

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

**IN THE MATTER OF THE APPLICATION OF
THE NATIONAL GRID CORPORATION OF
THE PHILIPPINES FOR THE APPROVAL OF
THE MAXIMUM ALLOWABLE REVENUE
(MAR) FOR CALENDAR YEAR 2010 IN
ACCORDANCE WITH THE ALTERNATIVE
FORM OF RATE SETTING METHODOLOGY
UNDER THE RULES FOR SETTING
TRANSMISSION WHEELING RATES (RTWR)
WITH PRAYER FOR PROVISIONAL
AUTHORITY**

ERC CASE NO. 2009- 160RC

**NATIONAL GRID CORPORATION OF THE
PHILIPPINES**

Applicant.

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A P P L I C A T I O N

Applicant **NATIONAL GRID CORPORATION OF THE PHILIPPINES** (“NGCP”),
through counsel, most respectfully states:

THE APPLICANT

1. Applicant NGCP is a corporation created and existing under the laws of the Philippines, with principal office address at 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”) through the public bidding conducted pursuant to Republic Act No. 9136, entitled, *“An Act Ordaining Reforms in the Electric Power Industry, Amending for the Purpose Certain Laws and for Other Purposes”* (“EPIRA”).

1.1. NGCP may be served with orders, notices and other legal processes through the undersigned counsel.

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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 holds 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. Under the Concession Agreement among NGCP, the Power Sector Assets and Liabilities Management Corporation (“PSALM”) and TRANSCO, which took effect 15 January 2009 (“Concession Agreement”), PSALM granted NGCP, on an exclusive basis, the rights and responsibilities (a) to construct, install, finance, manage, improve, expand, operate, maintain, rehabilitate, repair, refurbish and replace TRANSCO’s transmission assets; (b) to, for its own account, bill and collect from transmission customers such charges as it, as a regulated entity, may lawfully demand; (c) to take over and operate the whole of TRANSCO’s regulated transmission business as a going concern and, (d) as between TRANSCO and itself, to be the sole representative of the regulated entity before this Honorable Commission.

4. Under the Concession Agreement, NGCP is mandated to provide open and non-discriminatory access to its transmission system to all electricity users and accordingly, assess and collect transmission charges subject to the approval of this Honorable Commission.

NATURE OF THE APPLICATION

5. Pursuant to Section 43(f) of the EPIRA and to Rule 15, Section 5(a) of the Implementing Rules and Regulations of the EPIRA, this Honorable Commission promulgated the Rules for the Setting of Transmission Wheeling Rates for 2003 to around 2027 (“RTWR”). The RTWR sets out the methodology to be used in setting the

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maximum transmission wheeling rates that may be charged for the provision of the regulated transmission services by the NGCP.

5.1 The RTWR is an amendment to the Guidelines on the Methodology for Setting of Transmission Wheeling Rates (“TWRG”), which likewise sets the methodology for setting NGCP’s transmission wheeling rates under the Maximum Annual Revenue cap.

6. The RTWR provides that there shall be regulatory periods designated as First Regulatory Period (to end on 31 December 2005), Second Regulatory Period (to end on the fifth anniversary of the First Regulatory Period End Date) and Subsequent Regulatory Periods (each of which must be five (5) calendar years in duration).

7. Under Article VI of the RTWR, the maximum transmission wheeling rates that NGCP may charge for the provision of regulated transmission services during a regulatory year may be changed, following an annual review, provided that the said change of rates and annual review are in accordance with Article VI of the RTWR and the Open Access Transmission Service (OATS) Rules.

8. Consistent with Article VI of the RTWR and the OATS Rules, NGCP hereby respectfully applies for the approval of its **Maximum Allowable Revenue for CY 2010 (“MAR₂₀₁₀”) of P58,838.5Mn** and of NGCP’s **net performance incentive of P234Mn**.

8.1 Further, NGCP respectfully applies for the provisional authority to bill and recover the said MAR₂₀₁₀ and net performance incentive, starting the billing period of 26 December 2009 to 25 January 2010.

PROPOSED MAXIMUM ALLOWABLE REVENUE FOR CY 2010

9. The proposed estimated MAR₂₀₁₀ is illustrated in **Table 1**.

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Table 1. Proposed MAR₂₀₁₀ with Indicative Average Transmission Rates at P/Kw

Particulars	PMn	Indicative Average P/kW
Proposed MAR ₂₀₁₀	P58,838.5	P487.55/kW.

