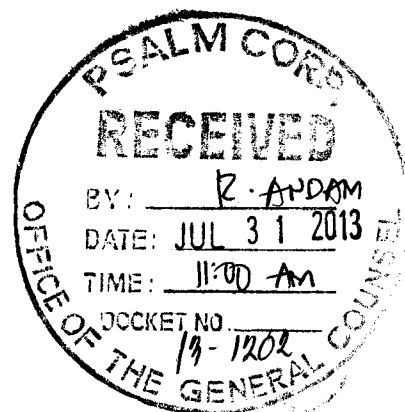


Republic of the Philippines
ENERGY REGULATORY COMMISSION
San Miguel Avenue, Pasig City

IN THE MATTER OF THE THIRD
(3RD) 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



ERC CASE NO. 2013-092 RC

POWER SECTOR ASSETS AND
LIABILITIES MANAGEMENT
CORPORATION (PSALM),

Applicant.

X-----X

DOCKETED
Date: JUL 31 2013
By: _____

NOTICE OF PUBLIC HEARING

TO ALL INTERESTED PARTIES:

Notice is hereby given that on May 2, 2013, the Power Sector Assets and Liabilities Management Corporation (PSALM) filed a third (3rd) 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.

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. 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 applications for 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;
6. Pursuant to the above-mentioned motion and pending the Commission's action on the said motion, it filed its third (3rd) ACRM True-up Adjustments of TAFPPC and TAFXA covering the test period January 2012 to December 2012;

7. 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)

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

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

Where:

TAFPPC = True-up Adjustment of Fuel and Purchased Power Costs in Pesos

FPPCA_{afppc} = Actual allowable fuel and purchased power costs for the test period

FPPCA_{billed} = Fuel and purchased power costs billed through the last ERC-approved base rate for the test period

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

First Component of the TAFPPC : FPPCA_{afppc}

9. **FPPCA_{afppc}** refers to the allowable fuel and purchased power costs incurred during the relevant test period January 2012 to December 2012;

Computation of the Allowable Fuel Cost

10. 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;
11. 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.
12. The computed Actual Heat Rates per plant are then compared with the approved heat rate caps;
13. In the event the computed Actual Heat Rate is lower than the Heat Rate Cap set forth by the Commission, the Actual Fuel Cost is considered as the Allowable Fuel cost.. Otherwise, the Allowable Fuel Cost is calculated by multiplying the ERC-approved Heat Rate Cap (BTU/kWh) by the Net Energy Generation (in KWh) and Fuel Cost (in PhP/kWh);
14. The Allowable Fuel Costs pertains only to the fuel consumed for the following power plants:

Luzon	Visayas	Mindanao
Malaya Thermal Power Plant (MTPP)	Naga Power Plant PB 101 PB 102 PB 103	PB 104 SPPC WMPC

Computation of the Allowable Purchased Power Cost

15. The Allowable Fuel cost included in the TAFPPC calculation pertains only to regular Transition Supply

Contract (TSC) energy sales. Regular TSC energy sales represent electricity sold to TSC customers billed at the Basic Generation Charge (BGC) rate provisionally approved by the Commission in ERC Case No. 2009-004 RC, including ERC-approved adjustments. This excludes TSC customers that avail of discounted rates such as customers that are located in economic zones. Fuel costs pertaining to WESM sales and sales to customers billed at discounted rates are not recovered under the present ACRM True-Up application;

16. The Allowable Fuel Cost pertaining to regular TSC energy sales is derived by multiplying total allowable fuel costs of the grid to the proportion of regular TSC energy sales of the grid relative to the total energy sales of the grid (Regular TSC Energy Sales Ratio). Total energy sales of the grid include regular TSC energy sales, energy sales to customers with discounted rate and WESM sales;
17. The Allowable Purchased Power Cost is calculated based on the lower of the: (a) actual purchased power cost (PPC), 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
Casecanan	ERC Case No. 2001-457
Caliraya-Botokan-Kalayaan	ERC Case No. 2007-159 RC

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. 2005-031RC

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	ERB Case No. 98-54
Mt. Apo II	ERCCase No. 2001-714

