

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

IN THE MATTER OF THE
APPLICATION FOR THE APPROVAL
OF THE REVISED UNBUNDLED
GENERATION TARIFFS

ERC Case No. 2003-291

NATIONAL POWER CORPORATION
(NPC) and POWER SECTOR ASSETS
AND LIABILITIES MANAGEMENT
CORPORATION (PSALM),

Applicants

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O R D E R

On May 16, 2003, applicants National Power Corporation (NPC) and Power Sector Assets and Liabilities Management Corporation (PSALM) jointly filed an application for the approval of: a) revised unbundled generation rates to replace the generation rates approved by the Commission in its Order dated September 6, 2002 in ERC Case No. 2001-901; and b) revised methodology designated as the "Long-Run Avoidable Cost" (LRAC) methodology in lieu of the "Return on Rate Base" (RORB) methodology for the determination of NPC's and PSALM's generation rates.

In the formulation of the LRAC, the following components are considered: a) Weighted Average Cost of Capital (WACC); b) Capital Costs associated with the construction of a plant; c) Fixed operating and maintenance costs; d) Variable operating and maintenance costs; e) Fuel costs; f) Insurance; and g) Peso-Dollar exchange rate.

The determination of the aforementioned components will be through the Best New Entrant (BNE) Standard (based on viable plant mix), whereby the revenue requirements shall be based on the LRAC of the BNE reflecting the lowest total cost of an efficient new entrant generating plant in the country. The LRAC Methodology promotes efficiency in capital cost management while ensuring that the electricity industry remains viable for the longer term. The LRAC will vary among regions depending on the different plant mix required vis-à-vis the demand and the regional LRAC will be developed by taking into account other factors such as the annual load growth, size of existing generation plants, fuel and the size of the inter-connectors in the region.

LRAC is guided by the principle of total (capital and operating) costs of the BNE generation plant in the country which consumes coal in generating energy. In this regard, it is imperative to identify the costs pertaining to construction and operation of the BNE.

Total capital costs are the necessary costs incurred directly or indirectly in connection with the construction of the best generation plant. It consists of Engineering Procurement Costs (EPC), Interest during Construction (IDC), Legal and Compliance Costs, Project Costs, Spare Parts and Contingency Fees. These costs serve as bases in computing for the minimum amount of return on investment. The minimum return on investment is the product of pre-tax WACC and the total capital costs.

Operating costs are classified according to fixed and variable operating and maintenance costs, as well as insurance costs. Fixed operating and maintenance costs are those associated with plant maintenance, salaries and wages, connection fees, and other fixed operations and maintenance costs while variable costs are divided into cost of fuel and other variable costs for operations and maintenance. On the other hand, insurance costs are those incurred by the generators to protect themselves from power interruptions due to forced outages.

The amount of Average LRAC rate is the sum of the weighted average return on capital, fixed operating and maintenance costs, fuel costs, variable operating and maintenance costs and insurance cost divided by the number of kilowatt-hour generated in the grid.

After a thorough evaluation and analysis of the application and pursuant to Section 4 (e) of Rule 3 of the Implementing Rules and Regulations of Republic Act No. 9136 and Section 2 of Rule 13 of the Rules and Practice and Procedure Governing Hearings Before the Energy Regulatory Commission, NPC and PSALM are hereby granted a provisional authority to impose revised generation charges using the LRAC methodology for the Luzon, Visayas and Panay/Bohol Grids, to wit:

- A. For the Luzon Grid, the Generation Rate is equivalent to the sum of the Annual LRAC Average Rate, and Franchise & Benefits to Host Communities:

Annual LRAC Average Rates/kWh	Franchise & Benefits to Host Communities	TOTAL GENERATION RATE/kWh
₱2.4717	₱ 0.0245	₱2.4962

- B. For the Visayas and Panay/Bohol Grids, the LRAC shall be applied on a staggered basis in order to mitigate the impact of the increase in generation rates on the part of consumers. Accordingly, the LRAC Rates for the following billing cycle are as follows:

Billing Cycle	Visayas ₱/kWh	Panay/Bohol ₱/kWh
September 26, 2003 to December 25, 2003	2.5752	2.6125
December 26, 2003 to March 25, 2004	2.6587	2.7332
March 26, 2004 to June 25, 2004	2.7421	2.8539
June 26, 2004 to September 25, 2004	2.8255	2.9745

NPC, in addition to the aforecited generation rates, is hereby authorized to recover in full the remaining Net Fuel and Power Cost Adjustment (FPCA) for the Visayas and Provinces of Panay and Bohol within thirty-four (34) months equivalent to an estimated amount of ₱0.05/kWh. Accordingly, the Commission's Order dated May 14, 2003 under ERC Case Nos. 2001-194 and 2001-180 which allowed NPC to collect its Net FPCA in Visayas and in the Provinces of Panay and Bohol in the amount of ₱0.4688/kWh within eight (8) months, is hereby modified. Likewise, NPC is still authorized to collect ₱0.0177/kWh in Visayas and Panay/Bohol for the Franchise and Benefits to Host Communities pursuant to ERC Order dated September 20, 2002.