10. In deriving the proposed MAR₂₀₁₀, NGCP adopted the following MAR Price Control Formula, values and parameters consistent with various orders of this Honorable Commission, as discussed below.

10.1. In this Honorable Commission’s Order dated 18 December 2006 in ERC Case No. 2006-061RC, entitled, “*In the Matter of the Setting of the Maximum Allowable Revenue (MAR) for Calendar Year 2007 in Accordance with the Alternative Form of Rate Setting Methodology under the Transmission Wheeling Rates Guidelines (TWRG)*,” the MAR Price Control Formula¹ is set as follows:

$$\mathbf{MAR_t = [MAR_{t-1} \times \{ 1 + CWI_t - X \}], \text{ then } \mathbf{MAR_{200}^* = MAR_t - K_t - RBR_t}$$

10.1.1. This Honorable Commission’s re-interpretation of the Price Control Formula in Sections 3.2.1 and 4.2.1 of the then TWRG is intended to eliminate the perceived double counting of the inflation effect in the K_t which would lead to double recovery of the inflation adjustment to under-recoveries of revenue.

10.1.2. To reiterate, NGCP’s proposed MAR₂₀₁₀ of P58,838.5Mn, exclusive of its proposed net performance incentive, is based on this Honorable Commission’s re-interpreted Price Control Formula. **Table 2** summarizes the values attributed to the components of the Price Control Formula.

Table 2. Computation of Proposed MAR for CY 2010

¹ Page 5 of the ERC Order dated 18 December 2006.

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Particulars	2006	2007	2008	2009	2010
	<i>In Million Pesos, unless otherwise specified</i>				
MAR_{t-1}	27,085.7	35,805.5	37,928.8	36,571.0	36,423.6
P₀	6,415	0	0	0	0
CWI_t	7.88%	6.93%	(2.55%)	0.5968%	8.4155
X in %	1	1	1	1	1
MAR_t	35,805.5	37,928.8	36,571.0	36,423.6	39,124.6
MRR in %	10.19	9.51	8.90	8.00	7.67
K_t	(1,452.2)	(10,486.5)	(17,219.2)	(20,508.7)	(19,718.2)
RBR_t	0	3.6	2.5	254	4.9
MAR for the Year	37,257.7	48,411.8	53,787.8	56,677.7	58,838.5
Collection to end August	27,682.0	32,600.2	34,798.6	38,363.6	
(Under)/Over Recovery	(9,575.7)	(15,811.7)	(18,989.1)	(18,314.1)	

*Note: Amount may not total due to rounding off.

10.1.3. NGCP respectfully submits its actual financial data (results of operations) and demand (kW) for the 12-month period ending August 2009. Attached as “**Annex A**” of this Application are the details on NGCP’s actual financial data and demand.

10.2. **Computation of CWI_t.** The values of the CWI_t or the change in weighted index for the Regulatory Year is calculated using the formula:

$$\text{CWI}_t = \{(W1 \times \text{DeltaCPI}_t) + (W2 \times \text{DeltaUSER}_t)\}$$

10.2.1. In the computation, NGCP used the TWRG assigned values of 0.455 and 0.545 for the W1 and W2, respectively. This is applied as the exchange rate trigger condition appears to have occurred. In this regard, Section 12.9.1 of the RTWR states:

‘...the PhP/\$US exchange rate for a Quarter within the Second Regulatory Period is less than 90%, or more than 110%, of the PHP/\$US exchange rate for that Quarter which is approved by the ERC for the purposes of the capital expenditure program that is approved by the ERC under Section 4.10.5 (see also Section 12.5.3), then this Section 12.9.1 applies in respect of the Regulatory Year that immediately follows the Regulatory Year in which that Quarter occurs (Section 3.3.1 specified the consequences of Section 12.9.1 applying).’

