

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

**IN THE MATTER OF THE 13th
APPLICATION FOR THE RECOVERY OF
THE INCREMENTAL COSTS ON
FOREIGN CURRENCY EXCHANGE RATE
FLUCTUATIONS UNDER THE
INCREMENTAL CURRENCY EXCHANGE
RATE ADJUSTMENT (ICERA) WITH
PRAYER FOR PROVISIONAL AUTHORITY
(PA)**

ERC CASE NO. 2009 – 055RC

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

Applicants.

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APPLICATION

Applicants **NATIONAL POWER CORPORATION (NPC)** and **POWER SECTOR ASSETS AND LIABILITIES MANAGEMENT (PSALM) CORPORATION** by undersigned counsels and to this Honorable Commission, most respectfully state that:

1. Applicant NPC is a government-owned and controlled corporation, created and existing under and by virtue of Republic Act No. 6395, as amended, (the

NPC Charter) with principal office address at NPC-Office Building Complex (NPC-OBC), corner Quezon Avenue and BIR Road, Diliman, Quezon City.

2. Applicant 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. Under Section 3(g) of the NPC Charter, NPC has the authority to sell electric power in bulk to electric cooperatives, private distribution utilities, government owned distribution utilities or local government units which have exclusive franchise to operate a distribution system. Under Section 47(j) of Republic Act No. 9136 (“Electric Power Industry Reform Act or EPIRA), NPC may continue to generate and sell electricity from the undisposed generating assets and IPP contracts of PSALM Corp.

4 Applicant NPC is filing this Application in its capacity as the implementing agency for the unbundled generation rates as stated in the Orders of this Commission dated September 6 & 20, 2002 in ERC Case No. 2001-901, revised generation charges in the Orders dated Sept. 3, 2004 and April 13, 2005 in ERC Case No. 2004-178 and for the recovery of the Provisionally Approved charges in ERC Order dated December 15, 2008 under ERC Cases No. 2008-043RC, 054RC and the Order Dated January 19, 2009 under ERC Case No. 2008-064RC. Applicant PSALM is filing this Application in its capacity as transferee, owner and administrator of the generating assets of NPC pursuant to Section 49 of the EPIRA.

5. In the Order dated February 24, 2003, the Honorable Commission issued and adopted the implementing Rules for the Incremental Currency Exchange Rate Adjustment (ICERA) providing, among others, the required mechanisms for the recovery/ (refund) of the deferred incremental costs/(savings) on foreign currency exchange rate fluctuations and carrying charges.

6. This Application is being filed consistent with the Section 4(e) Rule 3 of the Implementing Rules and Regulations (IRR) as amended of Republic Act (RA) 9136 or otherwise known as EPIRA dated June 08, 2001.

7. The Application covers the test period from January 2009 to March 2009. Applicants have fully complied with the ICERA's monthly reportorial requirements, in support to the calculated allowable costs covering the test period, as evidenced by the submitted reports/compliances duly received by this Honorable Commission and hereto attached as **Annex "A" and series**.

8. Applicants propose to recover/(refund) the Deferred Accounting Adjustments (DAAs), corresponding to additional costs or savings from foreign exchange fluctuations in the settlement of Debt Service (principal repayment portion) and Operating Expenses (OPEX), and pertaining to the difference between actual or allowable Capacity and Infrastructure Fees for Build-Operate-Transfer (BOT) Plants and the billed amounts under the basic generation charge, as well as the corresponding carrying charges for the test period January 2009 to March 2009 (current DAAs) for the Luzon, Visayas and Mindanao grids.

9. Pursuant to the Honorable Commission's directive in ERC Order dated November 23, 2005 (approval of 4th ICERA DAA), the proposed 13th ICERA DAA charge is calculated on a per grid basis.

10. Consistent with previous ICERA applications, the Base Exchange Rates used in the calculation of the 13th ICERA DAA for OPEX is adjusted from CY 2000 level to the average figures of CY 2002, or from P44.0494/US\$1 to P51.6036/US\$1 and from P0.4096/JPY1 to P0.4128/JPY1. However, Base Exchange Rates for Debt Service are maintained at the CY 2000 level, pending resolution of the Supplemental Motion for Clarification filed by NPC on May 31, 2006, seeking clarification on the disallowance of the Loss on FOREX fluctuations in the Decision on RORB-TOU application (ERC Case No. 2004-178). Resolution of said motion shall provide applicant with a better understanding of the Honorable Commission's intention, particularly on the appropriate Base Exchange rate/price of Debt Service.

11. The calculation for the recovery/refund of Capacity and Infrastructure Fees for Bakun Hydroelectric Power Plant and San Roque Multi-purpose Project were pegged at P3.8299/kWh, as contained in the Honorable Commissions' Order under the 5th ICERA.

12. The Application likewise includes the recovery/(refund) of the allowable capacity and infrastructure fees for CBK, based on the Honorable Commission's recent Decision in ERC Case No. 2007-159 dated November 17, 2008.

13. This instant Application does not include any un-recovered or un-refunded balance from the previous ICERA applications, considering that the same are still pending resolution by the Commission.