In this connection, the implementation of NPC's Generation Rate Adjustment Mechanism (GRAM) and FOREX in the Luzon, Visayas and Panay/Bohol is terminated upon the effectivity of the approved rates based on the LRAC Methodology. However, NPC is directed to file its last GRAM and Incremental Currency Exchange Rate Adjustment (ICERA) petition to recover the deferred generation charge and FOREX for the test periods February 2003 to September 2003.

Finally, NPC and PSALM are directed to continue charging their existing rates, including the GRAM and ICERA in the Mindanao Grid.

In the meantime, finding the said application sufficient in form and substance with the required fees having been paid, the same is hereby set for hearing on November 10, 2003 at nine o'clock (9:00 A.M.) in the morning at the ERC Hearing Room, 15th Floor, Pacific Center Building, San Miguel Avenue, Ortigas Center, Pasig City.

The applicants are hereby directed to publish, at their own expense, the attached Notice of Public Hearing at least twice (2x) for two (2) successive weeks in two (2) newspapers of nationwide circulation in the country, the last date of publication to be made not later than two (2) weeks before the scheduled date of initial hearing.

Let copies of this Order and the attached Notice of Public Hearing be furnished the Office of the Solicitor General (OSG), the Commission on Audit (COA), the Committees on Energy of both Houses of Congress and the Department of Energy (DOE) who are hereby requested to have their respective duly authorized representatives present at the aforesaid initial hearing.

The evidence on the publication of the Notice of Public Hearing consisting of the affidavits of the Editors or Business Managers of the newspapers wherein the said Notice of Public Hearing would be published, together with the complete copies of the issues of the said newspapers, should be submitted to the Commission by the NPC and the PSALM on the date of the initial hearing.

SO ORDERED.

Pasig City, September 29, 2003.

MANUEL R. SANCHEZ

Chairman

CARLOS R. ALINDADA

Commissioner

OLIVER B. BUTALID

Commissioner

LETICIA V. IBAY

Commissioner

JESUS N. ALCORDO

Commissioner

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5. Senate Committee on Energy
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6. House Committee on Energy
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7. Philippine Rural Electric Cooperative Association
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9. Manila Electric Corporation
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10. PUD-Olongapo Electric Corporation
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NOTICE OF PUBLIC HEARING

TO ALL INTERESTED PARTIES:

Notice is hereby given of the filing of an "Application" on May 19, 2003 filed by applicants National Power Corporation (NPC) and Power Sector Assets and Liabilities Management Corporation (PSALM) docketed as ERC Case No. 2003-291 for the approval of a) a revised unbundled generation rates to replace its generation rates approved by the ERC and b) a revised methodology, referred to as the Long-Run Avoidable Cost (LRAC) Methodology in lieu of the "Return On Rate Base" (RORB), for the determination of applicants' generation rates

The Commission has set the application for hearing on November 10, 2003 at nine o'clock (9:00 A.M.) in the morning at the ERC Hearing Room, 15th Floor, Pacific Center Building, San Miguel Avenue, Pasig City.

All interested parties who may wish to comment on or oppose the said application should file their comments and/or oppositions on or before the date of hearing. Such parties who may wish to have the details of the application and who shall have manifested to the Commission their desire and intention to participate actively in the proceedings, may request that before the date of hearing, they be furnished with copies of the application by the applicant, which is hereby directed to furnish the parties making such request with copies of the application and its attachments. Likewise, any such interested party may examine the application and other pertinent records filed with the Commission during the usual office hours.

WITNESS, the Honorable Chairman, **MANUEL R. SANCHEZ** and the Honorables **OLIVER B. BUTALID, CARLOS R. ALINDADA, LETICIA V. IBAY, and JESUS N. ALCORDO** Commissioners, Energy Regulatory Commission, this 29th day of September, 2003 at Pasig City.

FRUCTUOSO C. LAGUNZAD, JR.
Executive Director III