

RULES FOR THE AUTOMATIC RECOVERY OF MONTHLY FUEL AND PURCHASED POWER COSTS AND FOREIGN-EXCHANGE RELATED COSTS BY THE NATIONAL POWER CORPORATION (NPC)

Pursuant to Section 43 (f) of Republic Act No. 9136 and Rule 3, Section 4 of its Implementing Rules and Regulations (IRR), the Energy Regulatory Commission (ERC) hereby adopts and promulgates these Rules to establish the process for the Automatic Recovery of Fuel and Purchased Power Costs and Incremental Foreign Currency Exchange Rate Adjustments by the National Power Corporation (NPC).

ARTICLE I

GENERAL PROVISIONS

These Rules shall have the following objectives:

- a) To ensure the timely recovery of allowable fuel and purchased power costs of NPC;
- b) To ensure transparent and reasonable prices of electric power service in a regime of free and fair competition and to achieve greater operational and economic efficiency;
- c) To protect the public interest as it is affected by the rates and services of NPC; and
- d) To help maintain the security, reliability, and quality of the supply of electric power.

ARTICLE II

SCOPE AND DEFINITION OF TERMS

Section 1. Scope

These Guidelines shall apply to the NPC, **excluding NPC's Small Power Utilities Group (SPUG).**

Section 2. Definition of Terms. As used in these Rules, the following terms shall have the following respective meanings:

"Act" shall refer to Republic Act No. 9136, otherwise known as the *"Electric Power Industry Reform Act of 2001"*.

"Ancillary Services" shall refer to those services that are necessary to support the transmission of capacity and energy from resources to loads while maintaining reliable operation of the transmission system in accordance with good utility practice and the Grid Code.

"Billing Period" shall refer to the existing billing month *from* the 26th day of the previous month up to 25th day of the current month.

“Capacity and Infrastructure Fees” shall refer to the monthly fees paid by NPC to its IPP Proponents/Operators throughout the cooperation period or contract term for the recovery of the IPP’s costs/investment for the construction of power plant, including its related infrastructure facilities necessary for the operation of the plant and the IPP’s fixed expenses/costs for the operation and maintenance of the power plant and infrastructures. This shall also refer to the sum of Capital Recovery Fees, Operating Expenses, Infrastructure Fees and Service Fees.

“Default Wholesale Supply (DWS) Arrangements” shall refer to the arrangements entered into for the supply of electricity to cover supply imbalances of customers in the WESM.

“Heat Rate Caps” shall refer to the latest heat rate caps approved by the ERC.

“Energy Regulatory Commission” or “ERC” shall refer to the independent quasi-judicial regulatory body created under Section 38 of the Act.

“ERC Rules of Practice and Procedure” shall refer to the Rules promulgated by the ERC on June 22, 2006 governing the proceedings before it.

“Generation Rate” shall refer to the automatic adjustment of the FPPCA and FXA.

“Generation Rate Adjustment Mechanism or “GRAM” shall refer to the adjustment mechanism intended to balance the need for timely recoveries of costs by the utilities.

“National Power Corporation” or “NPC” shall refer to the government corporation created under Republic Act No. 6395, as amended.

“One Day Power Sales” or “ODPS” shall refer to the program whose objective is to sell the unutilized generating capacity of NPC to its customers with self-generation for specific hours or time blocks of a day, on a day-to-day basis at competitive prices.

“Special Sale Arrangements” shall refer to the arrangements entered into with the distribution utilities like the Customer Choice Program (CCP) and Special Rate for Ecozones.

“Spot Sales” shall refer to the energy sold in the Wholesale Electricity Spot Market (WESM).

“Transition Supply Contract” or “TSC” shall refer to a contract duly negotiated by NPC with a Distribution Utility pursuant to Section 67 of the Act.

ARTICLE II

AUTOMATIC MONTHLY FUEL AND PURCHASED POWER COST ADJUSTMENT

Section 1. Monthly recovery/(refund) of incremental/downward adjustment in Fuel and Purchased Power Costs – Monthly recovery/(refund) of incremental/downward adjustment in Fuel and Purchased Power Costs shall be calculated using the following formula:

$$FPPCA_{period} = FCA_{period} + PPCA_{period}$$

Where:

