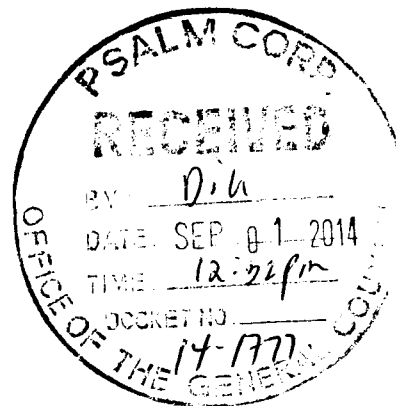


Republic of the Philippines  
**ENERGY REGULATORY COMMISSION**  
San Miguel Avenue, Pasig City

IN THE MATTER OF THE  
FOURTH (4<sup>th</sup>) 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. 2014-098 RC

POWER SECTOR ASSETS AND  
LIABILITIES MANAGEMENT  
CORPORATION (PSALM),

Applicant.

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DOCKETED  
Date: AUG 29 2014  
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**ORDER**

On June 30, 2014, the Power Sector Assets and Liabilities Management Corporation (PSALM) filed a fourth () 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 7<sup>th</sup> 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 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. Subsequently, on April 25, 2014, it filed with the Commission a "Manifestation with Motion" praying that the instant application for true-up adjustments covering the January 2013 to December 2013 billing months for all major grids be filed on June 30, 2014, and that the subsequent true-up applications for all major grids covering twelve (12) billing months starting January 2014 be filed every June 30 of the succeeding year;

7. Pursuant to the above-mentioned motion and pending the Commission's action on the said motion, it filed its fourth (4<sup>th</sup>) ACRM True-up Adjustments of TAFPPC and TAFXA covering the test period January 2013 to December 2013;
8. 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, 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<sub>afppc</sub>** = Actual allowable fuel and purchased power costs for the test period

**FPPCA<sub>billed</sub>** = Fuel and purchased power costs billed through the last ERC-approved base rate for the test period

**FPPCA<sub>peso</sub>** = Recovered/billed fuel and purchased power costs from customers

**First Component of the TAFPPC : FPPCA<sub>afppc</sub>**

10. **FPPCA<sub>afppc</sub>** refers to the allowable fuel and purchased power costs incurred during the relevant test period January 2013 to December 2013;

**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, 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/Btu);
14. The Allowable Fuel Costs pertains only to the fuel consumed for the following power plants:

<b>Luzon</b>	<b>Visayas</b>	<b>Mindanao</b>
Malaya Thermal Power Plant (MTPP)	Naga Power Plant (NPP) Power Barge (PB) 101 PB 102 PB 103	PB 104 SPPC Western Mindanao Power Corp. (WMPC)

15. The Allowable Fuel cost included in the TAFPPC calculation pertains only to NPC/PSALM'S regular Transition Supply Contract (TSC) energy sales. NPC/PSALM's 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;
16. The regular TSC energy sales do not include TSC sales to customers with special/discounted rates. This is cognizant of the fact that fuel costs pertaining to WESM sales and sales to customers with special/discounted rates are not being recovered under the monthly ACRM;
17. 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;

**Computation of the Allowable Purchased Power Costs**

18. 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:

<b>Luzon</b>	<b>Case No.</b>
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

<b>Visayas</b>	<b>Case No.</b>
Leyte (Bohol, Cebu, Samar)	ERB Case No. 98-54

<b>Mindanao</b>	<b>Case No.</b>
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

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. Considering that OMSC costs do not fall under PPC category since the plants are no longer under IPP arrangement but considered a PSALM-owned generating plant, said OMSC costs are O&M expenses which would not fall under the ACRM calculations;
20. The actual payment made by it for the PPC of Leyte B in Luzon and Leyte A in Visayas (Unified Leyte Power Plants or ULPPs) for the December 2013 billing month was based on the actual energy delivered during the said billing month, and does not include the energy shortfall/not delivered, considering the impact of typhoon Yolanda during the period covered. The amount paid by it is lower than the Energy Development Corporation's (EDC's) PPC billing, which is based on the energy contracted level. However, the PPC considered in the TAFPPC and for the December 2013 billing month was based on the amount billed by the EDC since said amount and the amount paid by PSALM are subject to an on-going reconciliation with EDC, done every June of each year;
21. The PPC of Mt. Apo II is still included under allowable PPC, pending the result of the renegotiation with EDC as required by the Commission covering the last fifteen (15) years of its 25-year cooperation period. The Commission has directed NPC to renegotiate the IPP contract with EDC after the 10<sup>th</sup> year, which ended in June 2009, and to submit the same for the Commission's approval. Pending

the result of the renegotiation, it is paying EDC the energy EDC supplies under the same contract terms. Considering that the current BGC includes the PPC of Mt. Apo II, the contract of which has been approved previously by the Commission up to a certain cap, it included the PPC to Mt. Apo II under allowable PPC while the renegotiation is at a standstill;

