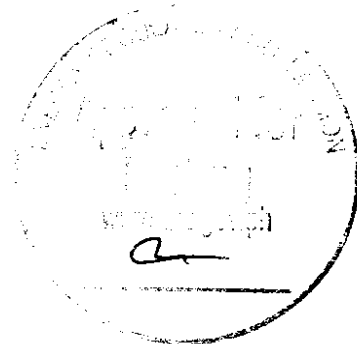


Republic of the Philippines
ENERGY REGULATORY COMMISSION
San Miguel Avenue, Pasig City



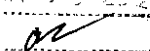
IN THE MATTER OF THE
APPLICATION FOR THE MAXIMUM
ALLOWABLE REVENUE FOR
CALENDAR YEAR 2012 (MAR 2012)
AND THE PERFORMANCE INCENTIVE
SCHEME (PIS) COMPLIANCE IN
ACCORDANCE WITH THE
ALTERNATIVE FORM OF RATE
SETTING METHODOLOGY UNDER
THE RULES FOR SETTING THE
TRANSMISSION WHEELING RATES,
WITH PRAYER FOR PROVISIONAL
AUTHORITY

ERC CASE NO. 2011-140 RC

NATIONAL GRID CORPORATION OF
THE PHILIPPINES (NGCP),

Applicant.

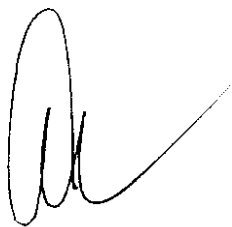
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DOCKETED
Date: JAN 09 2012
By: 

ORDER

On October 17, 2011, the National Grid Corporation of the Philippines (NGCP) filed an application for the approval of the Maximum Allowable Revenue (MAR) for Calendar Year (CY) 2012 and the Performance Incentive Scheme (PIS) compliance in accordance with the alternative form of rate setting methodology under the Rules for Setting the Transmission Wheeling Rates (RTWR), with prayer for provisional authority.

In the Final Determination, the Commission approved the Smoothed MAR applicable for the Third Regulatory Period with the corresponding estimated rates, as follows:

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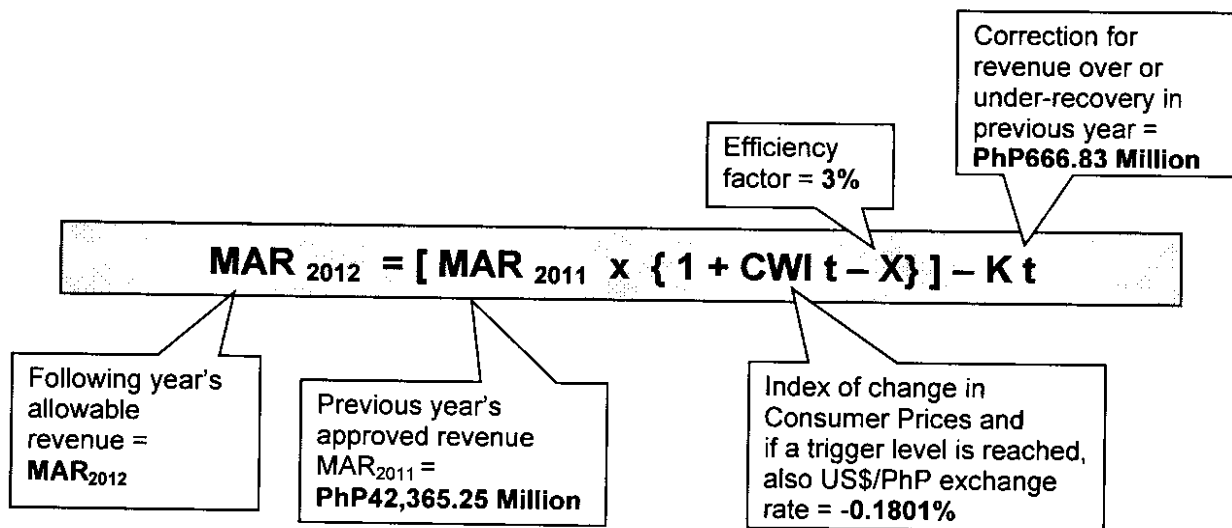
	2010	2011	2012	2013	2014	2015
Final Determination						
Approved SMAR (PhP, Million)		44,079.13	44,872.55	45,680.26	46,456.82	47,246.59
Assumed Billing Determinant (MW/month)		120,848	123,811	126,700	129,274	131,830
Estimated Average Transmission Rate (PhP/kW/month)		364.75	362.43	360.54	359.37	358.39

MAR₂₀₁₂

As provided in the RTWR, the Commission shall continue to apply the price control formula upon NGCP's application of its effective MAR. In applying the said price control formula, the Commission computed a MAR for 2012 amounting to PhP40,350.78 Million.