FPPCA_{pesos} = Fuel and Purchased Power Costs Adjustment

FCA_{pesos} = Fuel Cost Adjustment shall be calculated as follows:

$$AFC - FCB + OFCA$$

AFC = Adjusted Fuel Costs refer to the amount in pesos for the relevant Billing Period of the fuel cost subject to heat rate caps corresponding to energy sales. Calculated as follows:

$$FCB \left(\frac{0.1969 B_n}{B_o} + \frac{0.0260 D_n}{D_o} + \frac{0.4444 C_n}{C_o} + \frac{0.1192 S_n}{S_o} + \frac{0.2133 NG_n}{NG_o} \right) \text{ for Luzon}$$

$$FCB \left(\frac{0.3509 B_n}{B_o} + \frac{0.1755 D_n}{D_o} + \frac{0.0858 C_n}{C_o} + \frac{0.4378 S_n}{S_o} + \frac{0 NG_n}{NG_o} \right) \text{ for Visayas}$$

$$FCB \left(\frac{0.9967 B_n}{B_o} + \frac{0.0033 D_n}{D_o} + \frac{0 C_n}{C_o} + \frac{0 S_n}{S_o} + \frac{0 NG_n}{NG_o} \right) \text{ for Mindanao}$$

FCB = Fuel Costs Base refer to the amount in pesos based on the last ERC-approved base rate for the fuel cost subject to heat rate caps (in PhP/kWh – 1.4537 for Luzon, 1.5620 for Visayas, 0.6866 for Mindanao) multiplied by the corresponding energy sales (23,250,328kWh for Luzon, 3,435,191 for Visayas, 5,578,231 for Mindanao).

B_o = Base reference price of Bunker fuel as of last approved base rate. For the reference, the initial Bunker Basis Price shall be the Mean of Platts Singapore (MOPS) as of December 2004.

D_o = Base reference price of Diesel fuel as of last approved base rate. For the reference, the initial Diesel Basis Price shall be the Mean of Platts Singapore (MOPS) as of December 2004.

C_o = Base reference price of Coal as of last approved base rate. For the reference, the initial Base Index Price shall be Global coal physical index, FOB Newcastle as of December 2004.

S_o = Base reference price of Steam as of last approved base rate. For the reference, the initial Steam Basis Price shall be Global coal physical index, FOB Newcastle as of December 2004.

NG_o = Base reference price of Natural Gas as of last approved base rate. For the reference, the initial Natural Gas Basis Price shall be Global coal physical index, FOB Newcastle as of December 2004.

B_n = The reference price of Bunker fuel based on the monthly average of the Mean of Platts Singapore (MOPS) during relevant Billing Period. For the initial adjustment, the maximum allowable adjustment to Base Price shall be +/-20%, then +/-5% of the previous month for succeeding adjustments.

D_n = The reference prices of Diesel based on the monthly average of the Mean of Platts Singapore (MOPS) during relevant Billing Period. For the initial adjustment, the maximum allowable adjustment to

Base Price shall be +/-20%, then +/-5% of the previous month for succeeding adjustments.

C_n = The reference prices of Coal based on a monthly average of the Global coal physical index, FOB Newcastle during relevant Billing Period. For the initial adjustment, the maximum allowable adjustment to Base Price shall be +/-20%, then +/-5% of the previous month for succeeding adjustments.

S_n = The reference prices of Steam based on a monthly average of the Global coal physical index, FOB Newcastle during relevant Billing Period. For the initial adjustment, the maximum allowable adjustment to Base Price shall be +/-20%, then +/-5% of the previous month for succeeding adjustments.

NG_n = The reference prices of Natural Gas based on a monthly average of the Global coal physical index, FOB Newcastle during relevant Billing Period. For the initial adjustment, the maximum allowable adjustment to Base Price shall be +/-20%, then +/-5% of the previous month for succeeding adjustments.

OFCA = Other Fuel Costs Adjustment refer to the amount in pesos for the fuel cost subject to heat rate caps which refer to sold/transferred plant (a negative number) or newly-approved NPC Power Supply Contract for recovery (a positive number) and/or fuel cost adjustment subject to the prior review, evaluation and approval by the ERC.

PPCA_{pesos} = Purchased Power Costs Adjustment shall be calculated as follows:

$$APPC - PPCB + OPPCA$$

APPC = Adjusted Purchased Power Costs refer to the amount in pesos for the relevant Billing Period of purchased power cost, including capacity and infrastructure fees for eligible Independent Power Producer (IPP) Supply Contracts during the relevant Billing Month. Calculated as follows:

$$PPCB \left\{ \left[0.4 + 0.3 \left(\frac{USCFIn}{USCFIo} \right) \right] \frac{FXn}{FXo} + 0.3 \frac{CFIn}{CFIo} \right\}$$

PPCB = Purchased Power Costs Base refers to the amount of Purchased Power Cost equivalent to the Purchased Power Cost Component including capacity and infrastructure fees based on the last ERC-approved base rate (in PhP/kWh – 2.3022 for Luzon, 1.1152 for Visayas, 0.8853 for Mindanao) multiplied by the corresponding energy sales (23,250,328kWh for Luzon, 3,435,191 for Visayas, 5,578,231 for Mindanao).