18. The Allowable PPC included for NPP represents costs incurred only up to the end of its cooperation period under its IPP contract. The last billing of PPC covers the February 2012 billing period;
19. The Operate and Maintain Service Contracts (OMSC) of MTPP and NPP are not included in the computation of Allowable PPC since these power plants' respective IPP contracts have already expired. Further, the OMSC costs cannot be considered as PPC any more as these plants are now considered the applicant-owned generating plants;
20. In ERC Case No. 2001-174, the Commission allowed in its March 22, 2006 Decision the inclusion of the Mt. Apo II power plant's PPC computed at PhP1.2008/kWh (plus escalation factor indicated in the contract) for recovery under the then Generation Rate Adjustment Mechanism (GRAM), subject to the limitation that recovery shall only be allowed for the first ten (10) years of the twenty-five (25) years cooperation period of the IPP contract between NPC and Energy Development Corporation (EDC). The tenth (10th) year ended on June 2009;
21. Under the Mt. Apo II IPP contract, NPC is given the option to renegotiate the terms and conditions of the same covering the eleventh (11th) to the twenty-fifth (25th) year for the purpose of reducing the Base Energy Rate. In connection thereto, NPC was directed by the Commission in the same March 22, 2006 Decision to submit an application for recovery for the remaining fifteen (15) years of the cooperation period;

22. NPC and EDC commenced renegotiation of the terms and conditions of the Mt. Apo II IPP contract, and the same is pending to date;
23. Meantime, it is paying EDC for the energy supplied under the present terms of the IPP contract. Considering that the current BGC includes the PPC of Mt. Apo II power plant and that this power plant continuously supplies energy to the Mindanao Grid, it deems it proper to include the power plant's PPC as determined in ERC Case No. 2001714 in the present application pending completion of the renegotiation of terms between NPC and EDC;
24. Allowable PPC included in the TAFPPC calculation pertains only to adjusted regular TSC energy sales. The adjusted regular TSC energy sales cover regular TSC sales less energy sales of MTPP and NPP. Considering that the OMSC costs of MTPP and NPP are not included under Allowable PPC, the corresponding energy sales of these plants are also excluded in the adjusted regular TSC energy sales. Consequently, the gain/loss in the energy sales of these plants is not sought to be recovered under the present ACRM True-Up application;
25. Allowable PPC pertaining to adjusted regular TSC is derived by multiplying the total Allowable PPC of the grid to the proportion of adjusted regular TSC energy sales of the grid relative to the adjusted total energy sales of the grid (Adjusted TSC Energy Sales Ratio). The adjusted total energy sales include regular TSC energy sales, energy sales to customers with discounted rate and WESM sales, less energy sales of MTPP and NPP;

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

26. $FPPCA_{billed}$ is the fuel and purchased power costs billed through the ERC-approved base rate for the billing period. Fuel cost billed is calculated by multiplying the regular TSC energy sales (in kWh) with the fuel cost component (in PhP) of the provisionally approved BGC while the purchased power cost billed is derived by multiplying the adjusted regular TSC energy sales with the purchased power cost component (in PhP/kWh) of the provisionally-approved BGC;

27. The following are the fuel and purchased power cost components of the provisionally approved BGC used in the calculation:

Grid	Fuel cost Component (PhP/kWh)	Purchased Power Cost Component (PhP/kWh)
Luzon	1.6811	2.2791
Visayas	1.2789	1.8834
Mindanao	0.8961	1.0446

Third component of the TAFPPC: $FPPCA_{\text{peso}}$

28. $FPPCA_{\text{peso}}$ refers to the recovered or billed fuel and purchased power cost from customers through the monthly ACRM. The fuel cost billed under the ACRM is calculated by multiplying the regular TSC energy sales (in kWh) with the fuel cost component (in PhP/kWh) on the monthly ACRM rate, while the purchased power cost billed under the ACRM is determined by multiplying the adjusted regular TSC energy sales with the purchased power cost component (in PhP/kWh) of the monthly ACRM rate;

TOTAL TAFPPC

29. Based on the foregoing, the **TAFPPC** for Luzon, Visayas, and Mindanao Grids covering the billing period January 2012 to December 2012 amounted to a total PhP(1,329,267,188.48), as follows:

