

RULES FOR THE RECOVERY OF DEFERRED ACCOUNTING ADJUSTMENT FOR FUEL AND PURCHASED POWER COSTS AND INCREMENTAL FOREIGN CURRENCY EXCHANGE RATE BY THE NATIONAL POWER CORPORATION (NPC) AND NPC SMALL POWER UTILITIES GROUP (NPC-SPUG)

Provision	Proponent	Comment/s and Suggestion/s
<p>Title: Rules for the Recovery of Deferred Accounting Adjustment for Fuel and Purchased Power Costs and Incremental Foreign Currency Exchange Rate by National Power Corporation (NPC) and NPC Small Power Utilities Group (SPUG)</p>	<p align="center">NPC</p>	<p>The existing Basic Generation Rate of NPC duly approved by the ERC has two (2) distinct and separate components relating to costs from Independent Power Producers (IPPs) namely Purchased Power Cost and Actual Payment of Capacity Fees. Thus, it may be more reasonable to utilize term “Independent Power Producers (IPPs)” cost instead of “Purchased Power Costs”. This is likewise consistent with the terminology used in the GRAM IRR.</p> <p>Proposed Revised Title:</p> <p>Rules for the Recovery of Deferred Accounting Adjustment for Fuel and Independent Power Producer Costs and Incremental Costs on Foreign Currency Exchange Rate by National Power Corporation (NPC) and NPC Small Power Utilities Group (SPUG)</p>
<p align="center">ARTICLE I</p> <p align="center">GENERAL PROVISIONS</p> <p>These Rules shall have the following objectives:</p> <ul style="list-style-type: none"> a) To ensure the full recovery of all allowable fuel and purchased power costs of NPC and NPC-SPUG; 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; 	<p align="center">NPC</p>	<p>If the Cost Adjustment mechanism being contemplated in these Rules shall replace the GRAM and ICERA, should not the same be designed to allow reasonable and TIMELY recovery of allowable incremental costs or TIMELY refund of savings, if any?</p> <p>An annual basis of recovery or refund may create significant distortions in the rates as the rates may not be reflective of the current costs/exchange rates that vary on a daily and/or</p>

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<p>c) To protect the public interest as it is affected by the rates and services of NPC and NPC-SPUG; and</p> <p>d) To help maintain the security, reliability, and quality of the supply of electric power.</p>		<p>monthly basis and are beyond the control of NPC.</p> <p>Remarks:</p> <p>Consider a bandwidth in the movement of fuel & IPP costs and exchange rates within which NPC and NPC SPUG may be allowed to file either on a monthly, quarterly or at least, a semi-annual basis.</p> <p>As for NPC-SPUG, an upward adjustment in the Universal Charge for Missionary Electrification would assist NPC-SPUG maintain operations despite a one-year lag in the recovery of allowable incremental costs.</p>
<p align="center">Article II</p> <p align="center">Scope and Definition of Terms</p> <p>Section 2. Definition of Terms</p> <p>“Deferred Accounting Adjustment” or “DAA” shall refer to the component of the generation rate calculated in accordance with Section 2, Article III of these Rules, intended to recover the deferred allowable fuel and purchased power costs.</p>	<p align="center">PSALM</p>	<p>PSALM suggests to reword the definition of “DAA” as follows:</p> <p>“refer to the component of the generation rate calculated in accordance with Section 2, Article III of these Rules, intended to recover/refund the deferred/excess recovery of allowable fuel and purchased power costs and the deferred/excess recovery of foreign exchange costs on the principal component of foreign-currency denominated loans and on foreign-currency denominated operating expense.</p>

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	NPC	<p>DAA covers both allowable incremental fuel and purchased power costs AS WELL AS allowable incremental currency exchange rate.</p> <p>Suggestion:</p> <p><u>“Deferred Accounting Adjustment” or “DAA” shall mean the component..... purchased power costs <u>as well as allowable deferred costs on incremental currency exchange rate calculated under Section 2, Article 5.</u></u></p>
<p>“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.</p>	PSALM	<p>PSALM suggests to refer to DOE Circular No. 2006-06-0009 and ERC Resolution designating NPC and PSALM as DWS for the complete definition of DWS.</p>

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<p>“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.</p>	<p>MERALCO</p>	<p>The definition does not accurately portray the said arrangement, which in most cases, cover the entire power requirement (not just the supply imbalances) of DUs which are not direct WESM members.</p> <p>Suggested Definition:</p> <p>“DWS Arrangements shall refer to the arrangements between NPC/ PSALM and those distribution utilities which are not direct WESM members.”</p>
<p>Build-Rehabilitate-Operate-Transfer (BROT) Agreement” shall refer to an agreement entered into by and between the NPC and private corporation (Generator) for the development of an existing NPC power facility wherein the generator undertakes the rehabilitation and operation of the power facility and thereafter transfers its ownership to NPC after the cooperation period.</p>	<p>MERALCO</p>	<p>The definition states that the agreement shall refer to an agreement “between NPC and private corporation (Generator) for the development of ...”</p> <p>Must the other party in a BROT agreement (i.e., the private corporation) be a generator?</p> <p>Suggested Wording:</p> <p>“BROT Agreement shall refer to an agreement entered into by and between NPC and private corporation (Generator) for the development of an existing NPC power facility wherein the generator private corporation undertakes the rehabilitation and operation of ...”</p>

