

**PROPOSED RULES FOR THE AUTOMATIC RECOVERY OF
PSALM GENERATION ASSETS' MONTHLY FUEL, PURCHASED POWER,
AND FOREIGN EXCHANGE-RELATED COSTS**

Complementary to the revised basic generation charge recently filed by the National Power Corporation (NPC) with the Energy Regulatory Commission (ERC), the Power Sector Assets and Liabilities Management (PSALM) Corporation, as owner of all existing NPC generation assets pursuant to Section 49 of Republic Act No. 9136 and Rule 3, Section 5 of its Implementing Rules and Regulations (IRR), hereby proposes to adopt the following Rules to establish the process for the automatic recovery of the monthly fuel, purchased power, and foreign exchange-related costs of its generation assets.

The proposed monthly automatic cost recovery is intended to address the following problems related to deferment of costs under the existing Generation Rate Adjustment Mechanism (GRAM) and Incremental Currency Exchange Rate Adjustment (ICERA) schemes:

1. delays in filing cost recovery applications;
2. regulatory lag;
3. non-matching of prices vis-à-vis costs in operating the plants;
4. imposition of carrying charge to compensate the generator for the cost of money attributed to delayed cost recoveries; and
5. uncertainty in the recovery period.

ARTICLE I

GENERAL PROVISIONS

These Rules shall have the following objectives:

1. To ensure the full recovery of all allowable fuel, purchased power, and foreign exchange-related costs of PSALM's generation assets;
2. To keep current and reflect the true cost of electricity;
3. To ensure proper matching of costs and revenues;
4. To ensure reasonable prices of electric power service;
5. To balance the need to protect the public interest as it is affected by the rates and services of NPC, and the need to ensure timely recovery of costs by providers of electricity; and
6. To ultimately help maintain the security, reliability, and quality of electric power supply.

ARTICLE II

AUTOMATIC MONTHLY FUEL AND PURCHASED POWER COST ADJUSTMENT

Section 1. Monthly recovery/(refund) of incremental/downward adjustment in Fuel and Purchased Power Costs – Monthly recovery/(refund) of incremental/downward adjustment in Fuel and Purchased Power Costs shall be calculated using the following formula:

$$FPPCA_{pesos} = FCA_{pesos} + PPCA_{pesos}$$

Where:

FPPCA_{pesos} = Fuel and Purchased Power Cost Adjustment

FCA_{pesos} = Fuel Cost Adjustment shall be calculated as follows:

$$AFC - FCB$$

AFC = Allowable Fuel Costs refer to the amount in pesos of fuel cost for the pertinent test period subject to heat rate caps approved by the ERC. This includes Bunker, Diesel, Coal, Natural Gas and other fuel types. Steam cost shall form part of the allowable fuel cost but shall not be subject to any heat rate cap.

FCB = Fuel Costs Billed refers to the amount in pesos of fuel equivalent to the fuel cost component of the ERC approved rate (in PhP/kWh) multiplied by the corresponding energy sales.

PPCA_{pesos} = Purchased Power Costs Adjustment shall be calculated as follows:

$$APPC - PPCB$$

APPC= Allowable Purchased Power Costs refer to the amount in pesos of purchased power cost, including capacity and infrastructure fees for eligible Independent Power Producer (IPP) Supply Contracts during the pertinent test period.

PPCB= Purchased Power Costs Billed refers to the amount of Purchased Power Cost equivalent to the Purchased Power Cost and Capacity and Infrastructure Fees Component of the ERC approved rate (in PhP/kWh) multiplied by the corresponding energy sales for the pertinent test period.

