



**IN THE MATTER OF THE ADOPTION
OF THE INCREMENTAL CURRENCY
EXCHANGE RATE ADJUSTMENT
(ICERA)**

ERC Case No. 2005-006RC

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

Applicants.

x-----x

ORDER

Before this Commission for resolution is the application filed on January 18, 2005 by applicants National Power Corporation (NPC) and Power Sector Assets and Liabilities Management Corporation (PSALM) praying for the approval of their proposed 3rd Incremental Currency Exchange Rate Adjustment (ICERA) Deferred Accounting Adjustments (DAAs) of PhP0.5194/kWh for the Luzon Grid, PhP0.1023/kWh for the Visayas Grid and PhP0.0864/kWh for the Mindanao Grid and for the recovery thereof for a period of twenty-one (21) months, twelve (12) months and eighteen (18) months, respectively.

Applicants alleged, among others, that NPC is mandated under its Charter to undertake development of hydroelectric generation of power and the production of electricity from nuclear, geothermal and other sources of energy in order to attain, among others, the objective of providing adequate and reasonable price of electric power nationwide; that NPC is filing the instant application in its capacity as the owner of record of all existing generation assets and energy and as the implementing agency for the unbundled generation rates in the Order dated September 6, 2002 in ERC Case No. 2001-901 and in the

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Orders dated December 4, 2003 in ERC Case No. 2003-498 (1st ICERA) and April 22, 2004 in ERC Case No. 2004-76 (2nd ICERA); that PSALM is filing the instant application in its capacity as transferee, owner and administrator of the generating assets of NPC pursuant to Section 49 of R.A. No. 9136; that in the Order dated February 24, 2003, the Commission issued and adopted the Implementing Rules for the Incremental Currency Exchange Rate Adjustment (ICERA) providing, among others, the required mechanism for the recovery of deferred costs on Foreign Exchange (FOREX) differential; that the application covers the test/billing period January 2004 to September 2004 (3rd ICERA); and that NPC has complied with the ICERA's monthly reportorial requirements.

In the same application, applicants proposed to recover the deferred cost for FOREX differential and true-up of Build-Operate-Transfer (BOT) amortization component of the Generation Charge for the test/billing period October 2002 to September 2004, pursuant to the Orders dated April 14, 2004 and June 9, 2004 in ERC Case Nos. 2003-574 and 2004-122, respectively. They averred that the calculation of the deferred charges for the BOT Amortization component of the Generation Charge is based on the formula provided by the Commission in its Order dated November 17, 2004 which resolved applicants' "Motion for Clarification" filed on June 18, 2004; that consistent with the previous two (2) ICERA applications, the carrying charge for the FOREX differential shall commence on March 2003; that based on the Order dated November 17, 2004, no carrying charge will be imposed on the true-up of BOT amortization component of the Generation Charge; that the application does not include cost recovery for the foreign currency-denominated payments to Independent Power Producers (IPPs) under Rehabilitate-Operate-Maintain (ROM) and Build-Transfer-Operate (BTO) arrangements since recovery of said costs were included under the proposed 4th Generation Rate Adjustment Mechanism

currency payments; that pursuant to the Commission's Order dated April 22, 2004, the ICERA was calculated on a per grid basis, particularly Luzon, Visayas and Mindanao Grids, to eliminate cross-subsidization of the ICERA charge between grids and to be consistent with the GRAM calculation which is per grid basis; that pursuant to the Implementing Rules of the ICERA, they proposed to recover the following deferred FOREX adjustments and the corresponding carrying charges based on the BSP-established 91-day Treasury Bills rates plus 3% through the 3rd ICERA DAA for Luzon, Visayas and Mindanao Grids for the test/billing period January 2004 to September 2004; that they proposed to recover the DDA over twenty-one (21) months in the Luzon Grid, twelve (12) months in the Visayas Grid and eighteen (18) months in the Mindanao Grid, which are no longer compared with the maximum allowable recovery period of six (6) months as provided for in the ICERA's Implementing Rules; and that although a longer recovery period is not supportive of PSALM's target sale of seventy percent (70%) of NPC's generation assets by end of CY 2005, the proposal was adopted to mitigate the financial impact to the power customers.

On February 7, 2005, the Commission issued an Order directing applicants to furnish, within five (5) days from receipt thereof, the National Association of Electricity Consumers for Reforms (NASECORE) and the Freedom from Debt Coalition (FDC), with copies of their application together with all its annexes. Relative thereto, on February 21, 2005, applicants submitted their "Compliance".

On March 2, 2005, the Commission issued an Order stating that it would resolve the instant application within sixty (60) days from the date of its filing instead of the self imposed 45 days prescribed in the ICERA Guidelines considering that the proposed test period of nine (9) months is more than the



quarterly filing provided for in the Implementing Rules for the Recovery of the ICERA.