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<p>“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.</p>	<p>MERALCO</p>	<p>The definition mentions the intention “to balance the need for timely recoveries of costs by the utilities.”</p> <p>However, the statement did not mention the consideration that should be balanced with the need for timely recoveries of costs.</p> <p>ERC should supply the missing part of the sentence.</p> <p>Example: “... to balance the need for timely recoveries of costs by the utilities with the need for ERC to validate such costs.”</p>
<p>“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.</p>	<p>NPC</p>	<p>Will Special Sale Arrangements likewise cover other arrangements entered into by NPC with its customers, which are the subject of regulation under ERC Resolution No. 23 (Granting of Preferential Rates)?</p>
<p>“Eligible Independent Power Producers (IPP) Supply Contracts” shall mean power supply agreements entered into by NPC with IPPs under the Build-Operate-Own (BOO), Build-Operate-Transfer (BOT), Build-Rehabilitate- Operate-Transfer (BROT), Build-Transfer-Operate (BTO), Power Purchase (PPA), Energy Conversion (ECA), Rehabilitate-Operate-Lease (ROL) and Rehabilitate-Operate-Maintain-Manage (ROMM) Agreements prior to the enactment of RA No. 7638 or the Department of Energy Law and those agreements entered into after the enactment of RA No. 7638 but were duly approved by the then ERB or the ERC for inclusion in rate calculations.</p>	<p>NPC</p>	<p>The term “Eligible” under the EPIRA refer to IPPs supply contracts duly approved by the then ERB as of Dec. 31, 2000, thus qualify to be included in the calculation of Universal Charge Recovery for Stranded Contract Costs.</p> <p>The Rules should refrain from utilizing terminologies that may result to confusion or misunderstanding. Under the definition of AFC in Section 1, Article III. the phrase, “plants/contracts that are eligible for stranded contract cost recovery” was used which actually does not refer to the proposed definition under the Rules.</p>

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		<p>NPC suggests the use of the term Approved Independent Power Producers (IPP) Supply Contracts for DAA Recovery (not for Stranded Contract Cost Recovery) to refer to the proposed definition.</p> <p>This is likewise consistent with the definition of ACIF_{BOT} (and other components of the DAA formula) where term “approved BOT contracts” was used instead of eligible BOT contracts.</p>
<p>“Independent Power Producers (IPP) Supply Contracts Ineligible for Recovery” shall refer power supply agreements entered into by the NPC with the IPPs, which were not duly approved by the then ERB or by the ERC.</p>	<p align="center">NPC</p>	<p>NPC suggests the term Unapproved IPP Supply Contracts for DAA Recovery (not for Stranded Contract Cost Recovery) shall mean</p> <p>Please insert “for recovery” after the word “approved”</p>
<p align="center">Article III</p> <p align="center">Deferred Accounting Adjustment on Fuel and Purchased Power Costs of NPC</p> <p>Section 1. Allowable Deferred Fuel and Purchased Power Costs – The Allowable Deferred Fuel and Purchased Power Costs shall be calculated using the following formula:</p> <p>ADFPPC = DFC + DPPC + DFCI</p>	<p align="center">PSALM</p>	<p>Ancillary Services has no fuel or variable cost component, hence reference thereto should be deleted in “AFC”, “FCB”, “APPC”, and “PPCB”.</p> <p>Clarification:</p> <p>Does AFC include fuel costs incurred for plants/contracts that are eligible for stranded debts recovery?</p>

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<p>Where:</p> <p>ADFPPC = Allowable Deferred Fuel & Purchased Power Cost</p> <p>DFC = Deferred Fuel Costs calculated as follows:</p> <p style="padding-left: 40px;">AFC – FCB</p> <p>AFC = Allowable Fuel Costs shall refer to the absolute amount in pesos of fuel cost for the billing month subject to heat rate caps approved by the ERC. This includes Bunker, Diesel, Coal, Natural Gas & other fuel types. Steam cost shall form part of the allowable fuel cost but shall not be subject to any heat rate cap. The AFC excludes fuel costs incurred for electricity sold for Spot Sales, ODPS, Ancillary Services, DWS arrangements, and other special sale arrangements and fuel costs incurred for plants/contracts that are eligible for stranded contract costs recovery.</p>		
<p>Section I. Allowable Deferred Fuel and Purchased Power Costs</p> <p>Formula of DPPC:</p> <p>DPPC = Deferred Purchased Power Costs, calculated as follows:</p> <p style="padding-left: 40px;">APPC - PPCB</p>	<p align="center">NPC</p>	<p>Carrying charges should be part of the calculation to at least partly compensate the cost of money of either recovery or savings.</p>

