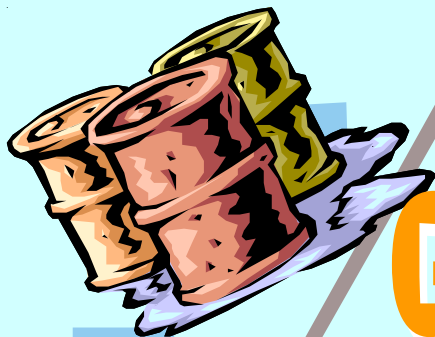


Primer

on



GRAM

and

ICERA



Q: What is Generation Rate Adjustment Mechanism (GRAM)?

A: GRAM is an adjustment recovery mechanism, which replaces the automatic recovery adjustment mechanisms of NPC, which is the Fuel and Purchased Power Cost Adjustment (FPCA) and distribution utilities' Purchased Power Adjustment (PPA). It will allow the periodic (quarterly) adjustment to the Generation Rate to reflect changes in fuel and IPP Costs after a review by the ERC before costs are passed on to customers.



Q: What is the difference between GRAM and PPA?

A: The table hereunder shows the basic difference between the old recovery mechanism (PPA) and the GRAM:

ELEMENTS	PPA	GRAM
1. Review by the regulatory body	1. After the cost had been passed on to the consumers.	1. Before the cost may be passed on to the consumers.
2. Change in rates	2. Monthly	2. Quarterly
3. Change in recovery of fixed costs of generation	3. Automatic but subject to confirmation by the ERC.	3. Only through a petition to adjust generation rate subject to approval by the ERC within a maximum period of forty-five (45) days.
4. Transmission component	4. Included	4. Excluded
5. System loss and franchise tax	5. Included	5. Excluded
6. Carrying cost	6. Without carrying cost	6. With carrying cost

Q: To which utilities is GRAM applicable?

A: GRAM is applicable to National Power Corporation (NPC) and distribution utilities which source their power not only from NPC but also from Independent Power Producers (IPPs). It is also applicable to distribution utilities that generate its own power.

Q: When will GRAM be implemented?

A: This recovery mechanism will be implemented after the unbundling of the utility's rates and shall continue indefinitely, until orders to the contrary.

Q: What is the implication of GRAM on rates?

A: Generally, the Generation Charge will change quarterly as NPC files its GRAM application.

NPC filed its GRAM petition on April 24, 2003 docketed as ERC Case No. 2003-156 and ERC issued the Order dated May 15, 2003 for the implementation of the new Generation Charge effective May 2003 billing:

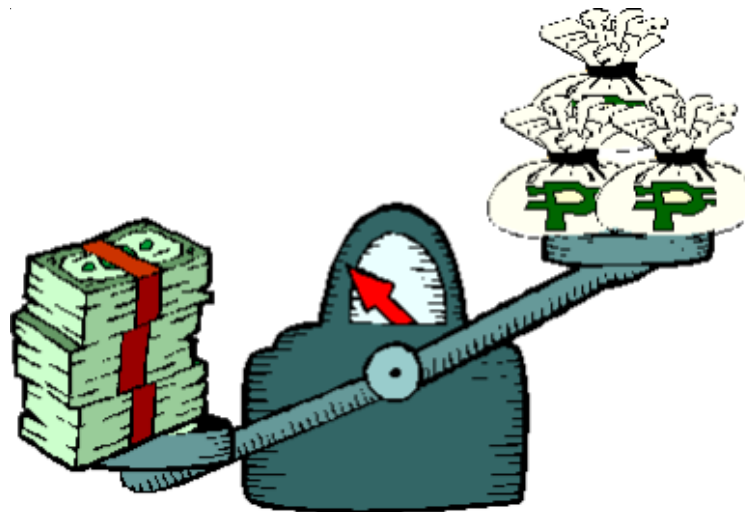
Grid	Existing	Approved GRAM	Inc/Dec
Luzon	2.1913	2.1258	(0.0655)
Visayas	2.0837	2.2412	0.1575
Mindanao	1.0217	1.0262	0.0045

Distribution utilities sourcing its entire power from NPC will automatically adjust its Generation Charge (whether upward or downward) based on the rates approved by ERC relative to NPC's GRAM.

