

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

IN THE MATTER OF THE 15th
APPLICATION FOR THE RECOVERY
OF INCREMENTAL FUEL AND
INDEPENDENT POWER PRODUCER
(IPP) COSTS UNDER THE
GENERATION RATE ADJUSTMENT
MECHANISM (GRAM) WITH PRAYER
FOR PROVISIONAL AUTHORITY (PA)

ERC CASE NO. 2010-003 RC

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**, through the 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, corner Quezon Avenue and BIR Road, Diliman, Quezon City.

2. Applicant PSALM is a government-owned and controlled corporation, created and existing 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. The Application is filed jointly by NPC and PSALM. Applicant NPC is filing this Application as 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 Order dated September 3, 2004 and Decision dated April 13, 2005 in ERC Case No. 2004-178, provisionally approved generation charges in the Orders dated February 16, 2009 and March 23, 2009 for the Luzon/Mindanao and Visayas Grids, respectively, under ERC Case No. 2009-004-RC, and the provisionally approved deferred charges in ERC Order dated December 15, 2008 under ERC Cases No. 2008-042RC, 053RC and the Order dated January 19, 2009 under ERC Case No. 2008-063RC. 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. Applications for the recovery of deferred charges were all consistent with the Order dated February 24, 2003 in ERC Case No. 2003-44 providing, among others, the required mechanism for the recovery of the deferred Fuel and Independent Power Producer (IPP) Costs.

6. This Application is being filed consistent with Section 4(e) Rule 3 of the Implementing Rules and Regulations (IRR), as amended, of Republic Act (RA) No. 9136 (Electric Power Industry Reform Act or EPIRA) dated June 8, 2001.

7. This Application covers the billing period from April 2009 to June 2009. Applicant NPC has fully complied with all of the Honorable Commission's monthly reportorial requirements in support of the calculated allowable costs covering the said billing period as evidenced by the submitted reports/compliances duly received by the Honorable Commission and hereto attached as **Annex "A" and series**.

8. On February 16, 2009 and as modified on March 23, 2009, the Honorable Commission issued two (2) Orders on ERC Case No. 2009-004RC, granting NPC/PSALM provisional authority (PA) to implement new basic generation rates of **PhP4.3648/kWh** for Luzon, **PhP3.7255/kWh** for Visayas, and **PhP2.8177/kWh** for Mindanao. The PA authorized NPC/PSALM to implement the new base rates corresponding to the revised revenue requirement starting the billing month of March 2009.

9. Based on the components of the new revenue requirement and energy sales in the February 16, 2009 Order, the new base rates for fuel and purchased power costs were deduced, which then served as the basis in the DAA calculations for the Luzon and Mindanao grids. However, for the Visayas

grid, considering that the March 23, 2009 Order was silent as to the components of the modified revenue requirement, NPC/PSALM propose to use the new base rates indicated in **Annex B** in calculating the DAA for the Visayas grid, subject to the approval of the Honorable Commission.

10. Based on the foregoing, the Applicants propose to recover/(refund) the following Deferred Accounting Adjustments (DAAs):

a. On Fuel Costs:

a.1 The DAA covers the difference between the allowable fuel costs and the amounts recovered through the provisionally approved basic generation rates under ERC Case No. 2009-004 RC. The new basic generation charge became effective starting the billing month February 26, 2009 to March 25, 2009, which coincides with the April 2009 billing period proposed to be recovered;

b. On Purchased Power Costs:

b.1 For the billing period April 2009, covering the billing month January 26, 2009 to February 25, 2009, the DAA refers to the difference between the allowable purchased power costs and the amounts recovered through the basic generation rates per ERC Case No. 2004-178;

b.2 For the billing period May and June 2009, covering the billing month February 26, 2009 to April 25, 2009, the DAA refers to the difference between allowable purchased power costs and the amounts recovered through the basic generation rates per ERC Case No. 2009-004 RC

The proposed DAA excludes the balance of previously approved GRAM applications pending resolution by the Honorable Commission.