Grid	$FPPCA_{\text{afppc}}$ (PhP)	$FPPCA_{\text{billed}}$ (PhP)	$FPPCA_{\text{peso}}$ (PhP)	TAFPPC (PhP)
Luzon	2,325,559,666.35	2,527,796,721.22	267,926,034.19	(470,163,089.07)
Visayas	8,138,015,899.77	6,682,391,042.18	472,299,157.94	983,325,699.64
Mindanao	13,271,169,116.67	14,528,187,920.59	585,410,995.13	(1,842,429,799.05)
TOTAL	23,734,744,682.78	23,738,375,683.99	1,325,636,187.27	(1,329,267,188.48)

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

30. In accordance with Article V, Section 5 of the ACRM Rules, it shall calculate 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

First Component of TAFXA: FxA_{afxc}

31. 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 Commission's Order dated December 14, 2009 in ERC Case No. 2008-019 RM;
32. The FxA_{afxc} is adjusted to reflect costs incurred only for regular TSC energy sales. This is derived by multiplying the total FxA_{afxc} with the regular TSC energy sales of the grid relative to the total energy sales of the grid (TSC Energy Sales Ratio);

Second Component of TAFxA: FxA_{peso}

33. FxA_{peso} refers to the recovered/billed foreign exchange-related costs through the monthly ACRM. This is derived by multiplying the monthly FxA rate with the regular TSC energy sales;

TOTAL TAFxA

34. 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 test period of January 2012 to December 2012 amounting to PhP(30,183,874.87), computed as follows:

Grid	FxA _{afxc} (PhP)	FxA _{peso} (PhP)	TAFxA (PhP)
Luzon	(65,629,351.76)	125,312,695.69	(190,942,047.45)
Visayas	(72,415,061.01)	14,557,861.06	(86,972,922.07)
Mindanao	(18,391,440.86)	33,877,464.50	(52,268,905.36)
TOTAL	(156,435,853.63)	173,748,021.25	(330,183,874.87)

III. ADJUSTMENT TO TAFPPC and TAFxA

35. In summary, the total True-Up Adjustment for the billing period January 2012 to December 2012 was computed as follows:

Grid	TAFPPCA (PhP) A	TAFxA (PhP) B	Total True-up Adjustment (PhP) A+B
Luzon	(470,163,089.07)	(190,942,047.45)	(661,105,136.51)
Visayas	983,325,699.64	(86,972,922.07)	896,352,777.57
Mindanao	(1,842,429,799.05)	(52,268,905.36)	(1,894,698,704.41)
TOTAL	(1,329,267,188.48)	(330,183,874.87)	(1,659,451,063.35)

36. It seeks the Commission's approval for the recovery/refund of the above-stated Total True-Up Adjustment for the test period January 2012 to December 2012. 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

37. 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	(0.1471)	(0.0597)	(0.2068)
Visayas	0.0853	(0.0075)	0.0778
Mindanao	(0.0492)	(0.0014)	(0.0506)

38. 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;
39. 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 test period January 2012 to December 2012 be approved by the Commission:

Grid	TAFPPCA (PhP/kWh) A	TAFxA (PhP/kWh) B	Total True-up Adjustment (PhP/kWh) A+B
Luzon	(0.1471)	(0.0597)	(0.2068)
Visayas	0.0853	(0.0075)	0.0778
Mindanao	(0.0492)	(0.0014)	(0.0506)

40. 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.

The Commission has set the instant application for jurisdictional hearing, expository presentation, pre-trial conference and evidentiary hearing on the following dates and venues:

Date and Time	Venue	Particulars
Luzon		
August 27, 2013 (Tuesday) at ten o'clock in the morning (10:00 A.M.)	ERC Hearing Room, 15th Floor, Pacific Center Building, San Miguel Avenue, Pasig City	Jurisdictional, Expository Presentation, Pre-Trial Conference and Evidentiary Hearing
Visayas		
September 2, 2013 (Monday) at two o'clock in the afternoon (2:00 P.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		
September 5, 2013 (Thursday) at nine o'clock in the morning (9:00 A.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 Hearings

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, **ALFREDO J. NON** and **GLORIA VICTORIA C. YAP-TARUC**, Energy Regulatory Commission, this 29th day of July 2013 at Pasig City.


ATTY. FRANCIS SATURNINO C. JUAN
Executive Director III


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