10.2.2. The computed CWI_t used in this Application is 8.4155% (positive value) using the formula and values for eight (8) quarters

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adjusted to the end of August of the applicable years. NGCP notes that there are several quarters where the exchange rates (Php/\$US) breached the 10% trigger condition. **Table 3** below shows the details:

Table 3. Quarterly Changes of USER vs ERC Final Determination US:Php Levels

Quarter		Average USER (of the last 5 business days of the last month of the Quarter)	ERC's Final Determination's USER	% USER/ERC USER
USER (Q4, 2007)	November 2007	42.969	52.8	81.38%
USER (Q1, 2008)	February 2008	40.521	52.5	77.18%
USER (Q2, 2008)	May 2008	43.646	52.5	83.13%
USER (Q3, 2008)	August 2008	45.732	52.5	87.11%
USER (Q4, 2008)	November 2008	49.513	52.5	94.31%
USER (Q1, 2009)	February 2009	48.162	52.5	91.74%
USER (Q2, 2009)	May 2009	47.251	52.5	90.00%
USER (Q3, 2009)	August 2009	48.187	52.5	91.78%
USER (Q4, 2009)	November 2009	49.513	52.5	94.31%

10.2.3. Attached as “**Annex B**” of this Application is the detailed computation of the CWI_t for purposes of determining the proposed MAR_{2010} .

10.3. **Determination of K_t .** The K_t is the correction factor to adjust the over (under) recovery of revenue in Regulatory Year-1. It is computed using the formula:

$$\begin{aligned}
 DA_t &= TR_{t-1} - MAR_{t-1} \\
 \text{If } DA_t < 0 & \\
 \text{Then } K_t &= DA_t \times (1 + i_t / 100)
 \end{aligned}$$

10.3.1. In determining NGCP's MAR_{2010} , the total qualifying revenue billed to customers for the 12-month period ending August 2009 excludes the following:

10.3.1.1. The net performance incentive adjustments for the performance rating period ending August 2007 (PI2007) in the

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amount of P532Mn.² The said PI2007 was approved with finality by this Honorable Commission in its Order dated 05 August 2008, and was billed to the customers of Luzon, Visayas and Mindanao from September to December 2008 billing months.

10.3.1.2. The net performance incentive adjustments for the rating period ending August 2008 (PI2008) in the amount of P222.88 from the total approved PI2008 of P334Mn, equivalent to the eight (8) billing periods from January to August 2009.

10.3.1.3. The Force Majeure Event (FME) Claim, in the amount of P373.14Mn, approved by this Honorable Commission in its Order dated 15 December 2008,³ billed in the January to August 2009 billing periods.

10.3.2. Under the RTWR, performance incentive adjustments and FME claims are not part of the MAR as computed using the Price Control Formula. The billed amounts are not part of the MAR_{t-1} (referring to the P56,677.7) which is considered in the computation of K_t or the under-recoveries.

10.3.3. In deriving its proposed MAR_{2010} , NGCP computed the K_t or under-recoveries for the 12-month period ending August 2009, as illustrated in **Table 4**.

² ERC Case No 2007 – 0151RC.

³ ERC Case No. 2007-148RC.

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Table 4. Derivation of K_t for MAR for CY 2010

Particulars	Definition	Amount
MAR_{t-1}	ERC approved MAR for 2009 (ERC Case No. 2008-056RC entitled <i>In The Matter Of The Application Of The National Transmission Corporation Or Any Future Concessionaire Thereof For The Approval Of The Maximum Allowable Revenue (Mar) For Calendar Year 2009 In Accordance With The Alternative Form Of Rate Setting Methodology Under The Transmission Wheeling Rate Guidelines</i>) ⁴	P 56,677.7
$TR_{t-1} (CR_{t-1} + MR_{t-1})$	Total qualifying revenue for the 12-month ending August 2009, i.e. total P39,491.9Mn less the PI2007, PI2008 and FME Claim CR _{t-1} is equal to MR _{t-1} is equal to	P 38,363.9 P 0.00
DA_t	Under recovery (< 0)	P 18,313.8
i_t	The simple average of the monthly 180 day weighted-average Manila Reference Rate (MRR) in nominal percent per annum terms published by the Bangko Sentral ng Pilipinas for the period.	7.672%
K_t	Under Recovery of MAR2010	P 19,718.8

*Note: Amount may not total due to rounding.

10.3.4. In accordance with this Honorable Commission's approach, the 12-month period ending August 2009 collections include NGCP's billings to employees residing inside or near NGCP's facilities.

10.3.5. Attached as "**Annex C**" of this Application is the detailed computation of the K_t for purposes of determining the proposed MAR₂₀₁₀.

10.4. **Consideration in the RBR_t.** NGCP manifests that it collects revenue from its co-location and rental of equipment utilizing assets that form part of its regulatory asset base (RAB). For the 12-month ending August 2009, NGCP accounts for P9.76Mn gross revenue from such activities.

