

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

**IN THE MATTER OF THE APPLICATION
FOR THE APPROVAL OF THE MAXIMUM
ALLOWABLE REVENUE FOR CALENDAR
YEAR 2011 (MAR₂₀₁₁) AND THE
PERFORMANCE INCENTIVE SCHEME
(PIS) COMPLIANCE IN ACCORDANCE
WITH THE ALTERNATIVE FORM OF RATE
SETTING METHODOLOGY UNDER THE
RULES FOR SETTING THE
TRANSMISSION WHEELING RATES, WITH
PRAYER FOR PROVISIONAL AUTHORITY**

ERC Case No. 2010- 152RC

**NATIONAL GRID CORPORATION OF THE
PHILIPPINES,**

Applicant

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APPLICATION

Applicant **NATIONAL GRID CORPORATION OF THE PHILIPPINES** (NGCP),
by counsel, to this Honorable Commission, respectfully states that:

1. NGCP is a corporation created and existing under the laws of the Philippines, with principal office address at NGCP Building Quezon Avenue corner BIR Road, Diliman, Quezon City. It is the corporate vehicle of the consortium which was awarded the concession to assume the power transmission functions of the National Transmission Corporation (TRANSCO) pursuant to Republic Act No. 9136, otherwise known as the Electric Power Industry Reform Act of 2001 (EPIRA).

2. Under Republic Act No. 9511, entitled: *“An Act Granting the National Grid Corporation of the Philippines A Franchise to Engage in the Business of Conveying or Transmitting Electricity Through High Voltage Back-bone System or Interconnected Transmission Lines, Substations and Related Facilities, and For Other Purposes,”* NGCP was granted a franchise to construct, install, finance, manage, improve, expand,

operate, maintain, rehabilitate, repair and refurbish the present nationwide transmission system of the Republic of the Philippines.

3. On 15 January 2009, NGCP assumed transmission functions of TRANSCO including the operation, management and maintenance of the nationwide electrical grid.

STATEMENT OF THE CASE

4. On 22 September 2009, the Honorable Commission implemented the Rules for Setting the Transmission Wheeling Rates (RTWR), which provides for the methodologies to be used by NGCP in setting its transmission wheeling rates.

5. Following the methodology provided under Article VII thereof, on 18 December 2009, NGCP filed an Application¹ for the approval of its maximum annual revenue for its third regulatory period (2011-2015) docketed as ERC Case No. 2009-180RC. Pursuant to the RTWR, the Honorable Commission issued a Final Determination in the said case in a Decision dated 22 November 2010, where NGCP's unsmoothed MAR for CY2011 was determined at Php44,647.91Mn.

6. This Application is filed for the approval of the translation of the said unsmoothed MAR into NGCP's regulated transmission rates to be charged to its customers from 26 December 2010 to 25 December 2011, in accordance with the methodology provided in Article VI of the RTWR.

7. NGCP respectfully submits the following financial and demand information for the 12-month period ending August 2010, together with the required economic values for Consumer Weighted Index (CWI) computed for the four (4) quarters ending August 2009 and August 2010.

¹ In the Matter of the Application for the Approval of the Maximum Annual Revenue for the Third Regulatory Period (2011 to 2015) of the National Grid Corporation of the Philippines (NGCP) During the Regulatory Reset Process for the Third Regulatory Period in Accordance with the Alternative Form of Rate Setting Methodology under the Rules in Setting the Transmission Wheeling Rates (RTWR);

TIMELINESS OF THE FILING OF THE APPLICATION

8. In the abovementioned Decision², the Honorable Commission directed NGCP to file an application for the approval of the MAR for the Calendar Year 2011 in accordance with the Alternative Form of Rate Setting Methodology under the RTWR on or before 17 December 2010.

DISCUSSIONS

9. **The Formula.** NGCP in computing the MAR_{2011} adopts the formula in Section 5.2.3 of the RTWR which provides that: “following a public consultation process, the formula in Section 4.2.1 shall be changed to the following for the Third Regulatory Period, relying upon the definitions of terms provided in that Section 4.2.1, unless further amended by the ERC following due process:

$$MAR_t = [MAR_{t-1} \times \{1 + CWI_t - X\}] - K_t”$$

Where:

MAR_t	Maximum allowable revenue of application year or MAR_{2011} ;
MAR_{t-1}	Maximum allowable revenue of last year or MAR_{2010} ;
CWI_t	Change in weighted index;
X	Productivity of efficiency factor; and
K_t	Over or under recovery of revenue.