Determination of the MAR₂₀₁₂

In determining the MAR₂₀₁₂ cap, the Commission calculated the revenue cap for CY 2012 (excluding the benefits of the PIS) in accordance with the following formula:



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- a. Maximum Annual Revenue (MAR₂₀₁₁) cap for previous year
- b. Change in Weighted Index (CWI_t)
- c. Differential Amount (DA_t)
- d. Over / Under Recovery from the Previous Year (K_t)
- e. Revenue from Related Businesses (RBR_t)

Thus,

$$\begin{aligned} \text{MAR}_{2012} &= [\text{MAR}_{2011} \times \{1 + \text{CWI}_{t-X}\}] - K_t \\ \text{MAR}_{2012} &= [42,365.25 \times \{1 + (-0.001801) - 0.03\}] - 666.83 \\ \text{MAR}_{2012} &= [\text{PhP}41,018.01 \text{ Million}] - 666.83 \\ \text{MAR}_{2012} &= \text{PhP}40,350.78 \text{ Million} \end{aligned}$$

Shown below is a comparison between the Commission's and NGCP's proposed

MAR₂₀₁₂:

PARTICULARS	NGCP	COMMISSION
MAR ₂₀₁₁	45,369.38	42,365.25
CWI _t	3.1155%	-0.1801%
X	3%	3%
MAR _t	45,369.38	41,018.01
MRR ¹	2.41%	2.41%
K _t	2,353.61	(666.83)
RBR _t	7.445	7.445
MAR₂₀₁₂ (PhP in Million)	47,775.38	40,350.78

The discrepancy between the Commission's and NGCP's proposed MAR was due to the use of different figures for MAR₂₀₁₁. The Commission used the approved MAR₂₀₁₁ in the Decision dated July 4, 2011 in ERC Case No. 2010-152 RC² while NGCP used its proposed MAR₂₀₁₁ in its "Omnibus Motion for Reconsideration" in the said case.

Since all the expenses associated with the provision of the services that gave rise to RBR_t are included in the revenue requirement, the income generated must also

¹ Manila Reference Rate

² In the Matter of the Application for the Approval of the Maximum Allowable Revenue (MAR) for Calendar Year 2011 and Performance Incentive Scheme (PIS) in Accordance with the Alternative Form of Rate Setting Methodology Under the Rules for Setting Transmission Wheeling Rates (RTWR), with Prayer for Provisional Authority, National Grid Corporation of the Philippines (NGCP) - Applicant

be considered. In addition, since the assets (pole and transformer) that gave rise to these items of revenue (rentals) are allowed a return and depreciation allowance in the revenue requirement, a certain percentage from this revenue generated must be deducted from the revenue requirement.

Only fifty percent (50%) of the earnings derived by NGCP from utilizing assets (earnings from co-location activities and rentals) which already form part of its rate shall be deducted from the MAR. This is consistent with Section 4.2.1 of the RTWR and Section 20 of the Electric Power Industry Reform Act of 2001 (EPIRA) which state that a portion of income from related business shall be used to reduce the transmission wheeling rates but not to exceed fifty percent (50%) of the said income.

In its previous Decisions approving the MAR, the Commission deducted one hundred percent (100%) of the revenues generated from management fee, technical services rendered, system impact study and other rentals considering that the Operating Expense (OPEX) allowance, return and depreciation allowance and labor costs and equipment that gave rise to such revenue were allowed under the approved revenue requirement. However, it should be noted that NGCP did not state such revenue in the instant application unlike in its previous MAR applications wherein it claimed an average amount of PhP200 Million as revenue.

In Section 7.6.1 of the Final Determination, the Commission set the revenue smoothing of X factor at three percent (3%) in positive value for the whole Third Regulatory Period (2011 to 2015) which is estimated to reduce the MAR by the same percentage.



As to the **K_t Computation**, the Commission computed an over-recovery of PhP651.15 Million plus interest of PhP15.69 Million. The interest rate of 2.41% was based on the MRR and converted to real percent per annum terms using the Fisher Equation.

Side Constraints for 2012 Using SC_t at 2%

Under Article 6.4 of the RTWR, the maximum transmission wheeling rates that may be charged by NGCP is subject to the Side Constraints, as defined by the following equation:

$$FCR_{k,t} / CR_{k,t-1} \leq (1 + CWI_t + SC_t) \times FQ_{k,t} / AQ_{k,t-1}$$

Where:

- FCR_{k,t}** = The total amount forecast to be billed to all Customers in Customer Segment k for the provision by the Regulated Entity, during the Forecast Period, of Regulated Transmission Services, as provided under Section 6.3.3 (c)
- CR_{k,t-1}** = The total amount billed to all Customers in Customer Segment k for the provision by the Regulated Entity, during the Historical Period, of Regulated Transmission Services, as provided under Section 6.3.2(a)
- " <= "** = Less than or equal to
- SC_t** = The Side Constraint for Regulatory Year t, xxx