22. Allowable PPC applies only to its adjusted regular TSC energy sales. This is derived by multiplying the allowable PPC to the proportion of adjusted regular TSC energy sales relative to the adjusted total energy sales of the grid (Adjusted TSC Energy Sales Ratio);
23. The adjusted regular TSC energy sales used to determine the allowable PPC to be recovered in the TAFPPC covers regular TSC sales less energy sales of MTPP and NPP, which are under OMSC since the expiration of their original IPP contracts. The adjusted total energy sales of the grid include regular TSC energy sales, energy sales to customers with special/discounted rates and WESM sales, less energy sales of MTPP and NPP;
24. 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 and adjusted total energy sales of the grid. In effect, the gain/loss in the energy sales of these plants are not being recovered/refunded in the ACRM True-up;

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

25.  $FPPCA_{billed}$  is the fuel and purchased power costs billed through the Commission-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;
26. 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:  $FPPCA_{\text{peso}}$**

27.  $FPPCA_{\text{peso}}$  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**

28. Based on the foregoing, the **TAFPPC** for Luzon, Visayas, and Mindanao Grids covering the billing period January 2013 to December 2013 amounted to a total of PhP(790,270,452.20), as follows:

Grid	$FPPCA_{\text{afppc}}$ (PhP)	$FPPCA_{\text{billed}}$ (PhP)	$FPPCA_{\text{peso}}$ (PhP)	TAFPPC (PhP)
Luzon	1,021,881,806.96	1,362,358,048.69	162,018,541.39	(502,494,783.12)
Visayas	8,622,056,595.58	6,439,038,115.07	475,543,188.75	1,707,475,291.76
Mindanao	12,598,755,931.78	14,045,159,884.77	548,847,007.86	(1,995,250,960.84)
<b>TOTAL</b>	<b>22,242,694,334.33</b>	<b>21,846,556,048.52</b>	<b>1,186,408,738.00</b>	<b>(790,270,452.20)</b>



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

29. 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

$\text{FxA}_{\text{afxc}}$  = Actual Foreign Exchange-Related costs for the test Period

$\text{FxA}_{\text{peso}}$  = Recovered/billed Foreign Exchange-Related Cost from Customers

### First Component of TAFXA: $\text{FxA}_{\text{afxc}}$

30.  $\text{FxA}_{\text{afxc}}$  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;
31. The  $\text{FxA}_{\text{afxc}}$  is adjusted to reflect costs incurred only for regular TSC energy sales. This is derived by multiplying the total  $\text{FxA}_{\text{afxc}}$  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:  $FxA_{\text{peso}}$**

32.  $FxA_{\text{peso}}$  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**

33. 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 2013 to December 2013 amounting to PhP(251,024,764.51), computed as follows:

Grid	$FxA_{\text{afxc}}$ (PhP)	$FxA_{\text{peso}}$ (PhP)	TAFxA (PhP)
Luzon	(42,216,065.24)	90,187,881.84	(132,403,947.08)
Visayas	(61,493,337.64)	10,524,478.06	(72,017,815.70)
Mindanao	(21,220,848.36)	25,382,153.37	(46,603,001.73)
<b>TOTAL</b>	<b>(124,930,251.24)</b>	<b>126,094,513.27</b>	<b>(251,024,764.51)</b>

**III. TOTAL TAFPPC and TAFxA**

34. In summary, the total True-Up Adjustment for the billing period January 2013 to December 2013 amounts to a total of PhP(1,041,295,216.71), computed as follows:

Grid	TAFPPCA (PhP) A	TAFxA (PhP) B	Total True-up Adjustment (PhP) A+B
Luzon	(502,494,783.12)	(132,403,947.08)	(634,898,730.20)
Visayas	1,707,475,291.76	(72,017,815.70)	1,635,457,476.07
Mindanao	(1,995,250,960.84)	(46,603,001.73)	(2,041,853,962.58)
<b>TOTAL</b>	<b>(790,270,452.20)</b>	<b>(251,024,764.51)</b>	<b>(1,041,295,216.71)</b>