10.4.1. Following the intention of the EPIRA of lowering transmission wheeling rates, the RTWR explicitly requires that the amount not exceeding fifty per cent (50%) of the net income from these activities shall be considered in the computation of the MAR_t.

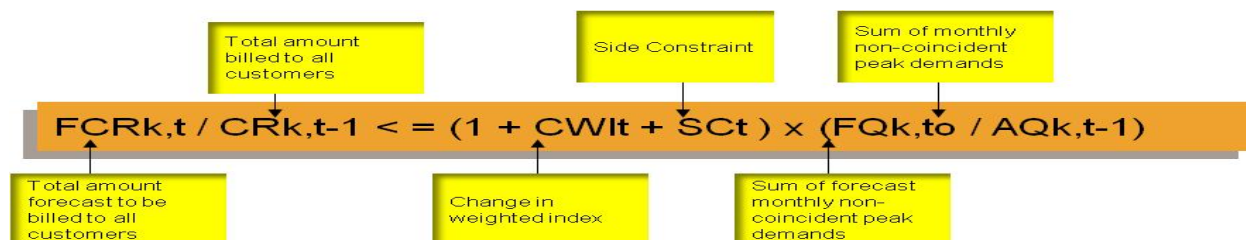
⁴ ERC Decision and Order dated 15 December 2008 and 02 February 2009, respectively.

10.4.2. NGCP computes for 50% of the P9.76Mn as the RBR_t for the MAR for CY 2010, which amounts to P4.88Mn.

10.4.3. **NGCP thus respectfully moves that the RBR_t be set at fifty percent (50%) of all the identified revenue from related business, this rate being explicitly provided in the EPIRA.** Applying such percentage, NGCP's RBR_t will amount to P4.88Mn.

10.4.4. Attached as “**Annex D**” of this Application is the detailed computation of the RBR_t for purposes of determining the proposed MAR_{2010} .

11. **Side Constraint on the Proposed Maximum Wheeling Rates.** Under Section 6.4 of the RTWR, the maximum transmission wheeling rates that NGCP may charge for its regulated transmission services to a customer segment must comply with the following condition:



11.1. In the Orders dated 13 June 2006, 24 August 2006, 14 December 2006 and 02 February 2007 in ERC Case No. 2006-041RC, entitled In the Matter of Undertaking a Revenue Reset for the National Transmission Corporation (TransCo) and Any Future Concessionaire Thereof for the Period 2006 – 2010 in Accordance with the Alternative Form of Rate Setting Methodology under the Transmission Wheeling Rates Guidelines (TWRG), the FQ_{k-t} in the computation of Side Constraint Condition⁵ was interpreted by the Honorable Commission as follows: “...the **Forecast Period is taken to be re-defined as the Application Year, which is a calendar year.**”

⁵ Page 5 of the ERC Order dated 02 February 2007; Page 6 of the ERC Order dated 14 December 2006.

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11.2. In addition, this Honorable Commission also set the Side Constraint value for 2010 at 2%⁶ and the value of the X factor in the Price Control Formula at +1%.⁷

11.3. As shown in **Table 5** below, the forecast collection for the 12-month period ending August 2010 amounts to P51,359.2Mn. Notably, this forecast collection breaches the Side Constraint limitation.

Table 5. Forecast Collection for the 12-month period ending August 2010

Customer Segment	Total forecast to be billed during period ending 31 Aug. 2010 (P,Mn)⁸	Total amount billed during period ending 31 Aug. 2009 (P,Mn)⁹	Side constraint calculation	Side constraint Limitation
Luzon	37,565.4	28,043.1	1.3396	1.1717
Visayas	6,495.4	4,847.3	1.3400	1.1718
Mindanao	7,298.44	5,473.4	1.3334	1.1697
Total	51,359.2	38,363.9	1.3387	1.1714

* Note: Amount may not total due to rounding off.

11.4. The detailed computation for Table 5 is contained in “**Annex E**” of this Application.

11.5. Using the SC_t factor of 2%, NGCP computed its constrained MAR₂₀₁₀ to be P44,940.6Mn.

11.6. With the computed constrained MAR₂₀₁₀ of P44,940.6Mn, and using the revised demand forecast for CY 2010, the indicative average transmission rates for NGCP’s regulated services of power delivery, system operations and metering services will only increase by approximately P32.08/kW or P0.0788/kWh. This translates into an increase in tariff of only 9.45%. **Table 6** illustrates this comparative increase in the indicative average rate.