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<p>APPC = shall refer to the absolute amount in pesos of purchased power cost for eligible Independent Power Producer (IPP) Supply Contracts during the test month. For the grids where WESM is operational, this excludes costs incurred for output sold for Spot Sales, ODPS, Ancillary Services, DWS arrangements and other special sale arrangements, power supply contracts that have not been approved by the ERC and purchased power costs incurred that are eligible for stranded contract costs recovery.</p>		<p>Suggestion:</p> <p>APPC = shall refer to the absolute amount power supply contracts that have not been approved <u>for recovery</u> by the ERC and the purchased power cost incurred that are eligible for the stranded contract cost.</p> <p>Extracting the fuel, purchase power related cost for each customer from the total fuel, power purchase related cost may not be feasible at the present system.</p>
<p>Section 1. Allowable Deferred Fuel and Purchased Power Costs</p> <p>Definition of AFC, FCB, APPC, PPCB</p> <p>AFC = Allowable Fuel Costs shall refer to the absolute amount in pesos of fuel cost for the billing month subject to heat rate caps approved by the ERC. This includes Bunker, Diesel, Coal, Natural Gas and other fuel types. Steam cost shall form part of the allowable fuel cost but shall not be subject to any heat rate cap. The AFC excludes fuel costs incurred for electricity sold for Spot Sales, ODPS, Ancillary Services, DWS arrangements, and other special sale arrangements and fuel costs incurred for plants/contracts that are eligible for stranded contract costs recovery.</p>	<p>MERALCO</p>	<p>Definition of AFC, FCB, APPC, PPCB</p> <p>The qualifier “absolute” in the phrase “absolute amount” could be misinterpreted as the mathematical operation of converting negative numbers to positive numbers.</p> <p>The qualifier “absolute” should be removed to avoid a possible confusion with the “absolute value” operator in mathematics</p>

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<p>FCB = shall be the absolute amount in pesos of fuel equivalent to the fuel cost component of the ERC approved rate (in PhP/kWh) multiplied by the corresponding energy sales from Transition Supply Contracts (TSCs) and other forms of supply for the billing period, excluding fuel recovery from Spot sales, TSC sales coming from power plants whose costs are eligible for stranded contract costs recovery, ODPS, Ancillary Service, DWS arrangements and other special sale arrangements.</p> <p>APPC = shall refer to the absolute amount in pesos of purchased power cost for eligible Independent Power Producer (IPP) Supply Contracts during the test month. For the grids where WESM is operational, this excludes costs incurred for output sold for Spot Sales, ODPS, Ancillary Services, DWS arrangements and other special sale arrangements, power supply contracts that have not been approved by the ERC and purchased power costs incurred that are eligible for stranded contract costs recovery.</p> <p>PPCB = shall mean the absolute amount of Purchased Power Cost equivalent to the Purchased Power Cost Component of the ERC approved rate (in PhP/kWh) multiplied by the corresponding energy sales from TSC and other forms of supply contract/agreements for the billing period excluding costs incurred from SPOT sales, TSC sales coming</p>		<p>Definition of FCB and PPCB:</p> <p>Section 3 of Article III of these Rules (Billing) state that “The DAA_t shall be billed by NPC only to sales corresponding to TSC transactions”.</p> <p>However, the definitions of FCB (page 4) and PPCB (page 5) state that the fuel cost in pesos per kwh shall be multiplied by the corresponding energy sales from Transition Supply Contracts (TSCs) and other forms of supply for the billing period.</p> <p>The phrase “and other forms of supply” should be deleted from the definitions of FCB and PPCB.</p> <p>Suggestion: Formula for FCB, PPCB</p> <p>The allocation of the resulting rate in P/kWh to its corresponding cost component was not clearly illustrated.</p> <p>For transparency of the accounting and allocating of allowable revenues and costs, a standard formula that would show how revenues were allocated to corresponding cost components should be included.</p> <p>The accuracy of the computation is crucial in the proposed recovery mechanism for DUs, since such adjustment affects the benchmark rate of the LCP provision in the annual filing.</p>

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<p>from power plants whose costs are eligible for stranded contract costs recovery, ODPS, ancillary Services, DWS arrangement and other special sale arrangements.</p>		<p>To ensure transparency, a standard formula should be included that would detail the rate computation.</p>
<p>AFC = Allowable Fuel Costs.....be subjected to any heat rate cap. The AFC excludes fuel costs for incurred for plants/contracts that are eligible for stranded contract costs recovery.</p>	<p align="center">NPC</p>	<p>As defined in Article II, Stranded Contract Cost of NPC shall refer to the excess of the contracted cost of electricity under eligible contracts of NPC over the actual selling prices of the contracted energy...xxxxx.....as of December 31, 2000.</p> <p>Contracted cost of electricity under eligible contracts of NPC basically covers capacity fees, fixed and variable O&M and other cost but not necessarily cost of fuel, which are mostly covered by separate and distinct contract arrangements with fuel suppliers. Though some IPP contracts cover fuel costs, not all IPP supply contracts eligible for UC-SCC calculations indeed cover fuel costs. Thus, if fuel costs shall not be fully covered by UC-SCC calculations, then, the exclusion of the same from DAA calculations under these Rules would result to under-recovery of allowable fuel costs by NPC. Fuel cost recovery under the GRAM is based on actual consumption and not based on “contracted costs”.</p>
<p>FCB = shall be the absolute amount in pesos of fuel equivalent to the fuel componentand other forms of supply for the billing period, excluding fuel recovery from Spot sales, TSC sales coming from power plants whose costs are eligible for stranded contract costs recovery, ODPS, Ancillary Services,</p>		<p>In order to attain reasonable exclude fuel recovery from spot sales, TSC sales coming from power plants whose costs are eligible for stranded contract costs recovery, ODPS, Ancillary Services, DWS arrangements and other special sale arrangements, there should be a timely detailed and reconciled available information on a per plant basis of the</p>