9.1. **CWI Computation.** The CWI of 0.265% is computed based on Section 12.9.1 of the RTWR assigned values of 0.455 and 0.545 for the WI and W2, respectively. This is applied as the exchange rate trigger condition appears to have occurred. The detailed computation of the CWI_t is hereto attached as **Annex “A”**.

9.2. **X Factor.** In Section 7.6.1 of the Final Determination, the Honorable Commission set the revenue smoothing of X factor at three percent (3%) in positive value whole Third Regulatory Period (2011 to 2015).

² Page 40;

9.3. **K_t Computation.** In Table 3.11 of Section 3.12.2 of the Final Determination, the Honorable Commission allowed NGCP to recover up to PhP2,529.45Mn as five percent (5%) carry-over threshold of allowable under-recoveries of the residual under-recoveries estimated by the Honorable Commission at PhP50,588.97Mn.

9.4. NGCP would like to note that Section 4.3.2 in relation to Section 5.3.5 of the RTWR which provides among others that K_t if this is a negative amount; the carry-forward K_t shall be limited to the 5% of the MAR of the last Regulatory Year of the previous Regulatory Period. In this case, the MAR for the last Regulatory Year of the Second Regulatory Period is PhP58,622.97Mn. Thus, the 5% carry-forward under-recovery should be at PhP2,931.15Mn.

9.5. In the computation of the K_t , NGCP adopts the formula provided in Section 5.3.3 of the RTWR which provides:

$$TR_{t-1} = CR_{t-1} + MR_{t-1} + RBR_t$$

Where:

RBR_t A portion (expressed in PhP) of the net income derived, during the 12 month period ending on 30 September in Regulatory Year t-1, from each related business engaged in by the Regulated Entity or (if the Regulated Entity does not include TransCo) by TransCo, which business utilizes assets that form part of the regulatory asset base (see Section 4.6.8), being a portion that is determined by the ERC pursuant to Section 20 of the EPIRA and that may vary as between such businesses but which, for each such business, does not exceed 50% of the net income that is so derived from that business.

9.6. For the RBR_t , NGCP proposes the amount of PhP7.44Mn representing 50% of its reported revenue from co-location and rental of equipment.

9.7. Some of these revenues are derived from rental and joint pole attachment to specific sub-transmission facilities. NGCP excluded the amount of the revenues received from the provision of technical services in the computation K_t .

9.8. Section 5.3.4 of the RTWR prescribed that the K_t shall be subject of an interest rate adjustment (i_t) equivalent to the simple average of the monthly 180 day weighted-average Manila Reference Rate (MRR_{Aug}) in nominal percent per annum terms published by the Banko Sentral ng Pilipinas.

9.9. Thus, the amount of K_t to be considered in the computation of the MAR_{2011} is proposed at (PhP2,523.78) (negative value). The Revenue Under Recovery Computation is hereto attached as **Annex "B"**.

10. Following the price control formula, values and parameters, NGCP proposes a MAR_{2011} of PhP46,285.00Mn.

Table A. Computation of the MAR_{2011} .

Particulars	Values and Parameters	
MAR_{t-1} PhP, Mn	44,991.45	Effective MAR2010, Order dated 19 January 2010 (ERC Case No. 2009-160)
CWI_t %	0.265	Annex A
X %	3	Final Determination, Section 7.6.1
K_t	(2,523.78)	Annex B
MAR_{2011}	46,284.90	Price Control Formula, Section 5.3.3 of RTWR

Note: Amount may not total due to rounding.

11. NGCP respectfully submits its actual and forecast financial data and demand (kW) for the 12-month period ending August 2009 and for the 12-month period ending August 2010, respectively. The Actual and Forecast Demand Data is hereto attached as **Annex "C"**.

