



IN THE MATTER OF THE  
APPLICATION FOR THE RECOVERY  
OF FUEL AND INDEPENDENT  
POWER PRODUCER COSTS UNDER  
THE GENERATION RATE  
ADJUSTMENT MECHANISM (GRAM)

ERC Case No. 2005-007RC

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

Applicants.

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## ORDER

For resolution is the "Application" filed by applicants National Power Corporation (NPC) and Power Sector Assets and Liabilities Management Corporation (PSALM) on January 18, 2005, praying for the approval of their proposed Deferred Accounting Adjustments (DAAs) of PhP0.4226/kWh for the Luzon Grid, PhP0.5249/kWh for the Visayas Grid and PhP0.6862/kWh for the Mindanao Grid and for the recovery thereof for a period of eighteen (18) months.

In the said application, 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 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 revised generation charges in the Orders dated May 15, 2003 in ERC Case No. 2003-156, January 26, 2004 in ERC Case No. 2003-574 and June 9, 2004 in ERC

Case No. 2004-122; 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 of the Generation Rate Adjustment Mechanism (GRAM) providing, among others, the mechanism for the recovery of deferred Fuel and Independent Power Producer (IPP) Costs; that the application covers the test/billing period January 2004 to September 2004; and that NPC has complied with the GRAM's monthly reportorial requirements.

Applicants proposed to recover through the DAA over a period of eighteen (18) months in all grids, the difference between the allowable and billed fuel and purchased power costs for the period January 2004 to September 2004 and the estimated remaining balance as of January 2005 of the approved 3<sup>rd</sup> GRAM DAA per the Commission's Order dated January 9, 2004 under ERC Case No. 2004-122.

Applicants averred that for the period January 2004 to April 2004, their proposed DAA did not include the difference between the actual purchased power costs covering said test/billing period and the allowable recovery based on the PhP0.40/kWh Purchased Power Cost Adjustment (PPCA) cap set by the National Power (NP) Board in its Resolution No. 2002-60 dated May 8, 2002; that for the test/billing period May 2004 to September 2004, they proposed to fully recover the actual purchased power costs in accordance with NP Board Resolution No. 2004-45 dated April 27, 2004 lifting the PhP0.40/kWh PPCA cap; that their proposal to fully recover actual purchased power costs effective May 2004 test/billing period is consistent with the imposition of the PhP0.40/kWh PPCA cap which took effect on the same date when the NP Board Resolution No. 2004-45 was issued; that their proposed GRAM includes full recovery of both the foreign and peso components of purchased power costs of Independent

Power Producers (IPPs) under Rehabilitate-Operate-Lease (ROL), Rehabilitate-Operate-Maintain (ROM) and Build-Transfer-Operate (BTO) arrangements for the test/billing period January 2004 to September 2004 as these costs are legitimate and recoverable under the GRAM; that the FOREX differential for the foreign currency denominated payments to the said IPPs were previously being recovered through the FOREX II component of the Incremental Currency Exchange Rate Adjustment (ICERA); that with their proposal to fully recover both the foreign and local components of the ROM, ROL and BTO costs in the instant application, the FOREX differential for the foreign currency denominated payments relative to said purchase power costs covering the same test/billing period January 2004 to September 2004 shall be excluded in the 3<sup>rd</sup> ICERA application to be filed by them to avoid double recovery of the same; that the application included recovery of costs of steam fuel for Bacon-Manito Geothermal Power Plant II (BACMAN II) and Palinpinon Geothermal Power Plant II for the test/billing period January 2004 to September 2004, pending completion and submission of relevant documentary supports; that considering that the provisional authority issued by the Commission to recover the cost of natural gas was granted only in August 24, 2004, the actual cost of natural gas covering the January 2004 to September 2004 test/billing period was not included in its determination of the DAA; that they utilized the ERC-approved heat rate caps in the determination of the allowable fuel costs in cases where the actual heat rate is higher than the approved cap; and that the application is exclusive of the deferred FOREX differential on payments of capacity and infrastructure fees for IPPs under BOT arrangement pursuant to the Order dated April 14, 2004 and June 9, 2004 under ERC Case Nos. 2003-574 and 2004-122, respectively, providing that said costs should be recovered through the ICERA.

## DISCUSSION

In the evaluation of the instant application, the Commission considered the following factors: a) relevant periods; b) fuel costs; c) heat rates; d) purchased power costs; e) energy sales; and f) DAA.

### A. Test Period:


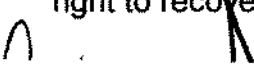
In calculating the proposed Generation Charge, the Commission adopted January 2004 to September 2004 as the applicable test period.

### B. Fuel Costs:

The Commission computed the amount of fuel costs for the same test period taking into consideration the approved heat rate cap or actual heat rate, whichever is lower in the Luzon, Visayas and Mindanao Grids. With regard to energy sales (kWh), the Commission used the actual energy sales for the test period January 2004 to September 2004.

The Commission included in the computation of fuel cost the actual costs of steam fuel incurred by applicants within the test period for BACMAN II and Palinpinon II.