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DWS arrangements and other special sale arrangements.		<p>actual energy sales. Given the present situation and process of reconciliation of information between NPC, PSALM and the Philippine Electricity Market Corp. (PEMC), strict compliance with the Rules may not be feasible.</p> <p>The use of unreconciled figures may create more problems in calculations and billing settlements rather than solutions.</p> <p>Moreover, due to the network configuration of the Visayas Grid we in NPC are having difficulty in allocating TCS/CSEEs and other forms of supply contracts to each plant with the objective of avoiding discrimination of customers to the plants they would be allocated to.</p> <p>For Mindanao Grid, NPC is yet to formalize its policy on allocation of TSCs and other form of supply contracts to individual plants whether for purposes of privatization, basis of recovery of fuel , purchase power and foreign exchange currency cost relative to this proposed rules, among others.</p>
<p>ACIF_{BOT} = Actual Capacity and Infrastructure Fees.....excluding costs for electricity sold for spot sales, ODPS, Ancillary Services,....xxxx.</p>	NPC	<p>How do you reconcile actual payments Capacity and Infrastructure Fees per plant under BOT arrangements with costs for electricity sold in the spot market, ODPS, Ancillary Services, etc. etc.? There should be a more detailed component of the formula, which shall serve as basis for the reasonable determination of the required exclusions. The same concern for the BCIF_{BOT}</p>

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<p>Section 2. Deferred Accounting Adjustment on Fuel and Purchased Power Costs. The Deferred Accounting Adjustment shall be calculated based on the following formula:</p> $DAA_{FPPC} = \frac{ADFPPC + DAA_{FPPCt-1}}{T}$	<p>MERALCO</p>	<p>Symbol for projected TSC sales in the formula for DAA_{PFFC} and DAA_{ICER}</p> <p>On page 6, the formula uses “T” to represent the projected TSC sales, but the definition below the formula uses a different symbol, “T_{tsc}”.</p> <p>The symbol “T” in the formula for DAA_{FPPC} and DAA_{ICER} should both be changed to “T_{tsc}”.</p>
<p>Section 2. Deferred Accounting Adjustment. The Deferred Accounting Adjustment shall be calculated based on the following formula:</p> $DAA_{FPPC} = \frac{ADFPPC + DAA_{FPPC1 - 1}}{T}$ <p>Where:</p> <p>DAA_{FPPC} = New Deferred Accounting Adjustment on Fuel and Purchased Power Costs</p> <p>$ADFPPC$ = Allowable Deferred Fuel and Purchased Power Costs computed in accordance with the previous Section of these Rules;</p>	<p>NPC</p>	<p>DAA_T under Section 3 (BILLING) is not a component of the formula and should be revised accordingly to DAA_{FPPC}. The same goes to Section 3 of Articles 3, 4 and 5, replace DAA_T with the appropriate acronym.</p>

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<p>DAA_{t-1} = Remaining Balance of DAA coming from the previous applications excluding the DAA prior to the commercial operation of the WESM and duly approved by the ERC for recovery/refund and/or pending ERC approval.</p>		<p>The phrase “and/or pending ERC approval” should no longer be included. NPC believes that the last unfilled/unverified DAAs under the GRAM and ICERA shall have been duly approved by the ERC when NPC files its first DAA application under these Rules, which is still one year from the last filing of GRAM/ICERA as clearly provided for under Section 1, item 2 of Article VI (FILING).</p> <p>DAA_{FPPC-1} = Remaining Balance of DAA coming from the previous applications excluding the DAA prior to the effectivity of these Rules.</p> <p>This definition of DAA_{FPPC-1} is consistent with Section 1, Article VI (FILING) where the Rules require the filing of all unfilled and unverified DAAs prior to the effectivity of these Rules, which is definitely beyond the commercial operation of the WESM.</p> <p>The ERC should ensure that in the approval of the UC-SCC, allowable fuel and purchased power costs up to the last billing month prior to the effectivity of these Rules should not form part of the UC-SCC.</p> <p>Projected energy sales should be in accordance with the timeline under Article 6.</p>