RECOVERY OF PROPOSED MAR_{2011}

12. **Customer Segments.** Following the Honorable Commission's Order dated 2 August 2006 in ERC Case No. 2005-041RC, NGCP adopts the three-customer segments, namely: Luzon, Visayas and Mindanao. The customers in these three (3)

major grids will be billed with different power delivery service rates designed and computed based on the ERC-approved OATS Rules.

13. **Compliance with Side Constraints Limitations.** Section 6.4 of the RTWR provides that: “the maximum transmission wheeling rates that may be charged by the Regulated Entity for the provision of Regulated Transmission Services during an Application Year to a Customer Segment (k) must comply with the following condition:

$$FCR_{k,t} / CR_{k,t-1} \leq (1 + CWI_t + SC_t) \times FQ_{k,t} / AQ_{k,t-1}$$

Where:

FCR_{k,t}	the total amount forecast to be billed to all Customers in Customer Segment k for the provision by the Regulated Entity, during the Forecast Period, of Regulated Transmission Services, as provided under Section 6.3.3 (c);
CR_{k,t-1}	the total amount billed to all Customers in Customer Segment k for the provision by the Regulated Entity, during the Historical Period, of Regulated Transmission Services, as provided under Section 6.3.2(a);
“ ≤ ”	less than or equal to;
SC_t	the Side Constraint for Regulatory Year t, xxx

13.1 In the determination of NGCP’s compliance with the Side Constraint, NGCP adopts the Honorable Commission interpretation of the term Forecast Period as “...the Forecast Period is taken to be re-defined as the Application Year, which is a calendar year”, embodied in the Orders dated 13 June 2006, 24 August 2006, 14 December 2006 and 2 February 2007, in ERC Case No. 2006-041RC.

13.2 Also, in page 5 of paragraph 1.4 of the Final Determination, the Honorable Commission set the side constraint at CPI of two percent in positive value (+2%).

Table B. Compliance with Side Constraint

Customer Segment	Total forecast to be billed during period ending 31 Aug. 2011 (P,Mn) ³	Total amount billed during period ending 31 Aug. 2010 (P,Mn) ⁴	Side constraint calculation	Side constraint Limitation	Proposed MAR ₂₀₁₁
Luzon	33,540	31,518	1.0642	1.0865	33,856
Visayas	5,822	5,497	1.0592	1.1123	5,877
Mindanao	6,491	6,131	1.0587	1.0820	6,552
Total	45,854	43,146	1.0628	1.0889	46,285

Note: Amount may not total due to rounding off.

The Side Constraint Computation is hereto attached as **Annex "D"**.

13.3 It can be observed that the forecast collection of PhP45,854.00Mn for the 12-month period ending August 2011 will not breach the Side Constraint Limitation.

13.4 The calculation of the side constraint excluded the impact of the Intra-Regional Grid Cross Subsidy Charge, which was totally phased-out as of 26 September 2005, and no billing or collection from these charges were made during the application year.

13.5 As provided in Clauses F(AI)2.2 and F(AI)3.2 of the OATS Rules, NGCP, in the computation of the Side Constraint Condition, used the current definition of billing determinant as "*average of the 12 monthly non-coincident peak in kW measured in fifteen (15) minute intervals*". In terms of implementation, this refers to the rolling average of the customers' 12 monthly peaks (kW).

14 **Indicative Rate.** Using the forecast demand (kW), Table C below shows the indicative rates of the proposed MAR₂₀₁₁.

Table C. Indicative Rates

Particulars	PMn	Indicative Average P/kW	Inc (Dec)	
			P/kW	%
ERC-approved Effective MAR ₂₀₁₀	44,991.45	366.92		
MAR ₂₀₁₁	46,284.90	361.76	(5.16)	(1.4)

³ 4/12 of Effective MAR₂₀₁₀ of P44Bn plus 8/12 of computed MAR₂₀₁₁ of P46Bn;

⁴ Total collections for the 12-month ending August 2010 of P43Mn, net of FME around of 190M and PIS of 111Mn;

15 **Regulated Transmission Services.** NGCP, consistent with the provisions Final Determination and the OATS Rules, shall continuously recover the MAR for CY 2010 through charges on the following Regulated Transmission Services:

- Power Delivery Service Charge (PDS)
- System Operator Charge (SOC)
- Metering Service Provider Charge (MSPC)

15.1 The System Operations (SO) and Metering Services Provider (MSP) tariffs or rates are designed and computed using the pertinent provisions of Module F: Rates, Methodology, Billing and Settlement of the Revised OATS Rules.