However, the Commission did not allow NPC to recover the steam costs of the said plants prior to January 2004 as it was considered to have waived its right to recover the same under the principle of laches.



Shown hereunder is the comparison between the applicants' and the Commission's computations of allowable fuel costs:

Is/ID	Allowable Fuel Cost (PHP)			PhP Per kWh	
	NPC	ERC	Difference	NPC	ERC
Luzon	17,255,100,795.00	17,250,262,150.00	(4,838,645.00)	0.9834	0.9831
Visayas	4,320,330,085.00	4,320,330,099.00	14.00	1.4386	1.4386
Mindanao	3,014,989,434.00	3,014,989,434.00	-	0.6396	0.6396
Total	24,590,420,315.00	24,585,581,683.00	(4,838,632.00)	0.9733	0.9732


There is a difference, though minimal, between the said computations because applicants included the cost of estimated losses due to windage, moisture and erosion of coal in the Luzon Grid while the Commission excluded the same due to the failure of the applicants to submit the necessary supporting documents.

On the other hand, the diesel oil disallowed by the Commission pertained to NPC's consumption/used for the start up of the Ilijan Natural Gas Power Plant for the period December 2003 to August 2004. The Power Purchased Agreement (PPA) of Ilijan Natural Gas was provisionally approved by the Commission only in September 2004. Thus, the disallowed costs were excluded in the computation of fuel costs.

**C. Heat Rates:**

Upon verification, the Commission was able to confirm that applicants applied the approved heat rate cap or actual heat rate, whichever is lower, and the actual heating value in the computation of allowable fuel costs.

Shown hereunder are submitted actual heat rate and heat rate cap used in the calculation of fuel costs for the test period:

*M / A* 

**Heat Rates, Btu/kWh**

Month	Luzon		Cebu		Mindanao		Approved Heat Rate Cap
	Coal	Diesel	Coal	Diesel	Coal	Diesel	
<b>January</b>							
Coal	10,509	9,671	14,361	12,439			
Diesel	10,811	10,745	12,176	12,484	9,570	7,212	12,722
Bunker	10,569	10,069	10,398	11,851	9,570	9,517	9,160
<b>February</b>							
Coal	10,940	9,671	11,053	12,439			
Diesel	9,506	10,745	11,046	12,484	9,543	7,212	12,722
Bunker	10,284	10,069	10,002	11,851	9,543	9,517	9,160
<b>March</b>							
Coal	11,193	9,671	15,411	12,439			
Diesel	10,682	10,745	13,898	12,484	9,502	7,212	12,722
Bunker	9,511	10,069	10,583	11,851	9,502	9,517	9,160
<b>April</b>							
Coal	11,377	9,671	14,447	12,439			
Diesel	10,613	10,745	11,445	12,484	9,436	7,212	12,722
Bunker	10,371	10,069	10,173	11,851	9,436	9,517	9,160
<b>May</b>							
Coal	10,921	9,671	13,870	12,439			
Diesel	10,084	10,745	12,111	12,484	9,470	7,212	12,722
Bunker	10,381	10,069	11,864	11,851	9,470	9,517	9,160
<b>June</b>							
Coal	11,195	9,671	13,393	12,439			
Diesel	11,732	10,745	12,291	12,484	9,408	7,212	12,722
Bunker	10,442	10,069	10,273	11,851	9,408	9,517	9,160
<b>July</b>							
Coal	10,886	9,671	14,074	12,439			
Diesel	11,588	10,745	10,912	12,484	9,460	7,212	12,722
Bunker	10,565	10,069	11,204	11,851	9,460	9,517	9,160
<b>August</b>							
Coal	11,100	9,671	14,661	12,439			
Diesel	11,272	10,745	11,011	12,484	9,400	7,212	12,722
Bunker	10,854	10,069	10,473	11,851	9,400	9,517	9,160
<b>September</b>							
Coal	11,081	9,671	15,277	12,439			
Diesel	9,892	10,745	10,780	12,484	9,439	7,212	12,722
Bunker	9,621	10,069	10,336	11,851	9,439	9,517	9,160

**D. Purchased Power Cost:**

In determining the purchased power cost, the Commission took into consideration the eligible IPP contracts capped at Php0.40/kWh for the test period January 2004 to September 2004.

In this connection, applicants were not allowed to fully recover the actual purchased power cost for the test period May 2004 to September 2004.

It must be noted that the Commission lifted the PhP0.40/kWh PPCA cap on September 3, 2004 when it granted applicants a provisional authority on their RORB-TOU application docketed as ERC Case No. 2004-178.

The Commission excluded in the computation of the purchased power costs the costs pertaining to the ROM and BROT contracts (shown below) as these were entered into by and between NPC and IPPs after the effectivity of Republic Act No.7638 (the DOE Act) and thus, required the Commission's prior approval.