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<p>T = For NPC, the projected TSC sales for the immediate succeeding year. For NPC-SPUG, it is the total projected energy sales for the immediately succeeding year.</p>		<p>T = For NPC, the projected TSC sales for the immediate succeeding year. For NPC-SPUG, it is the total projected energy sales for the immediately succeeding year. Projected energy sales period for both NPC and NPC-SPUG shall be in accordance with the timelines provided in Article 6 of these Rules.</p>
<p>Section 3. Billing – The DAA shall be billed by NPC only to sales corresponding to TSC transactions.</p>	<p>MERALCO</p>	<p>These Rules, which stipulate that the DAA shall be billed by NPC only to sales corresponding to TSC transactions, seem to contravene Paragraph 1 of ERC Resolution No. 37 Series of 2006, to wit:</p> <p><i>“The quantities on which the computation of the DAA for GRAM and ICERA will be made shall be on the metered load consumption in the WESM less the total amount of metered injections from generators other than those owned and operated by the NPC and its Independent Power Producers less the proportionate share of the said plants in the losses.”</i></p> <p>which effectively means that the DAA rates for GRAM and ICERA will be charged on the totality of NPC kWh sales, i.e. not just TSC sales but also including spot sales, DWS sales, and sales to special programs (Ecozone, Customer Choice, ODPS).</p> <p>Question: Would these Rules supersede paragraph 1 of ERC Resolution No. 37 Series of 2006?</p>

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SECTION 2 of both ARTICLES IV and V on DEFERRED ACCOUNTING ADJUSTMENT ON FUEL AND PURCHASED POPWER COSTS and INCREMENTAL CURRENCY EXCHANGE RATE	NPC	The definition of the components DAA_{FPPC-1} and DAA_{ICER-1} should be reconciled and made consistent and be clarified to only differ in terms of allowable costs for recovery/refund.
<p align="center">ARTICLE IV</p> <p align="center">DEFFERED ACCOUNTING ADJUSTMENT ON FUEL AND PURCHASED POWER COSTS FOR NPC-SPUG</p> <p>Section 1</p> <p>FCB/APPC – Cost Components of the ERC Approved Rate,PhP/kWh</p>	NPC-SPUG	As of date, NPC – SPUG has yet to receive neither cost component of the ERC approved rate (P/kWh) nor its confirmation on the adopted cost component used by NPC-SPUG on all other previous application.
Section 3. Billing – The DAA _t shall be billed by NPC-SPUG to all customers.	MERALCO	<p>The definition does not explicitly say that the DAA_t shall only be billed to the customers of NPC-SPUG.</p> <p>Suggested Wording:</p> <p>“The DAA_t shall be billed by NPC-SPUG to all its customers.”</p>

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<p align="center">ARTICLE V DEFERRED ACCOUNTING ADJUSTMENT ON INCREMENTAL CURRENCY EXCHANGE RATE FOR NPC & NPC SPUG</p> <p>Section 1. Allowable Deferred Costs on Incremental Currency Exchange Rate</p> <p>ADICER = Allowable Deferred Costs on Incremental Currency Exchange Rate.</p> <p>DS = Amount of principal foreign denominated obligation paid by NPC.</p> <p>OPEX = Amount of foreign currency B denominated OPEX paid by NPC.</p>	<p align="center">MERALCO</p>	<p>This section does not specify the energies on which the ADICER would be applied to.</p> <p>For transparency of the accounting and allocating of allowable revenues and costs, this section should specify energies that would be included and excluded. It should also provide for a standard formula on DS and OPEX that would show how the rate was arrived at.</p> <p>For transparency in allocation of revenues and costs and to guarantee that there will be no cross-subsidization, this section should specify the energies on which DS and OPEX would be applied to. It should also provide for a standard formula to illustrate the rate computation.</p>
<p>Section 1. Allowable Deferred Costs on Incremental Currency Exchange Rate</p>	<p align="center">NPC</p>	<p>Carrying charges should be part of the calculation to at least partly compensate the cost of money of either recovery or savings.</p> <p>Extracting the FOREX related cost for each customer from the FOREX related cost may not be feasible at the present system.</p>