Section 2. Monthly calculation of Fuel and Purchased Power Costs Adjustment Rate – Monthly Fuel and Purchased Power Costs adjustment rate shall be calculated using the following formula:

$$FPPCA_{rate} = \frac{FPPCA_{pesos}}{Sales}$$

Where:

FPPCA_{rate} = Rate in Pesos per kWh of Fuel and Purchased Power Costs adjustment

FPPCA_{pesos} = Fuel and Purchased Power Costs adjustment computed in accordance with the preceding section

Sales = Sales for the billing month

ARTICLE III

AUTOMATIC FOREIGN EXCHANGE-RELATED COST ADJUSTMENT

Section 1. Monthly recovery/(refund) of incremental/downward adjustment in Foreign Exchange-Related Costs – Monthly recovery/(refund) of incremental/downward adjustment in Foreign Exchange-Related Costs shall be calculated using the following formula:

$$FxA_{pesos} = DSA_{pesos} + FxOpexA_{pesos}$$

Where:

FxA_{pesos} = Foreign Exchange-Related Cost Adjustment

DSA_{pesos} = Debt Service Adjustment pertaining to the principal portion shall be calculated monthly as follows:

$$\frac{(Fx_{actualrate} - Fx_{baserate}) \times DSR_{principal}}{months} + \frac{(Fx_{actualrate} - Fx_{baserate}) \times DSB_{principal}}{12}$$

Where:

Fx_{actualrate} = Actual foreign exchange rate refers to the simple average actual peso to US Dollar or Japanese Yen exchange rate of BSP for the billing period.

Fx_{baserate} = Base Peso to US Dollar or Japanese Yen exchange rate that will be approved by the ERC in the recent NPC basic generation rate application.

DSR_{principal} = For regular debt service, actual debt service payments (principal portion) for the month in US Dollar or Japanese Yen.

DSB_{principal} = For bullet debt service, estimated bullet debt service payments (principal portion) for one (1) year in US Dollar or Japanese Yen.

FxOpexA_{pesos} = Foreign Exchange-Related Cost Adjustment for foreign related operating expenses shall be calculated monthly as follows:

$$(F_{\text{actualrate}} - F_{\text{baserate}}) \times FxOpex$$

Where:

F_{actualrate} = Actual foreign exchange rate refers to the simple average actual peso to US Dollar or Japanese Yen exchange rate of BSP for the billing period.

F_{baserate} = Base Peso to US Dollar or Japanese Yen exchange rate that will be approved by the ERC in the recent NPC basic generation rate application.

FxOpex = Foreign-related operating expenses in US Dollar or Japanese Yen, excluding those recovered/(refunded) through the FPPCA for the period.

Section 2. Monthly calculation of Debt Service Adjustment Rate – Monthly Foreign Exchange adjustment rate for Debt Service (principal portion) shall be calculated using the following formula:

$$DSA_{\text{rate}} = \frac{DSAR_{\text{pesos}} + DSAB_{\text{pesos}}}{Sales_{\text{actual}}}$$

Where:

DSA_{rate} = Rate in Pesos per kWh of Debt Service (principal portion)

DSAR_{pesos} = Regular Debt Service computed in accordance with the preceding section

DSAB_{pesos} = Bullet Debt Service computed in accordance with the preceding section, divided by 12 months

Sales_{actual} = Actual energy sales for the month in kWh

Section 3. Monthly calculation of Foreign Exchange-Related Operating Expenses Adjustment Rate – Monthly Foreign Exchange adjustment rate for foreign exchange-related operating expenses shall be calculated using the following formula:

$$FxOpexA_{\text{rate}} = \frac{FxOpexA_{\text{pesos}}}{Sales}$$

Where:

FxOpexA_{rate} = Rate in Pesos per kWh of Foreign Exchange-Related Operating Expenses

FxOpexA_{pesos} = Foreign Exchange-Related Operating Expenses computed in accordance with Article III, Section 1 above

Sales = Sales for the billing month

ARTICLE IV

VERIFICATION PROCESS

Section 1. Post Verification – At least every six (6) months, the ERC shall verify the recovery of Generation Costs by comparing the actual allowable costs incurred for the period with the actual revenues for the same period generated by the Generation Rates.

Should the ERC fail to verify the Generation Rate within six (6) months from the submission of calculation and supporting, the rates shall be deemed final and confirmed.