In the Final Determination, the Commission set the Side Constraint factor for the Second Regulatory Year of the Third Regulatory Period at two percent (2%). Notably, in applying the aforementioned formula, the forecast collection falls within the Side Constraint limitation computed as follows:



Customer Segment	Total Forecast to be Billed During Period Ending August 31, 2012 (PhP, Million) ¹	Total Amount Billed During Period Ending August 31, 2011 (PhP, Million) ²	Side Constraint Calculation	Side Constraint Limitation	Computed MAR ₂₀₁₂ (PhP, Million)
Luzon	31,178.61	33,333.07	0.9354	1.0659	29,843.30
Visayas	5,026.46	5,764.37	0.8720	1.0975	5,035.99
Mindanao	5,658.46	6,435.38	0.8792	1.0597	5,471.50
Total	41,863.53	45,533.02	0.9194	1.0889	40,350.78

¹ 4/12 of Effective MAR 2011 of PhP44.89 Billion plus 8/12 of computed MAR 2012 of PhP40.35 Billion

² Total collections for the 12-month ending August 2011 of PhP45.5 Billion, net of FME claim

Considering that the computed MAR as a result of the annual MAR formula did not breach the Side Constraint imposed under the RTWR, the Commission estimated the revenue cap (without consideration of the PIS reward). The recovery would be **PhP40,350.78 Million** if the projected billing determinants arise for the full 2012 year.

PIS Reward/Penalty

The PIS rewards or penalizes NGCP to the extent that the actual level of performance of the grid for the Regulatory Year (i.e. from September 2010 to August 2011) exceeds or falls below the target level of performance as defined in the Final Determination. NGCP claims a net performance incentive reward of **PhP503.12 Million** applicable for calendar year 2012.

Notwithstanding the consideration of the PIS reward, the net impact on the rates still results to a reduction.

NGCP RATES

The Commission reviewed the calculation of NGCP pursuant to the methodology required by the Open Access Transmission Services (OATS) Rules under Clause F (All) 1, as follows:




System Operator Charge

Firm (PhP/kW/Month)	Non-Firm (PhP/kW/Month)
17.55	0.5770

Note: Non-firm charge is calculated as Firm x (12 months/365 days)

Metering Service Provider Charge

	(PhP/Meter Point/Month)	
Common Asset Charge	2,786	
	(PhP/Meter Point/Month)	
Voltage Level(s)	First	2 nd up to last
230 kV	38,256	19,715
138/115 kV	25,788	16,677
69/67 kV	16,753	8,587
34.5/23 kV	9,675	6,791
13.8 kV and below	5,054	3,246

On the basis of the new revenue cap excluding the PIS reward, the Commission estimated the indicative Power Delivery Service (PDS) Charges as shown in the following table (where these charges are assumed to apply on average for the whole of CY 2012 and the billing determinant as forecasted by NGCP):

	Power Delivery Service Rate (PhP/kW/month)		
	MAR 2011	MAR 2012	Difference
PhP, Million	44,889.03	40,350.78	(4,538.25)
Indicative Average, PhP/kW	364.51	317.63	(46.87)

The above computation of the PDS Rate is exclusive of the PIS. Notably, the effective MAR for CY 2012 is reduced by PhP4,538.25 Million. On the other hand, the indicative equivalent charge is reduced by PhP46.87/kW/mo.

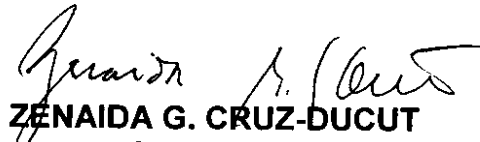
WHEREFORE, the foregoing premises considered, the Commission hereby PROVISIONALLY APPROVES the application filed by the National Grid Corporation of the Philippines (NGCP) for approval of its Maximum Allowable Revenue (MAR) for Calendar Year (CY) 2012 in the amount of **PhP40,350.78 Million** and the Performance Incentive Scheme (PIS) reward claim amounting to **PhP503 Million** to be implemented effective its January 2012 billing.

The indicative rate impact of the provisionally approved MAR 2012 is a rate reduction estimated to be as follows:

	Power Delivery Service Rate (PhP/kW/month)		
	MAR 2011	MAR 2012	Difference
Indicative Average, PhP/kW	364.51	317.63	(46.87)

SO ORDERED.

Pasig City, January 2, 2012.


ZENAIDA G. CRUZ-DUCUT
 Chairperson


MARIA TERESA R. CASTAÑEDA
 Commissioner


JOSE C. REYES
 Commissioner


ALFREDO J. NON
 Commissioner


GLORIA VICTORIA C. YAP-TARUC
 Commissioner


 MAMFAS/NJS

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6. House Committee on Energy
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