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Provision	Proponent	Comment/s and Suggestion/s								
Section 3. Billing – For NPC, the DAA _t shall be billed to sales corresponding to TSC transactions. For NPC-SPUG, the DAA _t shall be billed to all customers.	MERALCO	Suggested Wording: “The DAA _t shall be billed by NPC-SPUG to all its customers.”								
<p>ARTICLE VI FILING</p> <p>Section 1. The application for recovery of the DAAs shall be governed by the following rules:</p> <p>The schedule for filing of all unfiled and unverified DAAs prior to the effectivity of these Rules shall be in accordance with the following:</p> <table border="1"> <thead> <tr> <th>Date of Filing</th> <th>NPC major Grid</th> <th>NPC-SPUG Geographical Location</th> <th>Test Period of Application</th> </tr> </thead> <tbody> <tr> <td>Not later than August 4, 2008</td> <td>Luzon</td> <td>Luzon</td> <td>All unfiled and unverified deferred costs until April 30, 2008</td> </tr> </tbody> </table>	Date of Filing	NPC major Grid	NPC-SPUG Geographical Location	Test Period of Application	Not later than August 4, 2008	Luzon	Luzon	All unfiled and unverified deferred costs until April 30, 2008	PSALM	PSALM suggests that the filing be done on a monthly basis, similar to the procedure before in implementing the FPCA, to ensure proper matching of costs and revenues, and facilitate calculation of unrecovered costs under the GRAM that are qualified for recovery under the Universal Charge for Stranded Debts (for IPPs that were approved by the ERC after December 31, 2000).
Date of Filing	NPC major Grid	NPC-SPUG Geographical Location	Test Period of Application							
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Provision	Proponent	Comment/s and Suggestion/s
<p align="center">ARTICLE VI FILING</p>	<p align="center">NPC</p>	<p>1. Given the proposed annual filing of applications, then the required submission of information on a “per quarter” basis under Section 2 (Reporting Requirements) should be accordingly removed. Unless otherwise, the proposed Rules shall require quarterly submission of supporting documents then the same should be made consistent for all items under Sections 2.1 and 2.2. Either way (annual or quarterly), the Rules should provided a timeline for the submission of data similar to the GRAM and ICERA IRR where applicants are required to submit documents and other pertinent supporting calculations on a monthly basis and submission are within a given timeline (e. g. on or before every 10th of the month).</p> <p>The Rules should clarify that the “quarter” it refers to is a three-month period and not a strict calendar quarterly period given the required coverage of applications provided in Section 1 of Article 6. (Luzon – May 1 of the previous year to April 30 of the current year; Visayas – July 1 of the previous year to June 30 of the current year; Mindanao – September 1 of the previous year to August 31 of the current year)</p> <p>2. For Section 1 number 3, please add “as amended” to the statement “Section 4(e), Rule 3 of the Act” considering that the same was amended as circulated by the Department Of Energy (DOE) pursuant to their mandate under EPIRA which was dated June 21, 2007. Since the Rule is intended to replace the GRAM & ICERA, which are both considered “adjustment mechanisms or escalator clauses” and not a general rate application, the intention</p>

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Provision	Proponent	Comment/s and Suggestion/s
		<p>of the amended Section 4 (e), Rule 3 shall apply.</p> <p>3. Given the amendment of Section 4 (e), Rule 3 of the EPIRA IRR, NPC’s recovery of allowable incremental fuel and purchased power costs and allowable incremental costs on foreign currency exchange rates starting the effectivity of the amendment, are now strictly based on the GRAM and ICERA IRR duly approved by the ERC in its Order dated February 23, 2004 (ERC Case No. 2003-44) where applications shall have been approved within 45 days from application else, the application is deemed approved in full. These Rules is silent of the timeline for the approval of the last GRAM and ICERA applications.</p> <p>4. Should these Rules become final as it is written particularly of the required compliance with (amended) Section 4 (e), Rule 3 of the EPIRA IRR, the following concerns should be clarified/resolved:</p> <ul style="list-style-type: none"> a. Recovery of incidental costs resulting from the required publications, copy furnishing, other costs relative to the separate filing per grid. b. Preparation of required documents and details support for annual DAA application may become a problem for NPC and NPC-SPUG considering that the current timeline for financial statement preparations are not in accordance with the given timeline for the proposed test period coverage under the Rules.

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Provision	Proponent	Comment/s and Suggestion/s												
		<p>5. As proposed under the Rules, NPC and NPC-SPUG shall be able to file its first DAA applications as follows:</p> <table border="0"> <tr> <td>Power Grid</td> <td>Date of Filing</td> <td>Test Period of Application</td> </tr> <tr> <td>Luzon</td> <td>First week of Aug. 2009</td> <td>May 1, 2008 to April 30, 2009</td> </tr> <tr> <td>Visayas</td> <td>First week of Oct. 2009</td> <td>July 1, 2008 to June 30, 2009</td> </tr> <tr> <td>Mindanao</td> <td>First week of Dec. 2009</td> <td>September 1, 2008 to Aug. 31, 2009</td> </tr> </table> <p>Given the required 75-day grace period for issuance of Provisional Authority (PA), NPC and NPC-SPUG is looking into a much later date for the recovery of allowable incremental costs or refund of savings. Furthermore, these timelines for DAA applications would be significantly affected by the Privatization of NPC in the next 2-3 years. Thus, there should be a provision relating to the Privatization of NPC.</p>	Power Grid	Date of Filing	Test Period of Application	Luzon	First week of Aug. 2009	May 1, 2008 to April 30, 2009	Visayas	First week of Oct. 2009	July 1, 2008 to June 30, 2009	Mindanao	First week of Dec. 2009	September 1, 2008 to Aug. 31, 2009
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Provision				Proponent	Comment/s and Suggestion/s																
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Date of Filing	NPC major Grid	NPC-SPUG Geographical Location	Test Period of Application																		
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<p>2. Subsequent filings shall be done on an annual basis in accordance with the timelines provided herein:</p> <table border="1"> <thead> <tr> <th>Date of Filing</th> <th>NPC major Grid</th> <th>NPC-SPUG Geographical Location</th> <th>Test Period of Application</th> </tr> </thead> <tbody> <tr> <td>Not later than August of the current year</td> <td>Luzon</td> <td>Luzon</td> <td>May 1 of the previous year to April 30 of the current year.</td> </tr> <tr> <td>Not later than the first week of October of the current year</td> <td>Visayas</td> <td>Visayas</td> <td>July 1 of the previous year to June 30 of the current year.</td> </tr> <tr> <td>Not later than the first week of December of the current year</td> <td>Mindanao</td> <td>Mindanao</td> <td>September 1 of previous year to August 31 of the current year.</td> </tr> </tbody> </table>				Date of Filing	NPC major Grid	NPC-SPUG Geographical Location	Test Period of Application	Not later than August of the current year	Luzon	Luzon	May 1 of the previous year to April 30 of the current year.	Not later than the first week of October of the current year	Visayas	Visayas	July 1 of the previous year to June 30 of the current year.	Not later than the first week of December of the current year	Mindanao	Mindanao	September 1 of previous year to August 31 of the current year.		
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Provision	Proponent	Comment/s and Suggestion/s
<p align="center">GENERAL COMMENTS</p> <p>Filing</p>	<p align="center">MERALCO</p>	<p>The annual adjustment does not only delay the recovery of costs but also deprives NPC of providing the correct pricing signal to its customers.</p> <p>The proposed rules on deferred accounting adjustment for fuel and purchased power costs and incremental foreign currency exchange rate runs counter to the intent for an automatic cost recovery mechanism and negates the amendment to Section 4e of the IRR of the EPIRA, which exempts selected cost-recovery mechanisms from pre-filing and hearing requirements.</p> <p>In order to minimize potential under/over recoveries on the part of the DUs, the implementation of the two recovery mechanisms should be synchronized.</p> <p>MERALCO propose a monthly adjustment for the deferred accounting adjustment for fuel and purchased power costs and incremental foreign currency exchange rate, as the annual fixing of rates sends the wrong pricing signals to customers and creates artificial price stability.</p>
<p>Carrying Costs</p>	<p align="center">MERALCO</p>	<p>Similar to the “Rules on Consolidated Annual Filing for DUs for the Recovery of Various Pass-Through Costs”, these Rules do not provide for the recovery of Carrying Costs</p> <p>If a provision on Carrying Costs would be included, for consistency and fairness the rate should be the same as that applied to DUs under the “Rules on the Consolidated</p>