35. It seeks the Commission's approval for the recovery/refund of the above-stated Total True-Up Adjustment for the test period January 2013 to December 2013. 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)**

<b>Luzon</b>	<b>Visayas</b>	<b>Mindanao</b>
<b>1</b>	<b>5</b>	<b>1</b>

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

<b>Grid</b>	<b>TAFPPCA (PhP/kWh) A</b>	<b>TAFxA (PhP/kWh) B</b>	<b>Total True-up Adjustment (PhP/kWh) A+B</b>
Luzon	(1.4602)	(0.3847)	(1.8449)
Visayas	0.1604	(0.0068)	0.1537
Mindanao	(0.2757)	(0.0064)	(0.2821)

37. The above stated true-up adjustments are applicable only to NPC/PSALM's regular TSC customers in the relevant grids during the January 2013 to December 2013 test period;
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 amounts (TAFPPC + TAFxA) per major grid and corresponding true-up rates (PhP/kWh) and recovery/refund periods per major grid covering the test period January 2013 to December 2013 be approved by the Commission:

Grid	TAFPPCA (PhP) A	TAFxA (PhP) B	Total True-up Adjustment (PhP) A+B
Luzon	(502,494,783.12)	(132,403,947.08)	(634,898,730.20)
Visayas	1,707,475,291.76	(72,017,815.70)	1,635,457,476.07
Mindanao	(1,995,250,960.84)	(46,603,001.73)	(2,041,853,962.58)
<b>TOTAL</b>	(790,270,452.20)	(251,024,764.51)	(1,041,295,216.71)

Grid	TAFPPCA (PhP/kWh) A	TAFxA (PhP/kWh) B	Total True-up Adjustment (PhP/kWh) A+B	Recovery /Refund Period
Luzon	(1.4602)	(0.3847)	(1.8449)	1 Year
Visayas	0.1604	(0.0068)	0.1537	5 Years
Mindanao	(0.2757)	(0.0064)	(0.2821)	1 Year

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
<b>Luzon</b>		
<b>September 22, 2014 (Monday)</b> at two o'clock in the afternoon (2:00 P.M.)	ERC Hearing Room, 15th Floor, Pacific Center Building, San Miguel Avenue, Pasig City	Jurisdictional, Expository Presentation, Pre-Trial Conference and Evidentiary Hearing
<b>Visayas</b>		
<b>September 25, 2014 (Thursday)</b> at two o'clock in the afternoon (2:00 P.M.)	Board Room, Wellcome Hotel International, No. 18 Molave Street, Escario, Cebu City	Expository Presentation, Pre-Trial Conference and Evidentiary Hearing
<b>Mindanao</b>		
<b>October 1, 2014 (Wednesday)</b> 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

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, the Provincial Governors of Luzon, Visayas and Mindanao and the Municipal/City Mayors 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, August 22, 2014.

FOR AND BY AUTHORITY  
OF THE COMMISSION:

  
**ZENAIDA G. CRUZ-DUCUT**  
Chairperson

**Copy Furnished:**

1. **ATTYS. CECILIO B. GELLADA, JR., CAROLINE V. BALO-ATENCIA and GEOFFRY DL. MASANCAY**  
Counsels for Applicant PSALM  
Power Sector Assets and Liabilities Management Corporation  
(PSALM)  
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2. **The Office of the Solicitor General (OSG)**  
134 Amorsolo Street, Legaspi Village  
Makati City
3. **The Commission on Audit (COA)**  
Commonwealth Avenue  
Quezon City 1121
4. **The Senate Committee on Energy**  
GSIS Building, Roxas Boulevard  
Pasay City 1307
5. **The House Committee on Energy**  
Batasan Hills, Quezon City 1126
6. **Office of the President of PCCI**  
Philippine Chamber of Commerce and Industry (PCCI)  
3<sup>rd</sup> Floor, ECC Building, Sen. Gil Puyat Avenue  
Makati City
7. **Office of the City Mayor**  
Makati City
8. **Office of the City Mayor**  
Quezon City
9. **Office of the City Mayor**  
Cebu City
10. **All Distribution Utility**
11. **All Governors**