

Republic of the Philippines
ENERGY REGULATORY COMMISSION
Pacific Center Building, San Miguel Avenue
Ortigas Center, Pasig City

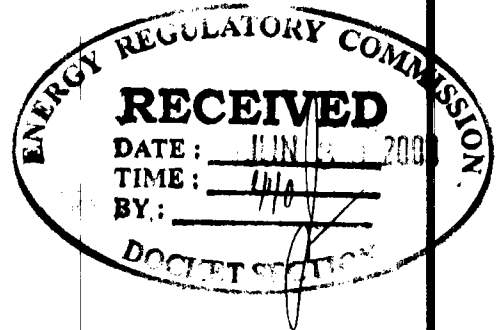
PETITION FOR THE RECOVERY OF
NATIONAL POWER
CORPORATION'S STRANDED
DEBTS PORTION OF THE
UNIVERSAL CHARGE FOR THE
LUZON, VISAYAS AND MINDANAO
GRIDS,

ERC CASE NO. 2009 - 047 RC

POWER SECTOR ASSETS AND
LIABILITIES MANAGEMENT
CORPORATION (PSALM)

Petitioner.

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PETITION

Petitioner **POWER SECTOR ASSETS AND LIABILITIES
MANAGEMENT CORPORATION (PSALM)**, through counsel, respectfully
states:

1. This is a Petition for the Recovery of National Power Corporation's Stranded Debts Portion of the Universal Charge for the Luzon, Visayas, and Mindanao Grids pursuant to R. A. No. 9136 or the "Electric Power Industry Reform Act of 2001" (EPIRA), its Implementing Rules and Regulations (EPIRA-IRR) and the Rules for Recovery of NPC Stranded Contract Costs and Stranded Debts Portion of the Universal Charge (**Rules for Recovery**) as adopted by ERC Resolution No. 04-2007.

PSALM DEC- 09-0968

2. Petitioner PSALM is a government-owned and controlled corporation created by virtue of Republic Act No. 9136 or the "Electric Power Industry Reform Act of 2001" (EPIRA), with principal office address at 7/F Bankmer Building, 6756 Ayala Avenue, Makati City.

3. The principal mandate of PSALM is to manage the orderly sale, disposition, and privatization of NPC generation assets, real estate and other disposable assets, and IPP contracts with the objective of liquidating all NPC financial obligations and stranded contract costs in an optimal manner (Sec. 50, EPIRA). To attain its objectives, PSALM shall, among others, [i] calculate the amount of the stranded debts and stranded contract costs of NPC which shall form the basis for ERC in the determination of the universal charge and [ii] liquidate the NPC stranded contract costs, utilizing the proceeds from sales and other property contributed to it, including the proceeds from the universal charge (Sec. 51, EPIRA).

4. Stranded Debts (**SD**) refer to "any unpaid financial obligations of NPC which have not been liquidated by the proceeds from the sales and privatization of NPC assets" (Sec. 4 (vv), EPIRA). Financial obligations pertain to net obligations of NPC after deducting the P200 billion debt assumed by the national government (Section 32, EPIRA).

5. Although the Rules for Recovery was issued in 2007, petitioner informed the Honorable Commission of its non-filing for the UC-SD for CYs 2007 and 2008, considering that the calculations showed that the projected cash flows from NPC's operations as well as the proceeds from the privatization of

generating assets were more than enough to finance NPC's debt service and other financial obligations.

6. In order to stabilize and mitigate the level of the NPC's UC-SD, a leveled UC-SD for CYs 2009-2029 was simulated. The assumptions used in CY 2009 to 2029 projected cash flows, which exclude SPUG, are summarized below:

- a. Revenues for CYs 2009-2029 will merely cover variable and fixed operating costs, excluding capacity fees. This is based on the 2008 Results of Operations where capacity fees are not fully covered by revenues generated from operations;
- b. Privatization proceeds include the complete privatization of Agus and Pulangui in 2012;
- c. Debt service is based on the amortization schedule with various creditors;
- d. Includes the capacity fees of all IPPs, including plants which are eligible for recovery under UC-SCC; and
- e. Assumes a fixed foreign exchange rate of Php48 to \$1, considering that any foreign exchange rate fluctuations may be recovered through the ICERA cost recovery mechanism.

7. The resulting figures showed an estimated UC-SD amounting to Php Php470,865 million (Annex "A"), net of the positive cash flow that are expected to occur during the period 2025 to 2029 due to excess privatization proceeds over debt service. This positive cash flow will offset the shortfall during the period 2009-2024, due to inadequacy of privatization proceeds to cover capacity fees and debt service requirements.

8. Based on a 17-year recovery period which ends in 2025, six [6] months prior to the expiration of the life of PSALM on June 26, 2026, and a 21-

year recovery period ending 2029, the UC-SD of Php 470,865 million will translate to the following UC rates for the Luzon, Visayas, and Mindanao grids:

Proposed Recovery Period	Projected Sales (GWh)	\$D Amount, PMillion	Estimated P/kWh
17-Year Recovery	1,544,200	470,865	0.3049
25-Year Recovery	2,090,631	470,865	0.2252

9. Pursuant to the Rules for Recovery, true-up adjustments shall be done on an annual basis. The Rules further provide that "[i]n the event that the total amount collected for the NPC Stranded Contract Cost and Stranded Debt recovery fall short of the approved appropriated share of PSALM in the UC, the shortfall shall be programmed for the ensuing year's respective petitions". (Sec. 4, Article VII, Rules for Recovery)

10. Pursuant to Section 4(e) of Rule 3 of the EPIRA-IRR and ERC Resolution No. 38- 2006, a copy of the instant Petition (including Annexes) was furnished the Sangguniang Panlungsod of Makati City (Annex "B"). The Petition was also published in a newspaper of general circulation (Annex "C").

11. Also attached are the following documents in support of the instant Petition.

LIST OF ATTACHMENTS

Document	Annex
Schedule of Projected Debt Service	D
Schedule of Projected Privatization Proceeds	E
Inventory of Financial Instruments Assumed by the National Government	F
Inventory of Financial Obligations (Bundled) as of December 31, 2008	G

PRAYER

WHEREFORE, premises considered, petitioner respectfully prays that, after due notice and hearing, the Honorable Commission APPROVE:

1. The proposed levelized UC-SD charge for Luzon, Visayas and Mindanao grids, for CYs 2009-2025 under the proposed recovery period as shown in the table below:

Proposed Recovery Period	Projected Sales (GWh)	SD Amount, PMillion	Estimated P/kWh
17-Year Recovery	1,544,200	470,865	0.3049

2. The adoption of a true-up mechanism on an annual basis based on the approved Rules.

Petitioner prays for other reliefs just and equitable under the circumstances.

Makati City, June 26, 2009.

- signatories on following pages -



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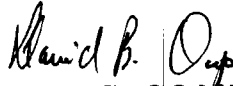
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Petition for Recovery-UCSD
PSALM, Petitioner

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