⁶ Page 6 of the ERC Order dated 02 August 2007.

⁷ Page 138 of the ERC Order dated 13 June 2006 - Final Determination.

⁸ 4/12 of Effective MAR₂₀₀₉ of P39Bn plus 8/12 of computed MAR₂₀₁₀ of P58.83Bn.

⁹ Total collections for the 12-month ending August 2009 of P38Mn less PIS2007, 2008 & FME.

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Table 6. Comparative Indicative Average Rate Increase, 2010 vs 2009

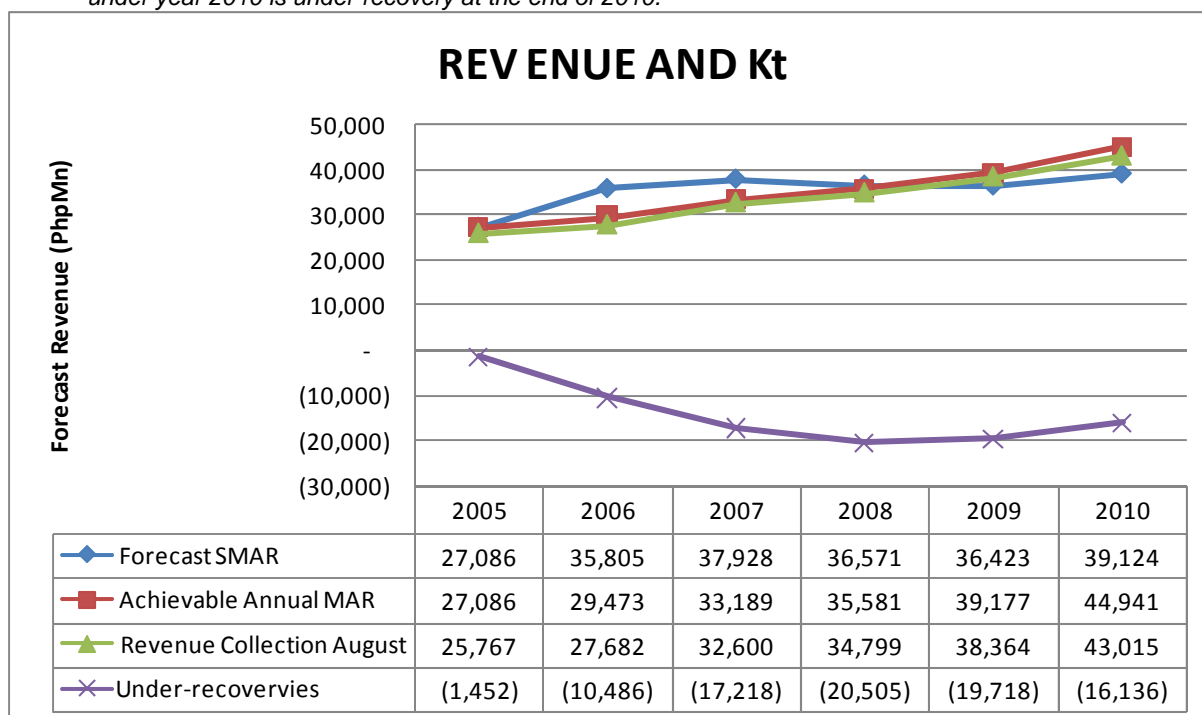
Particulars	P,Mn	Indicative Average Rate P/kW	Indicative Average Rate P/kWh
Computed Constrained MAR for CY 2010	44,940.6	372.38	0.7986
Constrained MAR2009	39,176.6	340.30	0.7198
Inc (Dec)	5,746.0	32.08	0.0788
Inc (Dec) %	14%	9.45%	10.96%

11.7. Pursuant to Clauses F(AI)2.2 and F(AI)3.2 of the OATS Rules, NGCP computed its constrained MAR for CY 2010 using the current definition of billing determinant of "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).

11.8. **Proposed Full Recovery of Under-Recoveries.** If the SC_t value of 2% is applied in the computation of forecast revenue for Calendar Year 2010, it will result in under-recoveries (K_t) at an estimated amount of P16,135.9Mn at the end of 2010. **Table 7** illustrates the estimated under-recoveries.