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Provision	Proponent	Comment/s and Suggestion/s
		Filing of DUs for the Recovery of Various Pass-Through Costs”
Provision for Privatization of NPC Plants	MERALCO	<p>If the projected TSC sales (the denominator in the DAA formula [Sec. 2, Art. III]) were not attained due to privatization of NPC plants, would the resulting differential DAA amount be recoverable in the succeeding application by NPC?</p> <p>Section 2 of Article III should include a provision or paragraph that will provide the mechanism for adjusting the DAA rates to account for the privatization of NPC plants</p>
Consistency of Period Descriptors	MERALCO	<p>For some variables (AFC, APPC) the period covered is a specific “billing month” or “test month”, while for other variables (FCB, PPCB) the period covered is a generic “billing period”.</p> <p>For the avoidance of doubt, the period descriptors for the co-related variables in these “Rules” should be made uniform.</p>
Mismatch of time periods for costs (month) and energies (year)	MERALCO	<p>The costs for AFC are those “for the billing month”, while for APPC are those “during the test month”. However the divisor of such costs T_{tsc} and T, both refer to energy sales “for the immediately succeeding year”.</p> <p>The period covered by the costs for AFC and APPC should be the same as the period covered the corresponding energy sales (T_{tsc} or T).</p>

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Provision	Proponent	Comment/s and Suggestion/s
Conversion of Foreign Currencies to Philippine Pesos	MERALCO	<p>The definition of ACIF_{BOT} describes the actual capacity and infrastructure fees as being expressed in Philippine pesos. This begs the question what exchange rates were used to convert the foreign currencies to Philippine pesos.</p> <p>Article III should contain specific provisions (similar to those provided in Article V) that will specify the exchange rates (e.g., the monthly average rate from the Philippine Dealing System) that NPC and NPC-SPUG must use in converting foreign currencies to Philippine pesos for the variable ACIF_{BOT}.</p>
Additional Comments	MERALCO	<p>Is the environment conducive for stable generation rates?</p> <ol style="list-style-type: none"> 1. While having stable power rates is desirable, we have to examine whether such is applicable in the context of the environment under which generation companies, including NPC, is operating. Cost of generation is influenced by factors beyond the control of the generating company and for which it should be allowed to adjust its prices in a timely manner. 2. We have seen significant movements in these factors recently. The peso has appreciated considerably. On the other hand, crude oil prices have reached \$100 per barrel, pulling upwards the prices of other fuels as natural gas which are also indexed to crude oil prices. The unprecedented demand for coal worldwide has caused its price to more than double in the world market.