11. The instant application includes the costs of purchased power from Malaya/Caliraya-Botocan-Kalayaan (CBK), and Mindanao Coal (STEAG), which were approved by the Honorable Commission on November 17, 2008 and February 2, 2009, respectively. Consistent with the previous GRAM applications, purchased power costs of Naga (Salcon) will be incorporated upon approval by the Honorable Commission of their inclusion in the power rates.

12. Likewise, the GRAM DAA calculation considered the following:
- a. Purchased Power Costs (PPC) of Casecnan Multi Purpose Power Plant covering the billing period 2008 to March 2009 based on the Memorandum of the Department of Finance (DOF) directing the Bureau of Treasury to pay the BOT obligations.
 - b. Costs under the Operations and Maintenance Service Contract (OMSC) entered into between:
 - PSALM/NPC and Alstom for Limay A and B after the Operation, Maintenance and Repair (OMR) contract expired on April 19, 2008 and October 18, 2008, respectively; and
 - PSALM/NPC and Burmeister & Wian Scandinavian Contractor A/S for PB 117 after the Electricity Supply, Operation and Maintenance Agreement (ESOMA) contract expired on March 31, 2009.

PSALM deemed it prudent to extend the contracts of Limay A & B and PB 117 with the same IPP proponents, to ensure power reliability and stability in the Luzon and Mindanao grids, respectively, and prevent deterioration of the plants pending their privatization. Consequently, on August 26, 2009 and July 31, 2009, PSALM successfully conducted the negotiated sale of Limay A & B and PB 117 plants, respectively.

13. Similarly, Applicants, applied in this instant application, the same methodology and principles in the calculation of allowable fuel costs adopted in the 14th GRAM Application filed on July 29, 2009 particularly the use of new heat

rate caps on a per power plant basis, including the allowance for heat rate degradation as approved by this Honorable Commission in its Decision dated June 30, 2008 in ERC Case No. 2004-111.

14. Considering the foregoing and pursuant to all the relevant Decisions and Orders issued by the Honorable Commission, the Applicants have calculated the total deferred costs for recovery under this instant Application comprising of the deferred fuel and IPP costs stated above and the corresponding carrying charges for the Luzon, Visayas and Mindanao grids covering the billing period from April 2009 to June 2009, current portion only. Table 1 below contains the summary of the total deferred fuel and IPP costs:

Table 1.
Total Deferred Fuel and IPP Costs for Recovery/(Refund), in Pesos

	LUZON	VISAYAS	MINDANAO
TOTAL DAA	3,235,456,012	202,920,421	245,028,990
ZERO VAT	846,501,755	166,457,961	153,657,036
12% VAT	2,388,954,257	36,462,460	91,371,954

15. To recover/(refund) the above-stated deferred costs over a period of three (3) months, Applicants are proposing the approval of the following DAA Charges which were derived using the projected energy sales under the Applicant NPC's proposed CY2007-2010 Budget:

Table 2. Proposed DAA Charges, P/kWh

	LUZON	VISAYAS	MINDANAO
NON-VARIABLE	0.1467	0.1236	0.0709
VARIABLE	0.4141	0.0270	0.0421
TOTAL DAA	0.5608	0.1506	0.1130

In accordance with ERC Resolution No. 20, series of 2005, the VAT to be imposed to consumers will be based on the gross receipts or the total amount

paid for electricity sold from non-renewable energy portion of the generation mix corresponding to the billing period of the cost recovery/(refund).

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 GRAM, Applicants utilized the following carrying charge interest rates which apply to both deferred costs for recovery and (refund):

Table 4. Allowable Carrying Charge Rates, %

Billing Period	Prevailing 91-day T-Bill Rate ^{1/}	Authorized Allowance ^{2/}	Allowable Rate
April	4.3200%	3.00%	7.3200%
May	4.2940%	3.00%	7.2940%
June	4.4370%	3.00%	7.4370%

1- Source: *Bangko Sentral ng Pilipinas*

2- Pursuant to the *GRAM Implementing Rules*

18. The proposed GRAM DAA is fair and reasonable as it allows the recovery/(refund) of deferred costs consistent with the principles of a free and competitive electricity market as provided under R. A. No. 9136 and all pertinent Orders/Decisions issued by the Honorable Commission.