Table 7. Estimated Under-recoveries at the End of 2010

**Note that the amounts of K_t are 'slide forward' presentation; i.e under-recovery of P19.7Bn reported in the table as 2009 is the computed K_t that forms part of the MAR for CY 2010 computation. Thus, P16.1Bn shown under year 2010 is under-recovery at the end of 2010.*



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11.9. Section 5.14.2 of the RTWR states that for purposes of determining the revenue cap for the First Regulatory Year of the Third Regulatory Period, the amount of the Correction Factor for said year (which will be a negative amount) will be limited to five percent (5%) of the MAR₂₀₁₀. Consequently, NGCP will not be allowed to recover unrecovered revenue in excess of such limitation, whether in First Regulatory Year of the Third Regulatory Period or in any subsequent Regulatory Year.

11.10. Thus, given the pre-determined 5% cap, NGCP may be deprived of full recovery of the accumulated under-recoveries of P16,135.9Mn.

11.11. NGCP respectfully stresses that **any under-recoveries that cannot be recovered due the limit to the under-recoveries to be carried forward to 2011 (the limit being 5% of the MAR₂₀₁₀) will constitute foregone revenues, to which revenues NGCP is fully entitled under prevailing law.**

11.12. In this light, NGCP respectfully moves that the Side Constraint limitation of 2% be lifted to allow NGCP to fully recover its proposed MAR₂₀₁₀ of P58,838.5Mn. This will minimize the risk of foregoing revenue due to the aforementioned 5% cap.

11.12.1. NGCP submits that the EPIRA and RTWR both recognize the need for the full recovery of the proposed MAR₂₀₁₀. Under Part III, Rule 15, Section 5 of the EPIRA, this Honorable Commission is mandated to, in the interest of the public, enforce a methodology for setting transmission and distribution wheeling rates that will allow the regulated entity such as the NGCP **to recover just and reasonable costs and a reasonable return on its asset base to enable the entity to operate viably.**

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11.12.2. Consequently, the RTWR developed by this Honorable Commission is designed to allow the regulated entity to fully recover its maximum allowable revenue as approved in a regulatory period. The RTWR's Performance Based Regulation encapsulates such intent.

11.12.3. NGCP respectfully notes further that the **said under-recoveries are part of NGCP's allowed revenue already approved by this Honorable Commission in the past regulatory years**, the said revenue having been **determined to be fair and reasonable**.

11.12.4. NGCP submits that by this Honorable Commission's official and judicious approval of NGCP's maximum allowable revenue for past regulated years, the NGCP has proven the recovery of such costs as essential to its continued viable operations, and effectively been accorded a vested right to collect said approved revenue.

11.12.5. NGCP respectfully notes the exigency for the full recovery of its previously approved MAR is brought about by the forthcoming Third Regulatory Reset, during which NGCP will not be entitled to recover any under-recoveries in excess of the aforementioned 5% limitation.

11.12.6. NGCP further submits that, consistent with EPIRA's rationale for the setting of transmission wheeling rates allowing recovery of reasonable costs and a reasonable return for operational viability, NGCP's full recovery of its proposed MAR₂₀₁₀ will allow it to recover expenditures defrayed to fulfil its mandate to operate and maintain its transmission system, as well as a just and fair return. Consequently, such full recovery is essential to enable NGCP to continuously finance its approved capital and operating expenditures needed to operate its transmission business viably.

11.12.7. NGCP also submits that the full recovery of the proposed MAR₂₀₁₀ will allow NGCP to have a fair return on its investments while providing quality and reliable service. The EPIRA recognizes the need for a fair return of investment for the regulated entity by mandating this Honorable Commission to “promote competition” and to “encourage market development.”¹⁰

11.12.8. NGCP respectfully stresses that revenue that may be foregone due to the said 5% limitation is not due to any fault or omission on its part.

11.12.9. Consequently, should the side constraints remain rigid, and NGCP is unable to recover the entire proposed MAR₂₀₁₀ during the 2nd Regulatory period, NGCP shall be constrained to propose a mechanism to fully recover the proposed MAR₂₀₁₀ of P58,838.5Mn in the subsequent regulatory reset, as may be appropriate.

11.12.10. Parenthetically, NGCP respectfully submits that the increase in its proposed the MAR₂₀₁₀ of P58,838.5Mn is largely due to the under-recovery of its MAR for the previous years.