Distribution utility sourcing its power other than NPC (e.g. IPP) and/or utility which generates its own power will apply with ERC its own GRAM before it can change its Generation Charge (whether upward or downward).

Q: What is Incremental Currency Exchange Rate Adjustment (ICERA)?

A: ICERA is intended to allow the periodic (quarterly) adjustment to the FOREX Adjustment/CERA to reflect the changes in currency exchange after a review by the ERC before said changes are passed on to customers.



Q: What is the difference between CERA and ICERA?

A: The table below shows the basic difference between the old recovery mechanism CERA and the ICERA:

Q: What is the implication of ICERA on rates?

ELEMENTS	CERA	ICERA
1. Review by the regulatory body	1. After the cost had been passed on to the consumers.	1. Before the cost may be passed on to the consumers.
2. Change in rates	2. Monthly	2. Quarterly
3. Carrying cost	3. Without carrying cost	3. With carrying cost

A: Generally, the NPC's FOREX will change quarterly as NPC files its ICERA application.

NPC's FOREX adjustment was pegged at its February 2003 level of P0.2506 per kWh as per ERC Order dated March 26, 2003. This will remain in effect until the application for ICERA has been filed and approved by the Commission.

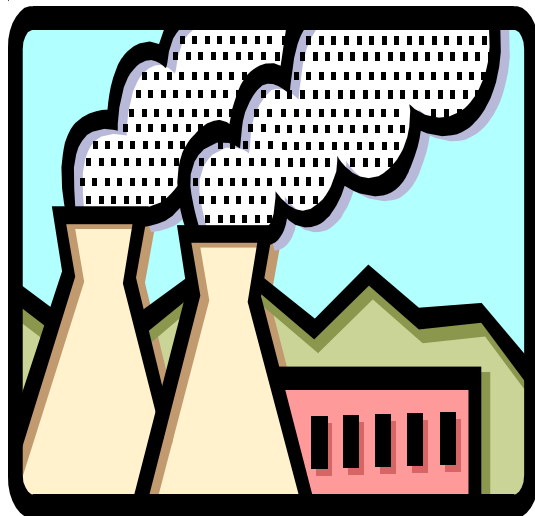
Distribution utilities with no existing CERA will automatically adjust the FOREX component of its Generation Charge (whether upward or downward) based on the rates approved by ERC relative to NPC's ICERA.

Distribution utility with CERA will apply with ERC its own ICERA before it can change (whether upward or downward) the same.

Q: How do GRAM and ICERA work?

A: These two adjustment mechanisms work as follows:

1. An initial Generation Rate and FOREX/Currency Exchange Rate Adjustment (CERA) is set in the unbundled rates of NPC and DUs
2. The initial Generation Rate and FOREX/CERA remains in effect until changed by the ERC
3. Any changes in the fuel and purchased power and incremental FOREX/CERA are deferred for future recovery/refund
4. Any deferred balance is cleared with each filing
5. Generation Rate is updated to include current fuel and IPP cost in GRAM, while FOREX/CERA is updated to include the incremental adjustments
6. Deferred balances accrue a carrying charge to compensate NPC for its cost of money



Q: What are the key elements of GRAM and ICERA?

- A:**
1. Any changes in fuel and purchased power and incremental FOREX/CERA are deferred for future recovery/refund;
 2. Recovery may be spread over a period of time
 3. Compensates the utility for opportunity cost of capital by imposing a carrying charge.



Q: What is a Carrying Charge?

- A:** It refers to the financing cost associated with the deferred recovery or refund of cost computed at the rate of 91-day Treasury Bill plus 3% but not to exceed 12%.

It is recorded on a monthly basis and applied both to debit and credit balances of the deferred account

Q: What is the timeline for filing of application?

- A:** The utility files within 30 days after the test period. ERC issues an Order within 45 days after filing. New rates become effective after 15 days upon approval.



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