FX_o = Base reference U.S. Dollar to Philippine Peso Exchange Rate as of last approved base rate. For the reference, the initial Base reference shall be U\$1/PhP44.049.

FX_n = Average U.S. Dollar to Philippine Peso inter-bank mid-rates prevailing on each of the last 5 Business Days of the relevant Billing Period, such rate being published by the Bangko Sentral ng Pilipinas. For the initial adjustment, the maximum allowable adjustment to Base Price shall be +/-20%, then +/-5% of the previous month for succeeding adjustments.

USCPI₀ = Base reference Consumer Price Index (CPI) for the USA as of last approved base rate. For the reference, the initial Base reference shall be as of December 2004 = 190.3

USCPI_n = Prevailing Consumer Price Index (CPI) for the USA for the relevant Billing Month, which shall be adjusted with the same base with USCPI₀

CPI₀ = Base reference All Items Consumer Price Index (CPI) as of last approved base rate. For the reference, the initial Base reference shall be as of December 2004 = 125.4

CPI_n = Prevailing All Items Consumer Price Index (CPI) for the relevant Billing Month, published by the National Statistics Office (NSO), where 2000 was the base year with index 100.

OPPCA = Other Purchased Power Costs Adjustment refers to the amount of Purchased Power Cost including capacity and infrastructure fees of sold/transferred plant (a negative number) or newly-approved NPC Power Supply Contract for recovery (a positive number) and/or purchased power cost adjustment subject to the prior review, evaluation and approval by the ERC.

Section 2. Monthly calculation of Fuel and Purchased Power Costs Adjustment Rate – Monthly Fuel and Purchased Power Costs adjustment rate shall be calculated using the following formula:

$$FPPCA_{rate} = \frac{FPPCA_{pesos}}{Sales}$$

Where:

FPPCA_{rate} = Rate in Pesos per kWh of Fuel and Purchased Power Costs adjustment

FPPCA_{pesos} = Fuel and Purchased Power Costs adjustment computed in accordance with the preceding section

Sales = The total sales for the relevant Billing Period

Section 3. Billing – The **FPPCA_{rate}** shall be a variable charge which shall be shown as a separate item in the NPC monthly billing to its customers, billed by NPC to sales corresponding to ALL transactions.

ARTICLE III

AUTOMATIC FOREIGN EXCHANGE-RELATED COST ADJUSTMENT

Section 1. Monthly recovery/(refund) of incremental/downward adjustment in Foreign Exchange-Related Costs – Monthly recovery/(refund) of incremental/downward adjustment in Foreign Exchange-Related Costs shall be calculated using the following formula:

$$FxA_{pesos} = DSA_{pesos} + FxOpex_{pesos}$$

Where:

FxA_{pesos} = Foreign Exchange-Related Cost Adjustment

DSA_{pesos} = Debt Service Adjustment pertaining to the principal portion shall be calculated monthly as follows:

$$(FX_n - FX_o) \times DSR + (FX_n - FX_o) \times \frac{DSB}{12}$$

Where:

FX_o = Base reference U.S. Dollar to Philippine Peso Exchange Rate as of last approved base rate. For the reference, the initial Base reference shall be U\$1/PhP44.049

FX_n = Average U.S. Dollar to Philippine Peso inter-bank mid-rates prevailing on each of the last 5 Business Days of the relevant Billing Period, such rate being published by the Bangko Sentral ng Pilipinas. For the initial adjustment, the maximum allowable adjustment to Base Price shall be +/-20%, then +/-5% of the previous month for succeeding adjustments.

DSR = For regular debt service, actual debt service payments (principal portion) for the month in US Dollar (and other foreign currency translated into US\$).

DSB = For bullet debt service, actual bullet debt service payments (principal portion) for one (1) year in US Dollar (and other foreign currency translated into US\$).

FxOpex_{pesos} = Foreign Exchange-Related Cost Adjustment for foreign related operating expenses shall be calculated monthly as follows:

$$(FX_n - FX_o) \times FxOpex$$

Where:

FX_o = Base reference U.S. Dollar to Philippine Peso Exchange Rate as of last approved base rate. For the reference, the initial Base reference shall be U\$1/PhP44.049

FX_n = Average U.S. Dollar to Philippine Peso inter-bank mid-rates prevailing on each of the last 5 Business Days of the relevant Billing Period, such rate being published by the Bangko Sentral ng Pilipinas. For the initial adjustment, the maximum allowable adjustment to Base Price shall be +/-20%, then +/-5% of the previous month for succeeding adjustments.

FxOpex = Foreign-related operating expenses in US Dollar (and other foreign currency translated into US\$), excluding those recovered/(refunded) through the FPPCA for the period.