11.12.10.1. To illustrate, the said under-recoveries are due to the following major factors that are beyond the control of the regulated entity: (a) changes in the timetable for the implementation of Final Determination, omission of the revalidation of 2nd process for the MAR for CY 2006 Annual Verification; and (b) the imposition of the SC_t values of 2% for CY 2006, 7% for 2007 and 5% for 2008 (Section 6.4 of the TWRG and Order dated 14 December 2006).

¹⁰ Part I, Rule 3, Section 4(a) of the EPIRA.

11.12.11. At this juncture, NGCP respectfully notes that, in the Motion for Clarification filed by TRANSCO before this Honorable Commission, TRANSCO also observed that the SC_t values prescribed by this Honorable Commission in its Order dated 24 August 2006, (i.e., 7% for 2007, 5% for 2008, 3% for 2009 and 2% for 2010) are too restrictive to allow it to recover fully its approved maximum wheeling rates.¹¹

11.12.12. NGCP notes further that this Honorable Commission confirmed that the above-cited Side Constraints that it prescribed¹² are too restrictive to allow full recovery by the end of 2010.¹³ Consequently, this Honorable Commission allowed TRANSCO to undertake appropriate legal processes for justifiable adjustment to the SC_t limitations (i.e., to propose its preferred SC_t values) that will allow it to fully recover by 2010.

11.13. Given the foregoing, NGCP respectfully moves that Side Constraint limitation of 2% be lifted, and that NGCP be allowed to recover the proposed MAR_{2010} of P58,838.5Mn in full.

RECOVERY OF THE PROPOSED MAR_{2010}

12. NGCP respectfully proposes to recover the subject MAR_{2010} from the Luzon, Visayas and Mindanao grids in accordance with the OATS Rules, through its regulated transmission charge, as discussed below:

¹¹ Motion for Clarification filed on 13 November 2006.

¹² ERC Order dated 24 August 2006.

¹³ Page 11, Paragraph 18 of the ERC's Decision in ERC Case No. 2005-041 RC dated 02 February 2007.

12.1. **Customer Segments.** NGCP intends to adopt the three customer segments of Luzon, Visayas and Mindanao, pursuant to this Honorable Commission's Order in ERC Case No. 2005-041RC dated 02 August 2006. NGCP likewise intends to bill a different power delivery service rate for each customer segment. All power delivery service rates are, however, designed and computed based on the OATS Rules.

12.2. **Regulated Transmission Services.** Pursuant to this Honorable Commission's Order in ERC Case No. 2005-041 RC dated 02 February 2007 and the OATS Rules, NGCP intends to recover the MAR₂₀₁₀ through charges on the following Regulated Transmission Services: Power Delivery Service, System Operator Service, and Metering Services.

12.2.1. The SO and MSP tariffs or rates are designed and computed using the pertinent provisions of Module F (Rates, Methodology, Billing and Settlement) of the OATS Rules.

12.2.2. Consistent with the OATS Rules, the PDS charge per customer segment shall be an allocation of the ERC-approved MAR_t, after deducting the derived revenue from SO and MSP charges. The PDS rate shall be determined on a monthly basis, taking into consideration the actual total billing determinants.¹⁴

12.2.3. For CY 2010, NGCP shall bill customers with the following SO and MSP charges:

¹⁴ Billing Determinants shall refer to the rolling 12-month non-coincident peak of the customers.

Table 8. System Operator Charge for CY 2010

FIRM (P/kW-mo.)	NON-FIRM (P/kW/day.)
P23.12	.7601

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

Table 9. Metering Service Provider Charge for CY 2010

Particular	P/month for each metering point/per month
Common Asset Charge	3,644

Voltage Delivery, KV	First Metering Point Charge¹⁵ (PhP/month)	Second up to Last Metering Point Charge¹⁶ (PhP/month)
500/230	38,808	22,283
138-115	26,069	19,067
69-67	12,673	4,352
34.5-23	7,331	4,352
13.8	5,539	4,352
Below 13.8	4,753	4,259

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

12.2.4. The parameters and values used in calculating SO and MSP charges are contained in “Annex E” and “Annex F,” respectively, of this Application.

13. **Performance Incentive Computation (Article 8 of the RTWR).** As stated earlier, NGCP respectfully prays for the approval of its **net performance incentive of P234Mn**. Consistent with the Performance Based Regulation of NGCP provided in the RTWR and the Final Determination,¹⁷ NGCP qualifies for a net performance incentive of P234Mn billable for the CY 2010.

13.1. **Table 10** shows a summary of the incentives and penalties under the Performance Incentive Scheme (PIS).