15.2 Consistent with the OATS Rules, the Power Delivery Service (PDS) charge per customer segment shall be an allocation of the Honorable Commission's approved MAR_t, after deducting the derived revenue from System Operator and Metering Services Provider charges. The PDS rate shall be determined on a monthly basis, taking into consideration the actual total billing determinants.⁵

15.3 For CY 2011 NGCP shall bill customers with the following System Operator and Metering Service Provider charges:

System Operator Charge for CY 2011

FIRM (P/kW-mo.)	NON-FIRM (P/kW/day.)
17.10	0.5622

Note: Non-firm rate is computed as Firm rate x (12months/365 days).

Metering Service Provider Charges for CY 2011

Particular	P/month for each metering point/per month
Common Metering Charge	2,297.00

Voltage Delivery, KV	First Metering Point Charge ⁶ (PhP/month)	Second up to Last Metering Point Charge ⁷ (PhP/month)
500/230	25,140	9,866
138/115	15,818	9,800
69/67	10,503	4,150
34.5/23	2,544	534

⁵ Billing Determinants shall refer to the rolling 12-month non-coincident peak of the customers;

⁶ First Metering Points: For metering facilities fully provided by NGCP;

⁷ Second up to last Metering Point: For metering facilities not fully provided by NGCP;

13.8	1,182	478
Below 13.8	384	224

Note: The computed charges are rounded to the nearest pesos.

15.4 The parameters and values used in the calculation for the System Operator (SO) Charges and Metering Service Provider (MSP) Charges are hereto attached as **Annexes “E” and “F”**, respectively. The proposed 2011 SO and MSP Charges are comparatively lower than the 2010 SO and MSP Charges.

16 **Performance Incentive Computation.** Consistent with the Performance-Based Regulation of NGCP provided in the RTWR and the Final Determination, NGCP proposes a net performance incentive of Php322.00Mn to be billed in CY 2011.

16.1 The PIS is based on the RTWR and most explicitly anchored in the ERC's Final Determination for the Third Regulatory Period where the Commission state that 'The actual reward or penalty will be determined during the annual rate adjustment process...'⁸

16.2 The summary of the incentives and penalties are provided in the table below:

Table C. Summary of Performance Incentive Scheme(PIS)

Indices	Luzon		Visayas		Mindanao		Phils
	I/P/D	Amount P,Mn	I/P/D	Amount P,Mn	I/P/D	Amount P,Mn	Amount P,Mn
SISI	I	83	D	0	D	0	83
FOT	I	107	I	63	I	49	219
SA	D	0	I	44	I	12	56
FLC	D	0	D	0	P	(44)	(44)
VLC	D	0	D	0	I	8	8
Total	I	190	I	107	I	25	322

Legend: I – Incentive; P – Penalty; D – Deadband

Note: Amount may not total due to rounding off.

16.3 The PIS rewards or penalizes NGCP to the extent that the actual level of performance of the grid or the regulated entity for a regulatory year exceeds or

⁸ Paragraph 1, page 9 of the Final Determination dated November 22, 2010;

fails the target levels of performance of the grid or the regulated entity as defined in the Final Determination.

16.4 The computed sum of the net incentives of PhP322.00Mn is below the maximum reward of PhP1,322.37Mn defined in Clause 1.7, Chapter 1 of the Final Determination. NGCP's 2010 Net Performance Incentive Calculation is hereto attached as **Annex "G"**.

16.5 In this Application, NGCP, consistent with its previous applications on the PIS Adjustments, computed the limits of the rewards or penalties with reference to the three percent (3%) of the annual revenue requirement (ARR) of the Application Year.⁹ Accordingly, the ARR for CY 2011 of P44,647.91¹⁰ was used in the computation.

16.6 Notably, NGCP exceeded the indices set by the Honorable Commission and thus is entitled to the said incentives which is greatly attributable to the efforts of its employees.