PLANTS	DATE OF CONTRACTS	TYPE OF CONTRACTS
1. SALCON CTPP 1 & 2 LBGT 1 & 2 CDPP1	March 25, 1994	ROM
2. KEPCO/MALAYA	May 17, 1995	ROM
3. CBK	June 25, 1998	BROT

Shown hereunder is the comparison between the applicants' and the Commission's computations of purchased power costs:

**Comparison of Purchased Power Cost**

Grid	Allowable Purchased Power Cost			PhP Per kWh	
	NPC	ERC	Difference	NPC	ERC
Luzon	14,138,806,068	11,249,044,130	(2,889,761,938)	0.8203	0.6527
Visayas	3,393,791,917	2,204,319,753	(1,189,472,164)	1.1340	0.7365
Mindanao	3,109,650,367	3,066,319,390	(43,330,977)	0.6631	0.6539
Total	20,642,248,353	16,519,683,273	(4,122,565,080)	0.8284	0.6630

**E. Energy Sales:**

NPC's actual energy sales in kWh as reported to the Commission was used in the calculation of fuel and purchased power costs for the test period, to

wit:

Month	Luzon	Visayas	Mindanao
November 2003	1,855,724,264	326,720,023	517,606,151
December	1,775,117,822	316,817,457	507,773,219
January 04	1,716,781,498	316,813,506	518,694,004
February	1,735,254,031	320,595,261	524,037,410
March	1,912,986,859	313,466,927	495,523,525
April	2,056,349,700	357,450,991	537,461,733
May	2,040,563,911	350,865,738	535,242,084
June	2,082,885,836	356,349,606	535,372,756
July	2,059,925,433	333,729,172	517,653,284
August	2,166,642,740	337,057,851	542,292,686

In the computation of fuel costs, the Commission used the billing determinants pertaining to Energy Sales for the period December 2003 to August 2004 while in the computation of purchased power costs, the Commission used the billing determinants pertaining to Energy Sales for the period November 2003 to July 2004.

#### **F. Deferred Accounting Adjustment:**

The Commission used the following components in computing for the deferred fuel and purchased power costs for the test period together with the corresponding carrying charges. Carrying charges are provided pursuant to the Implementing Rules of the GRAM.

##### **1. Deferred Generation Cost Balance:**

The deferred generation cost balance refers to the increase or decrease in the fuel and purchased power cost portion of the approved Generation Charges for Luzon, Visayas and Mindanao as approved by the ERC in its Orders dated May 15, 2003, January 26, 2004 and June 9, 2005.

### 1.a. Fuel Cost

The changes in fuel cost were determined after taking into consideration the allowable fuel cost that should be recovered subject to the heat rate cap approved by the then Energy Regulatory Board (ERB) or actual heat rate, whichever is lower.

### 1.b. Purchased Power

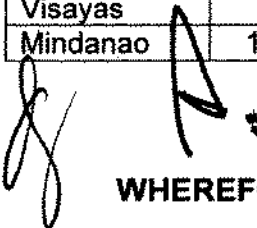
The changes in purchased power cost was determined after taking into consideration the eligible IPP contracts capped at PhP0.40/kWh for all grids for the test period January 2004 to September 2004.

### 2. Carrying Cost:

The resultant changes in fuel and purchased power costs were subject to carrying charges accruing during the period of deferment (January 2004 to September 2004).

Shown hereunder is the summary of the DAA for the Luzon, Visayas and Mindanao Grids, to wit:

Grid	Cost of Fuel and Purchased Power (PhP)	Carrying Charges (PhP)	Total DAA (PhP)
Luzon	39,410,149,699	11,111,694,092	12,013,690,616
Visayas	4,442,245,101	1,926,274,190	2,103,178,250
Mindanao	15,088,354,523	6,631,683,708	7,192,721,479

 **WHEREFORE**, the foregoing premises considered, the application filed by applicants National Power Corporation (NPC) and Power Sector Assets and Liabilities Management Corporation (PSALM) for the recovery of fuel and independent power producer costs under the Generation Rate Adjustment

Mechanism (GRAM) is hereby **APPROVED**. Applicants are hereby authorized to recover the DAA for the Luzon, Visayas and Mindanao Grids in the total amount and at the rate specified in the table below starting with respect to NPC's April 26 to May 25, 2005 billing period until the full amount shall have been recovered:

Grid	Total DAA (Php)	Php/kWh
Luzon	12,013,690,616	0.3048
Visayas	2,103,178,250	0.4734
Mindanao	7,192,721,479	0.4767

The DAA for Luzon, Visayas and Mindanao shall be added to the generation charges to be authorized under ERC Case No. 2004-178 (In the Matter of the Application for the Approval of the Proposed Generation Rates for Luzon, Visayas and Mindanao Grids with Prayer for Provisional Authority, National Power Corporation [NPC] and Power Sector Assets and Liabilities Management Corporation [PSALM], Applicants).

Relative thereto, applicants are directed to submit annual monitoring reports on the DAA recovery not later than the fifteenth (15<sup>th</sup>) day of March of each succeeding year.

SO ORDERED.

Pasig City, April 12, 2005.

  
RODOLFO B. ALBANO, JR.  
Chairman

  
OLIVER B. BUTALID  
Commissioner

  
JESUS N. ALCORDO  
Commissioner

  
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