¹⁵ First Metering Points: For metering facilities fully provided by NGCP.

¹⁶ Second up to last Metering Point: For metering facilities not fully provided by NGCP

¹⁷ Annex A of the ERC Decision on the Second Regulatory Period Application.

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Table 10. 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	P	-118	D	0	I	39	-79
FOT	I	105	I	55	I	127	287
SA	D	0	I	43	I	7	50
FLC	D	0	D	0	P	-43	-43
VLC	D	0	D	0	I	19	19
Total	P	-13	I	98	I	149	234

Legend: I – Incentive; P – Penalty; D – Deadband
 Note: Amount may not total due to rounding off.

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

13.3. The computed sum of the net incentives of P234Mn is below the maximum reward of P978.5Mn defined in Clause 8.8, Chapter 8 of the Final Determination. Attached as “**Annex G**” of this Application is the summary report and detailed computation of the said net incentives.

13.4. In this Application, NGCP, consistent with 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. Accordingly, the ARR for CY 2010 of P43,543.5Mn¹⁸ was used in the computation.

13.5. Notably, NGCP exceeded the indices set by this Honorable Commission and thus is entitled to the said incentives. NGCP’s performance vis-à-vis the target levels are greatly attributable to the efforts of its employees.

14. **Historical and Forecast Financial and Operational Data.** Sections 6.3.2 and 6.3.3 of the RTWR require NGCP to provide a range of information to demonstrate

¹⁸ Table 7.4, page 134 of the Final Determination (dated 13 June 2006), ERC Case No. 2005-041 RC.

its compliance with its MAR. This information is set out in “**Annexes H**” & “**I.**” NGCP intends to recover the MAR given the methodology outlined in the ERC approved OATS Rules and its current demand forecasts.

15. **Other Parameters.** In relation to Section 6.5 of the RTWR, NGCP respectfully manifests the following:

15.1. NGCP considers it is fully compliant with the ERC 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 ERC-approved OATS Rules.

15.2. **ERC rulings in relation to system losses:** Consistent with the ERC Orders in 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.

16. **Management Approval.** The MAR₂₀₁₀ has been approved by NGCP’s Board.

17. **Calendar Year Audit Requirement.** All reported data in this filing is still subject to review by an independent auditor and therefore cannot be treated as “final” until this review has been completed. NGCP maintains a calendar year accounting cycle.

18. The proposed MAR₂₀₁₀ of P58,838.5Mn and the PIS adjustment of P234Mn, which were designed and developed in accordance with the provisions of the RTWR and its Reset Issues Paper and pertinent ERC Orders, set forth 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 consuming public.

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

1. The RTWR expressly provides under Sections 6.2.1 (f)(i) and (ii) the following:

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

b. that should the ERC be not satisfied that the rates do comply with the RTWR and the OATS Rules, the Regulated Entity must amend its proposed maximum transmission wheeling rates in accordance with such directions as this Honorable Commission (after consulting with the Regulated Entity) may give for the purposes of ensuring that said rates comply with the requirements of the said rules, and the Regulated Entity must implement the amended rates by 15 days after this Honorable Commission gives direction but not earlier than 26 December of the Calculation Year.

2. 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.

3. While there will be an initial increase in the rates, the timely implementation of the rate changes will temper the increases in rates/ tariffs. Accordingly, a smooth change of rates from month to month will be experienced after its initial implementation.

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

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Entity. It may be said that the delay or omission of the 2nd rate validation for MAR₂₀₀₆ could have contributed a material amount in the under-recovery for that year.

P R A Y E R

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

1. **GRANT** provisional authority to implement and recover the MAR₂₀₁₀ starting 26 December 2009 – 25 January 2010 billing period as written and intended in Section 6.2.1(f);
2. **APPROVE** the full recovery of the MAR₂₀₁₀ of P58,838.5Mn computed based on the Price Control Formula as re-defined by this Honorable Commission;
3. **APPROVE** NGCP'S performance incentive of P234Mn computed in accordance with the RTWR and Final Determination and its recovery from all NGCP customers starting billing period of 26 December 2009 – 25 January 2010;
4. **APPROVE** System Operator Charge and Metering Service Provider Charges as provided in this Application that are to be applied and charged to NGCP customers in CY 2010;
5. **ALLOW** a 50% (of the net income) of P4.88Mn for RBR.

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

Quezon City for Pasig City, 11 November 2009.

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