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Provision	Proponent	Comment/s and Suggestion/s
		<p>3. Since these are factors beyond the control of the generation company, adjustment mechanisms are typical in IPP contracts, including contracts that have been approved by ERC and its predecessor for distribution utilities and NPC.</p> <p>Will it provide timely pricing signals?</p> <p>Thus, for DUs with direct IPP contracts, these developments are reflected in a timely manner to the DUs and their customers. Such is not the case with NPC under the current GRAM and ICERA, which are deferred recovery mechanisms. Current levels of the GRAM and ICERA only reflect NPC's costs until June 2006, prior to WESM commercial operations. The pricing signals to NPC's customers are thus delayed by around 1 and ½ years, a situation that is not addressed but will further be reinforced under the proposed rules on yearly filing.</p> <p>Are the pricing signals accurate?</p> <ol style="list-style-type: none"> 1. Deferred recovery mechanisms, as such, have resulted to artificial price levels on the part of NPC. Its purchases at the coal spot market since July 2006 are not yet reflected in the current GRAM level. Also, the appreciation of the peso since then, with its positive impact on the cost of the IPP contracts, is still to be factored in. 2. To compare NPC's price with that of IPPs selling directly to DUs would not be an apples-to-apples

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		<p>comparison. Under the ERC-approved contracts with the DUs, the IPPs reflect the actual cost of fuel in the invoices that they send each month to the DUs. In the case of NPC, it can take over a year before such costs can be reflected in NPC’s rate.</p> <p>3. The delayed reflection of costs is not consistent with the objective of having a spot market for electricity which signals to buyers the actual cost of generation even at different hours of the day, including costs that are attributed to transmission constraints.</p> <p>4. Thus, NPC’s artificial pricing does not make it an appropriate benchmark for determining “prudent” purchases by the DU, as is currently being proposed in the draft rules for the consolidated filing of DUs.</p> <p>Other Comments:</p> <p>1. The proposed annual adjustment of deferred accounting adjustment for fuel and purchased power costs and incremental foreign currency exchange rate runs counter to the intent for an automatic cost recovery mechanism and negates the amendment to Section 4e, Rule 3 of the IRR of the EPIRA, which exempts selected cost-recovery mechanisms from pre-filing and hearing requirements.</p> <p>2. Similar to the “Rules on Consolidated Annual Filing for DUs for the Recovery of Various Pass-Through Costs”, these Rules do not provide for the recovery of carrying costs.</p> <p>For consistency and fairness, a provision for carrying costs should be included and the rate that will be</p>

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Provision	Proponent	Comment/s and Suggestion/s
		<p>applied to NPC should be the same as that to be applied to DUs.</p> <p>3. If the projected TSC sales (the denominator in the DAA formula) were not attained due to privatization of NPC plants, the recovery of the DAA amount will be affected.</p> <p>Section 2 of Article III should include a provision or paragraph that will provide the mechanism for adjusting the DAA rates to account for the privatization of NPC plants.</p> <p>4. The draft Rules, which stipulate that the DAA shall be billed by NPC only to sales corresponding to TSC transactions, seem to contravene Paragraph 1 of ERC Resolution No. 37 Series of 2006, which effectively provides that the DAA rates for GRAM and ICERA will be charged on the totality of NPC kWh sales, i.e. not just TSC sales but also including spot market sales, DWS sales, and sales to special programs (Ecozone, Customer Choice, ODPS).</p> <p>MERALCO respectfully submitted that the proposed rules be reviewed in the context of the privatization of NPC plants and contracts as prescribed in the EPIRA which would remove, except possibly for the island grids, the entire generation sector from price regulation.</p> <p>It is respectfully proposed that, given this eventual scenario, the Commission move towards this desired end by providing</p>

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Provision	Proponent	Comment/s and Suggestion/s
		the environment wherein market instruments (futures, long-term contracts, hedges) that may ensure price stability can thrive.
	NPC	Include definition for the following terminologies: 1. Transaction Date 2. Test Period (clarify whether its current month to current month or a one-month/two-months lag) 3. Other forms of supply contracts e. g. Contract for Supply of Electric Energy (CSEE)
Recovery Period	NPC-SPUG	If the rules categorically allows SPUG to recover its adjustments in 1 year , please note that the divisor to be used in the computation of the adjustment will be the projected energy sales for the immediate succeeding year , it is fine with NPC – SPUG who has yet to recover cost adjustments from the following period: 1) Fuel 1. January to December 2005 - Case filed but on deferred. 2. January 2006 to December 2007 - for filing 2) FOREX 1. January – December 2005, awaiting ERC resolution on the case 2. January 2006 to December 2007 – for filing

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		<p>3) Purchased Power Cost</p> <p>Cost recovery on adjustment are held in abeyance due to non availability of ERC approved PPA</p> <p>If not, how long will it takes for SPUG to recover the adjustments if the application covers the period stated above? <i>Please take note of the cased between NPC-SPUG vs. MARELCO.</i></p>
Heat Rate Caps	NPC-SPUG	To update the currently ERC approved heat rate caps.
	AES	<ol style="list-style-type: none"> 1. Rates can be very volatile if the supply contracts are unevenly allocated among the renewable and non-renewable sources of energy and eligible IPP contracts. 2. The Universal Charge for SCC and SD mechanisms should not be utilized to recover NPC's other reasonable costs. 3. Does the recovery mechanism consider the costs incurred for ancillary services, market fees, line rentals, and transmission costs, if any? 4. Clarification if carrying costs are included in the cost recovery mechanism to recover the financing costs associated with the deferred recoveries. 5. There is no provision for over/under recovery.

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