14. Considering the foregoing, and pursuant to all the relevant Decisions and Orders previously issued by the Honorable Commission, the Applicants have calculated total deferred costs for recovery under this instant Application, comprising of deferred debt service, OPEX and capacity fees for BOT plants, and the corresponding carrying charges for the Luzon, Visayas and Mindanao grids covering the test period from January to March 2009 only. Table 1 contains the summary of the total deferred FOREX costs as follows:

Table 1. Total Deferred FOREX Costs, in Pesos

GRID	DAA, PhP
LUZON	1,088,588,303
VISAYAS	35,193,748
MINDANAO	(70,525,934)
PHILIPPINES	1,053,256,117

15. This application seeks the Honorable Commission's approval for the recovery/refund of the above-stated total current deferred FOREX costs for the test/billing period January to March 2009, through the imposition of the following proposed DAA charges:

Table 2. Proposed 13th ICERA DAA Charges, P/kWh

Particulars	Luzon	Visayas	Mindanao
Total DAA Charge	0.1855	0.0246	(0.0327)

The balance from the implementation of the 12th ICERA applications, depending on the Commission's Resolution of the said cases, shall be added to the above rate.

16. Applicants likewise seek the approval of the Honorable Commission to recover the above-stated deferred costs over the following recovery periods:

Table 3. Proposed Spread (No. of Months)

Luzon	Visayas	Mindanao
3	3	3

17. As authorized under the Implementing Rules of the ICERA, Applicants utilized the carrying charge interest rates, as shown in Table 4 below:

Table 4. Allowable Carrying Charge Interest Rates

Test/Billing Months	Prevailing 91-day T-Bill Rate ^{1/}	Authorized Allowance ^{2/}	Allowable Rate
January	4.647%	3.00%	7.647%
February ^{3/}	4.647%	3.00%	7.647%
March	4.408%	3.00%	7.408%

1- **Source: Bangko Sentral ng Pilipinas**

2- **As authorized in the ICERA Implementing Rules**

3- **There was No Issue (NI) T-Bill Rate for the month of February 2009, hence, the data used was based on the T-Bill rates for January 2009.**

18. The proposed ICERA DAA is fair and reasonable as it allows the recovery of deferred costs consistent with the principles of a free and competitive electricity market as provided under R. A. No. 9136.

19. As of today, Applicants are implementing the 8th ICERA charges in Visayas and Mindanao grids pending resolution by the Honorable Commission of the 9th to 12th ICERA Applications.

20. Applicants further pray for the issuance of a provisional authority to enable the applicants to immediately implement the recovery or (refund) of the deferred costs particularly in the Visayas and Mindanao grids in order to mitigate the accumulated DAA to customers and improve NPC's financials.

21. In support of the proposed recovery/refund calculated for the 13th ICERA, attached hereto are the various computations and information on the following:

Calculation of Deferred Cost and Proposed Charges From January 2009 to March 2009	Annex "B" and series
The Projected Energy Sales (in GWh) per NPC's Proposed CY 2007 Budget used to calculate the proposed DAA charges in P/kWh	Annex C and Series
Calculation of Deferred Debt Service /OPEX and corresponding carrying charges, January 2009 to March 2009	Annex "D" and series
Calculation of Deferred Over/(Under) Recovered Actual Payments of Capacity Fees for IPPs under BOT Agreement	Annex "E" and series
91-day Treasury Bill Rates	Annex "F" and Series

Actual energy sales from January 2009 to March 2009	Annex "G"
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22. Applicants also would like to manifest that there is a need to establish new base exchange rates in US Dollar and Japanese Yen for Forex I (debt service) and Forex II (insurance and spare parts), and a new base price for capacity and infrastructure fees to be used in the succeeding ICERA applications starting from the 14th ICERA. This is in line with the provisional approval (PA) of the Honorable Commission dated 16 February 2009 in ERC Case No. 2009-004RC, where a new basic generation charge based on test year 2007 was implemented for the Luzon, Visayas, and Mindanao grids effective March 2009 billing period.

23. The applicants shall be filing its proposed base prices and base exchange rates for approval by the Honorable Commission under ERC Case No. 2009-004RC, the application covering the provisionally approved (PA) revised Basic Generation Rates for Luzon, Visayas and Mindanao grids.

PRAYER

WHEREFORE, Applicants NPC and PSALM respectfully pray before this Honorable Commission that consistent with ERC Case No. 2003-44 Adopting the Implementing Rules for the Recovery of Incremental Currency Exchange Recovery Adjustment (ICERA) and Section 4(e) Rule 3 of the IRR, as amended, of RA 9136 or EPIRA, the following deferred costs/(refund), recovery period, and proposed Deferred Accounting Adjustment (DAA) charges for the current DAA be APPROVED:

Particulars	Luzon	Visayas	Mindanao
Total Deferred Costs/(Refund)	1,088,588,303	35,193,748	(70,525,934)
Total DAA Charge	0.1855	0.0246	(0.0327)
Proposed Recovery Period (in number of months)	3	3	3

Applicants likewise pray for the issuance of a Provisional Authority for immediate implementation of the above proposed rates for Luzon, Visayas and Mindanao Grids, as well as the early resolution of the 9th to 12th ICERA applications.

Applicants pray for other just and equitable relief, from the Honorable Commission.

Quezon City for Pasig City, ___ July 2009