17 **Actual and Forecast Financial and Operational Data.** Sections 6.3.2 and 6.3.3 require NGCP to provide a range of information to demonstrate its compliance with its MAR. The Actual Financial and Operational Data is hereto attached as **Annex "H"** and the Forecast Financial and Operational Data is hereto attached as **Annex "I"**. NGCP forecasts that it intends to earn the MAR given the methodology outlined in the OATS Rules and its current demand forecasts.

18 **Other Parameters.** Section 6.5 of the RTWR requires NGCP to demonstrate its compliance with the following:

18.1 NGCP is fully compliant with the Honorable Commission's Orders dated 26 June 2002 and 20 September 2002 in ERC Case No. 2001-901, in so far as such Orders are not inconsistent with the OATS Rules.

⁹ The regulatory year that immediately follows the calculation year;

¹⁰ Table 7.4, page 134 of the Final Determination (dated June 13, 2006), ERC Case No. 2005-041 RC.

18.2 Honorable Commission's Issuances in relation to system losses.

Consistent with the Honorable Commission's Orders in ERC Case Nos. 2001-901, 2002-253 and 2005-041RC, NGCP has adopted the same methodology for the treatment of system losses or loss factors as defined in the OATS Rules as they affect the data presented in this Application.

19 **Management Approval.** The filing of the instant Application has been approved by NGCP's Board of Directors on 7 December 2010. A copy of the Secretary Certificate dated 8 December 2010 is hereto attached as **Annex "J"**.

20 The proposed MAR₂₀₁₁ and PIS were designed and developed in accordance with the provisions of the RTWR and other pertinent issuances of this Honorable Commission for a fair and reasonable transmission rates that will serve the public interest and convenience and signals the efficient utilization of transmission facilities that will ultimately redound to the best interest and benefit of the public.

**ALLEGATIONS IN SUPPORT OF THE APPLICATION
FOR PROVISIONAL AUTHORITY**

21 Applicant restates the foregoing allegations insofar as they may be applicable hereunder and further states that:

22 The RTWR expressly provides under Clause 6.2.1 (f) the following:

a. That once ERC is satisfied that the rates comply with the requirements of the RTWR and OATS Rules, the Regulated Entity must implement those rates with effect from December 26 of the Calculation Year.

b. That should the ERC be not satisfied that the rates do comply with the RTWR and OATS Rules, there will be a necessity of amending the proposed rates and the Regulated entity must implement the amended rates by 15 days after the ERC gives direction but not earlier than 26 December of the Calculation Year.

23 The timely implementation of the rate/tariffs changes will allow the equal or even spread of the increases or decreases in tariffs for the 12-month billing periods.

Should the rates be an increase, a delay of one, two, three months or more will bring about a significant and abrupt increase in the rates upon its implementation.

24 While there will be a minimal change in the rates, the timely implementation of the changes will temper the changes in rates/tariffs. Accordingly, a smooth change of rates from month to month will be experienced after its initial implementation.

25 Furthermore, the timely implementation of the rate changes will reduce, if not eliminate, the risk of under-recovery which may be substantial to NGCP.

26 In support of these allegations, NGCP submits a copy of the Judicial Affidavit of Mr. Mark Albert Canlas is hereto attached as **Annex "K"**.

PRAYER

WHEREFORE, NGCP most respectfully prays that this Honorable Commission to:

1. **ISSUE** a **Provisional Authority** to implement and commence the billing and collection of the MAR₂₀₁₁ in the amount of PhP46,285.00Mn and the PIS in the amount of PhP322.00Mn beginning the billing period of 26 December 2010 – 25 January 2011;
2. After due notice and hearing, **APPROVE** the full recovery of the MAR₂₀₁₁ in the amount of PhP46,285.00Mn and the PIS in the amount of PhP322.00Mn to all transmission customers beginning the billing period of 26 December 2010 – 25 January 2011;
3. **APPROVE** System Operator and Metering Service Provider Charges to be applied and charged to NGCP's customers in CY 2011; and
4. **APPROVE** the fifty percent (50%) of PhP14.88Mn as RBR_t from co-location and rental of equipment.

Applicant prays for other relief deemed just and equitable under the premises.

Quezon City for Pasig City, 15 December 2010.

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