine Peso using the ERC approved base foreign exchange rate of PhP44.0494/USD1.00

Grid	TAFPPCA (PhP) A	TAFxA (PhP) B	Total True-up Adjustment (PhP) A+B
Luzon	2,516,257,976.11	(316,737,999.09)	2,199,519,977.03
Visayas	1,714,156,496.87	(64,436,185.32)	1,649,720,311.56
Mindanao	(1,709,905,570.90)	(26,605,416.55)	(1,736,510,987.45)

27. It seeks the Commission's approval for the recovery/refund of the above-stated Total True-Up Adjustment for the billing period March, 2011 to December, 2011. Likewise, it seeks the approval of the Commission to recover the above-stated Total True-up Adjustment over the following recovery period:

Proposed Spread (No. of Years)

Luzon	Visayas	Mindanao
5	5	5

28. 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	Total True-up Adjustment (PhP/kWh) A+B
Luzon	0.3077	(0.0387)	0.2689
Visayas	0.1281	(0.0048)	0.1233
Mindanao	(0.0442)	(0.0007)	(0.0448)

29. The above-stated PhP/kWh rates were computed by dividing the True-Up Adjustment with five-year energy sales. The sum of energy sales for January to December, 2011 is multiplied by five (5) and served as the billing determinant for the True-Up covering the March, 2011 to December, 2011 billing period;
30. It prays for the issuance of a provisional authority 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;

31. Pursuant to its Rules of Practice and Procedures, the Commission may exercise its discretion by granting provisional authority or interim relief prior to a final decision;
32. It understands that the interim relief sought that may be granted by the Commission shall be subject to adjustments and other conditions that it may impose after its hearing and final determination;
33. In compliance with Section 4(e) of Rule 3 of the EPIRA IRR and the Commission's Resolution No. 19, Series of 2009 and Resolution No. 25, Series of 2010, furnished to the Sangguniang Panlungsod of Makati City copies of the instant application and its annexes;
34. It prays that consistent with the Commission's Resolution No. 19, Series of 2009, as amended, and Section 4 (e) Rule 3 of the EPIRA IRR, the following total True-Up Adjustment (TAFPPC + TAFxA) covering the billing period March, 2011 to December, 2011 be approved by the Commission:

Grid	TAFPPCA (PhP/kWh) A	TAFxA (PhP/kWh) B	Total True-up Adjustment (PhP/kWh) A+B
Luzon	0.3077	(0.0387)	0.2689
Visayas	0.1281	(0.0048)	0.1233
Mindanao	(0.0442)	(0.0007)	(0.0448)

35. It further prays that a provisional authority be issued for the immediate implementation of the above proposed Total True-Up Adjustment for Luzon, Visayas and Mindanao Grids.

Finding said application sufficient in form and in substance, with the required fees having been paid, the same is hereby set for hearing on the following schedules:

Date and Time	Venue	Particulars
Visayas		
June 27, 2012 (Wednesday) at eight thirty in the morning (8:30 A.M.)	Energy Regulatory Commission – Visayas Field Office (ERC-VFO), Machay Building, Gorordo Avenue, Lahug, Cebu City.	Jurisdictional, Expository Presentation, Pre-Trial Conference and Evidentiary Hearings

Mindanao		
July 2, 2012 (Monday) at eight thirty in the morning (8:30 A.M.)	Energy Regulatory Commission - Mindanao Field Office (ERC-MFO), Mezzanine Floor, Mintrade Building, Monteverde Avenue corner Sales Street, Davao City	Jurisdictional, Expository Presentation, Pre-Trial Conference and Evidentiary Hearings
Luzon		
July 17, 2012 (Tuesday) at nine o'clock in the morning (9:00 A.M.)	ERC Hearing Room, 15th Floor, Pacific Center Building, San Miguel Avenue, Pasig City	Jurisdictional, Expository Presentation, Pre-Trial Conference and Evidentiary Hearings

PSALM is hereby directed to cause the publication of the attached Notice of Public Hearing, at its own expense, twice (2x) for two (2) successive weeks in two (2) newspapers of general circulation in the Philippines, with the date of the last publication to be made not later than ten (10) days before the scheduled date of initial hearing. PSALM is also directed to inform the consumers, by any other means available and appropriate, of the filing of the instant application, its reasons therefor, and of the scheduled hearing thereon.

Let copies of the application, this Order, and the attached Notice of Public Hearing be furnished the Office of the Solicitor General (OSG), the Commission on Audit (COA), and the Committees on Energy of both Houses of Congress. They are hereby requested, if they so desire, to send their duly authorized representatives at the scheduled hearing.

Likewise, let copies of this Order and the attached Notice of Public Hearing be furnished Offices of the Mayors of Makati City, Quezon City and the Provincial Governors of Visayas and Mindanao where it principally operates for the appropriate posting thereof on their respective bulletin boards.

PSALM is hereby directed to furnish all those making requests therefor with copies of the application and its attachments, subject to reimbursement of reasonable photocopying costs.

On the date of the initial hearing and pre-trial conference, PSALM must submit to the Commission its written Compliance with the jurisdictional requirements attaching therewith, methodically arranged and duly marked, the evidences on the actual posting and publication of the Notice of Public Hearing consisting of certifications issued to that effect, signed by the afore-mentioned Mayors and Governors or their duly authorized representatives, bearing the seals of their offices, and the affidavits of the Editor or Business Managers of the newspapers where the said Notice of Public Hearing were published together with the complete issues of the said newspapers, and such other proofs of compliance with the requirements of the Commission.

PSALM and all interested parties are directed to submit, at least five (5) days before the date of initial hearing and pre-trial conference, their respective Pre-Trial Briefs containing, among others:

- (a) A summary of admitted facts and proposed stipulation of facts;
- (b) The issues to be tried or resolved;
- (c) The documents or exhibits to be presented, stating the purposes thereof and proposed markings therefore; and
- (d) The number and names of the witnesses, with their written testimonies in an individual affidavit form, to be attached to the Pre-Trial Brief.

Failure of PSALM to submit the required Pre-Trial Brief and Judicial Affidavits of its witnesses within the prescribed period shall be a ground for


cancellation of the scheduled hearing, and the resetting of which shall be six (6) months from said date of cancellation.

As part of the pre-trial conference, PSALM must also be prepared to make an expository presentation of its application, aided by whatever communication medium that it may deem appropriate for the purpose, in order to put in plain words and explain, for the benefit of the consumers and other concerned parties, what the application is all about and the reasons and justifications being cited in support thereof.

SO ORDERED.

Pasig City, June 4, 2012.

FOR AND BY AUTHORITY
OF THE COMMISSION:


ZENAIDA G. ORUZ-DUCUT
Chairperson

Copy Furnished:

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4. **The Senate Committee on Energy**
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5. **The House Committee on Energy**
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6. **Office of the President of PCCI**
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7. **Office of the City Mayor**
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Quezon City
9. **Office of the City Mayor**
Cebu City
10. **All Distribution Utility**