The Commission issued another Order dated March 9, 2005 extending the period for the evaluation of the instant application by an additional fifteen (15) days.

On March 29, 2005, the Commission issued an Order extending the period for the resolution of the instant application by thirty (30) days from April 3, 2005 or until May 3, 2005 in view of the voluminous documents submitted by applicants for evaluation.

DISCUSSION

In the evaluation of the instant application, the Commission considered the following factors: a) relevant periods; b) base FOREX rates for the Debt Service and OPEX; c) original booking rate of the BOT Contracts; and d) DAA.

A. Relevant Periods:

In calculating the proposed ICERA DAA, the Commission adopted January 2004 to September 2004 as the applicable test period for the Debt Service and OPEX as the second ICERA application ended in December 2003. On the other hand, for the FOREX Differential and True-up on Amortization of Capacity Fees of the BOT Contracts, the billing periods May 2002 to July 2004 for Luzon and June 2002 to July 2004 for Mindanao, were used consistent with the Commission's Order dated April 4, 2004.

B. Base FOREX Rates:

The Commission used the Base FOREX Rates (US Dollar to Peso and Yen



interest) and operating expenses in computing for the deferred FOREX gain or loss consistent with the first and second ICERA applications and with the NPC's approved unbundled rates.

C. Original Booking Rates for the BOT Contracts:

The Commission adopted the Original Booking Rates for the BOT Contracts used by the applicants consistent with the booking rates that were then used in computing for the FOREX Differential for the Amortization of the Capacity and Infrastructure Fees of BOT Contracts under the Fuel and Purchased Power Cost Adjustment (FPCA) regime.


D. Proposed Deferred Accounting Adjustment (DAA) for Debt Service and OPEX

The DAA is a component of the ICERA intended to recover/(refund) the deferred cost from currency exchange adjustment.

Based on the submitted documents, it was found that the claims of NPC pertaining to its FOREX Losses incurred for the specific test periods were fully substantiated.

The Commission computed the DAA for the Debt Service and OPEX using one DAA for all grids instead of one DAA per grid. While computing the DAA on a per grid basis will eliminate the cross-subsidization between grids, the same is true only if there is proper allocation of NPC's debt between grids.

Further, the Commission believes that the proper venue for evaluating the allocation factor in segregating NPC's debts on a per grid basis is not in the ICERA filing but in a major rate case application (e.g. RORB).



Shown hereunder is the calculation of the DAA:

| Particulars | DAA in PhP |
|--------------------------------|------------------------|
| FOREX LOSS | |
| Debt Service | 3,462,283,847 |
| OPEX | 83,743,661 |
| TOTAL | 3,546,027,508 |
| LESS: | |
| FOREX COLLECTIONS | |
| Forex I | 5,383,426,131 |
| Forex II | 1,650,687,836 |
| TOTAL | 7,034,113,967 |
| Under/(Over) Recoveries | (3,488,086,459) |
| Carrying Charges | (113,187,844) |
| DAA (Refund) | (3,601,274,303) |

TRUE UP OF PREVIOUS DAA:

ICERA is a cost recovery adjustment mechanism that should have a zero impact on the utility's income or that any under or over recovery on the actual deferred costs that should have been recovered, should be refunded or carried forward in the next ICERA filing.

In this regard, it is imperative to have a true-up of the DAA, to wit:

| | |
|---|---------------------------------|
| Amount of DAA under 2 nd ICERA to be recovered | PhP 479,837,565.20 |
| Amount recovered | <u>(417,102,343.42)</u> |
| Under-recoveries or remaining amount still to recovered | <u>PhP 62,735,221.78</u> |
| Amt. of FOREX Correction under 2 nd ICERA to be refunded | (PhP 646,140,641.12) |
| Amount refunded | <u>594,145,784.17</u> |
| Under refund or remaining amount still to be refunded | (PhP 51,994,856.95) |
| NET UNDER-RECOVERIES TO BE CARRIED FORWARD IN THE 3RD ICERA | <u>PhP 10,740,364.83</u> |

In view of the foregoing, the net amount of DAA for the Debt Service and OPEX that should be refunded by NPC is as follows:

| | |
|---|----------------------------------|
| DAA for the current application | (PhP3,601,274,303) |
| Net Under-Recoveries to be carried forward in the 3 rd ICERA | <u>10,740,365</u> |
| DAA for Debt Service and OPEX | <u>(PhP3,590,533,938)</u> |

E. DAA FOR THE FOREX DIFFERENTIAL & TRUE-UP OF THE AMORTIZATION OF CAPACITY & INFRASTRUCTURE FEES OF THE BOT CONTRACTS:

The computation of DAA for the amortization of capacity and infrastructure fees was provided in the Order dated December 9, 2004, to wit:

$$DAA = A1 + A2$$

Where:

- DAA - Deferred Accounting Adjustment
- A1 - Over/(Under) Recovery for FOREX Differential under BOT Agreement (subject to carrying charge)
- A1 - $[(C - B) \times D] - (E \times F) \times (1 + G)$
(Carrying Charge is equivalent to 91-day T-Bill Rate as established by the BSP plus 300% points not to exceed 12%)
- B - Base Exchange Rate (PhP : \$) which is the original exchange rate at the time the lease transaction was booked by NPC
- C - Actual Exchange Rate (PhP : \$) at the time when the lease obligation was paid
- D - Actual Payment of Lease Obligation
- E - FOREX Differential on BOT power plant, expressed in PhP/kWh (equivalent to PhP0.2157/kWh for Luzon and PhP0.0166/kWh for Mindanao), which was part of NPC's basic charge in its unbundled rates
- F - Actual kWh sales for the month
- G - 91-day T-Bill rate plus 300 points not to exceed 12% divided by 12

- A2 - Over/(Under) Recovery for BOT Amortization (not subject to carrying charge)
- A2 - (B x C) – (D x E)
- B - Base Exchange Rate (PhP : \$) which is the original exchange rate at the time the lease transaction was booked by NPC
- C - Actual Payment of Lease Obligation
- D - BOT Power Plant Amortization approved in the NPC's unbundled rate (PhP0.5600/kWh for Luzon and PhP0.0501/kWh for Mindanao)
- E - Actual kWh sales for the month

An examination of supporting documents submitted by applicants disclosed that all their claims for FOREX Losses incurred for specific test periods were well founded. The computation of the DAA for these BOT Contracts was done on a per grid basis because NPC has no BOT Contracts in the Visayas Grid.

Shown hereunder is the computed Under/(Over) Recovery for the FOREX Differential on NPC's BOT Contracts:

| Particulars | LUZON (PhP) | MINDANAO (PhP) |
|--|------------------------------|---------------------------|
| Forex Loss | 24,588,606,870 | 577,798,119 |
| Less: Collections | <u>10,051,192,847</u> | <u>200,629,428</u> |
| Under/(Over) Collections | 14,537,414,023 | 377,168,691 |
| Carrying Charge | <u>741,237,744</u> | <u>18,924,353</u> |
| Under/(Over) Recovery for the FOREX Differential on NPC's BOT Contracts | <u>15,278,651,767</u> | <u>396,093,044</u> |

The amount of Under/(Over) Recovery for BOT Amortization is computed as follows:

| Particulars | LUZON (PhP) | MINDANAO (PhP) |
|----------------------------------|-----------------------|--------------------|
| Amount to be recovered | 36,230,335,334 | 626,605,292 |
| Amount Recovered | <u>26,094,891,027</u> | <u>604,305,505</u> |
| Under/(Over) Recovery for | | |

Based on the formula provided in the Order dated December 9, 2004 in ERC Case No. 2003-574, the DAA for the Amortization of Capacity and Infrastructure Fees under the BOT Contracts is computed as follows:

| Particulars | LUZON (PhP) | MINDANAO (PhP) |
|--|------------------------------|---------------------------|
| Under Recoveries for the FOREX Differential on NPC's BOT Contracts | 15,278,651,767 | 396,093,044 |
| Under Recoveries for BOT Amortization | <u>10,135,444,307</u> | <u>22,299,787</u> |
| DAA | <u>25,414,096,074</u> | <u>418,392,831</u> |

WHEREFORE, the foregoing premises considered, the following DAAs are hereby **APPROVED** as follows:

| Particulars | LUZON (PhP/kWh) | VISAYAS (PhP/kWh) | MINDANAO (PhP/kWh) |
|--|-----------------|-------------------|--------------------|
| DAA Debt Service and OPEX | (0.0967) | (0.0967) | (0.0967) |
| DAA Amortization of Capacity and Infrastructure Fees under BOT Contracts | 0.2788 | - | 0.0195 |
| TOTAL | 0.1821 | (0.0967) | (0.0772) |

The same should be recovered/(refunded) until such time that the full amount of DAA for the Debt Service and OPEX in the total amount of (PhP3,590,533,938.00) shall have been refunded and the full amount of DAA for the Amortization of Capacity and Infrastructure Fees under BOT Contracts in the amount of PhP25,414,096,074.00 for LUZON and PhP418,392,831.00 for MINDANAO shall have been recovered starting with respect to NPC's April 26 to May 25, 2005 billing period, to be added to its existing generation charges.

Relative thereto, applicants are directed to submit monthly monitoring reports on the DAA recovery/(refund) not later than the fifteenth (15th) day of each month until such time that the DAA shall have been fully recovered or refunded.

SO ORDERED.

Pasig City, April 13, 2005.


RODOLFO B. ALBANO, JR.
Chairman


OLIVER B. BUTALID
Commissioner


JESUS N. ALCORDO
Commissioner


RAUF A. TAN
Commissioner


ALEJANDRO Z. BARIN
Commissioner

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