19. Applicants further pray for the issuance of a provisional authority to implement rates for the recovery/refund of the following:

- a. DAA under this instant application; and

- b. The estimated DAA balances under the 13th & 14th GRAM applications for Luzon and the 10th to 14th GRAM applications for the Visayas and Mindanao grids.

As of this filing, Applicants are implementing the 12th GRAM charges in Luzon, pending resolution of the 13th and 14th GRAM applications. For the Visayas, Applicants are implementing the 9th GRAM charges, pending resolution by the Honorable Commission of the 10th to 14th GRAM applications. The 9th GRAM DAA for the Mindanao grid was fully recovered/(refunded), hence starting the billing month July 25 to August 26, 2009, no GRAM charges are being imposed to electricity consumers in the Mindanao grid.

20. In support of the amounts comprising all the deferred fuel and IPP costs proposed for recovery/(refund) in this instant Application, attached hereto are the various computations and information on the following:

BSP's 91-day Treasury Bill Rates	Annex "C"
Approved Net Heat Rate under ERC Decision dated June 30, 2008 (ERC Case No. 2004-111)	Annex "D"
Actual Net Heat Rate Per Plant for March 2009 to May 2009	Annex "E"
Summary of Allowable Purchased Power Costs for the billing months Feb 2009 to Apr 2009	Annex "F"
2009 Projected regular energy sales based on the proposed CY2007 to CY2010 budget	Annex "G"
Actual Energy Sales (kWh) for April 2009 to June 2009	Annex "H"
NPC Power Bills showing the generation mix for Luzon, Visayas and Mindanao	Annex "I & Series"
15 th GRAM DAA Calculation Allowable Fuel and Purchased Power Cost	Annex "J & Series"
Disbursement Vouchers of Limay A & B	Annex K & Series
Disbursement Vouchers of Casecan and Letters from the Bureau of Treasury	Annex L & Series

PRAYER

WHEREFORE, applicants NPC and PSALM respectfully pray of this Honorable Commission that consistent with ERC Case No. 2003-44 Adopting the Implementing Rules for the Recovery of Fuel and Independent Power Producer Costs: Generation Rate Adjustment Mechanism (GRAM) 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:

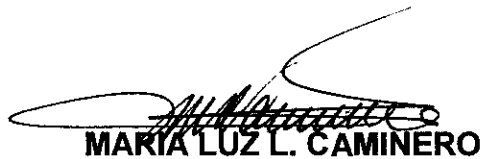
	LUZON	VISAYAS	MINDANAO
TOTAL DAA FOR RECOVERY	3,235,456,012	202,920,421	245,028,990
TOTAL DAA CHARGE	0.5608	0.1506	0.1130
PROPOSED RECOVERY PERIOD	3 Months	3 Months	3 Months

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 13th & 14th GRAM applications for Luzon and the 10th to 14th GRAM applications for the Visayas and Mindanao grids.

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

Quezon City for Pasig City, 28 December 2009

- signatories next page



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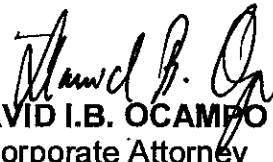
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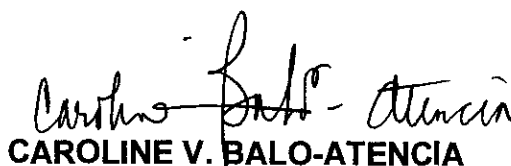
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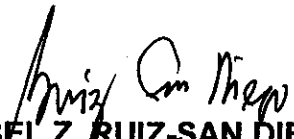
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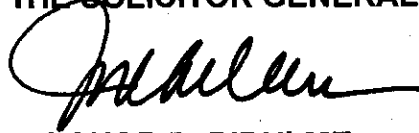
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