Section 2. Monthly calculation of Foreign Exchange-Related Cost Adjustment
– Monthly Foreign Exchange adjustment rate shall be calculated using the following formula:

$$FXA_{rate} = \frac{FXA_{pesos}}{Sales}$$

Where:

FXA_{rate} = Rate in Pesos per kWh of Foreign Exchange-Related Cost Adjustment

FXA_{pesos} = Foreign Exchange-Related Cost adjustment computed in accordance with the preceding section

Sales = The total sales for the relevant Billing Period

ARTICLE IV

VERIFICATION PROCESS

Section 1. Post Verification – At least every twelve (12) months, the ERC shall verify the recovery of FPPCA and FXA by comparing the actual allowable costs incurred for the period with the actual revenues for the same period generated by the Generation Rates.

Subsequent filings for verification shall be done on an annual basis in accordance with the timelines provided herein:

DATE OF FILING	NPC MAJOR GRIDS	TEST PERIOD OF APPLICATION
Not later than the first week of October of the current year	LUZON	May 1 of the previous year to April 30 of the current year.
Not later than the first week of December of the current year	VISAYAS	July 1 of the previous year to June 30 of the current year.
Not later than the first week of February of the current year	MINDANAO	September 1 of previous year to August 31 of the current year.

Section 2. Filing Requirements - The applicant shall comply with Section 4 (e), Rule 3 of the IRR of the Act and Rule 6 of the ERC Rules of Practice and Procedure.

Section 3. Hearings - The hearings of applications for the Visayas and Mindanao Grids may be held in the ERC Field Office or such other venues as may be determined by the ERC

Section 4. Documentary Requirements – The required supporting documents shall be submitted together with the annual filing/application as indicated in the proposed rules.

4.1 For Fuel and Purchased Power Costs:

1. A report containing all transactions and calculations affecting the deferred accounts which should include any other information or data required by the ERC for the previous year;

2. Cost of all energy purchased for the previous year (categorized as either costs for TSC Sales, Spot Sales, ODPS, DWS, Ancillary and other special sale arrangements), indicating the number of kilowatt-hours purchased and the cost for each supplier;
3. Cost of all fuel consumed for the previous year (categorized as either costs for TSC Sales, Spot Sales, ODPS, DWS, Ancillary and other special sale arrangements), indicating:
 - a. the number of kilowatt-hours generated and the cost of fuel consumed; and
 - b. allowable cost of fuel consumed based on the heat rate caps approved by the ERC;
4. For the major grids, revenues billed by NPC (categorized as either sales for TSC, Spot, ODPS, DWS, Ancillary Services and special sale arrangements) for the previous year;
5. For the SPUG areas, total revenues billed by NPC-SPUG for the previous year; and
6. Such other information as may be required by the ERC.

4.2 For Foreign-Exchange Related Costs

1. Report showing its actual computation of currency exchange related adjustments;
2. Data pertaining to: (a) amount to be recovered through currency exchange related adjustments; (b) actual sales for the billing period; (c) revenue derived from said adjustment per Grid; and (d) total revenue derived per Grid;
3. Supporting documents to be attached to all submissions;
4. List of foreign related operating expenses; and
5. Debt service payments segregating principal and interest portion.

ARTICLE V

FINAL FILING UNDER THE GENERATION GRAM/ICERA

Section 1. Effectivity of the GRAM/ICERA - The GRAM/ICERA shall be applicable and continually charged the ERC-approved Deferred Accounting Adjustment (DAA) for Luzon, Visayas and Mindanao Grids until the full amount shall have been recovered/refunded.

Section 2 . Final Filing under GRAM/ICERA - An application for recovery of all unfiled and unverified DAAs shall be submitted within sixty (60) days upon effectivity of these Rules.

ARTICLE VI

FINAL PROVISIONS

Section 1. Exception Clause – Where good cause appears, the ERC may allow an exemption from any provisions of these Rules, if such is found to be in the public interest and is not contrary to law or any other related rules and regulations.

Section 2. Separability Clause – If for any reason, any part or section of these Rules is declared unconstitutional or invalid, the other parts or sections hereof which are not affected thereby shall continue to be in full force and effect.

Section 3. Repealing Clause – All rules and guidelines, or portions thereof, issued by the ERC that are inconsistent with these Rules are hereby repealed or modified accordingly.

Section 4. Effectivity – These Rules shall take effect fifteen (15) days following its publication in a newspaper of general circulation.

Pasig City, _____.

ZENAIDA G. CRUZ-DUCUT

Chairperson

RAUF A. TAN

Commissioner

ALEJANDRO Z. BARIN

Commissioner

MARIA TERESA A.R. CASTAÑEDA

Commissioner

JOSE C. REYES

Commissioner