

**ORIGINAL COPY**

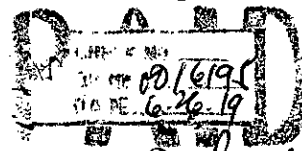
Republic of the Philippines  
ENERGY REGULATORY COMMISSION  
Pacific Center Building, San Miguel Avenue  
Ortigas Center, Pasig City

PETITION FOR TRUE-UP  
ADJUSTMENT OF THE  
NATIONAL POWER  
CORPORATION'S  
STRANDED DEBTS (SD)  
PORTION OF THE  
UNIVERSAL CHARGE (UC)  
FOR CALENDAR YEAR (CY)  
2018, AND TRUE-UP  
ADJUSTMENTS OF THE NPC  
SD PORTION OF THE UC  
FOR CYs 2011-2012, WITH  
PRAYER FOR THE ISSUANCE  
OF PROVISIONAL  
AUTHORITY (PA),

RECEIVED BY: XDS  
19 JUN 25 P5:19  
ERC CASE NO. 2018-047RC

POWER SECTOR ASSETS  
AND LIABILITIES  
MANAGEMENT  
CORPORATION (PSALM),  
*Petitioner.*

x-----x

*Case No. 807*  
  
*Case No. 807*  
*5-24-19*

PETITION

Petitioner POWER SECTOR ASSETS AND LIABILITIES  
MANAGEMENT CORPORATION (PSALM), through undersigned  
counsel and unto this Honorable Commission, respectfully states:

I.

**NATURE OF PETITION**

1. This Petition for True-Up Adjustment for the National Power Corporation's ("NPC") Stranded Debts ("SD") Portion of the Universal Charge ("UC") for Calendar Year ("CY") 2018 to be collected from all end-users of electricity, is being filed pursuant to Republic Act No. 9136 or the "Electric Power Industry Reform Act of 2001" ("EPIRA"),

its Implementing Rules and Regulations ( "EPIRA-IRR") and "A Resolution Adopting the Amended Rules for Recovery of NPC Stranded Contract Costs and Stranded Debts Portion of the Universal Charge" ("Amended Rules for Recovery") as adopted by the Energy Regulatory Commission ("ERC") in its Resolution No. 02-2011 dated 7 February 2011.

## II.

### TIMELINESS OF THE PETITION

2. Article VIII of said Amended Rules for Recovery provides that true-up adjustment shall be done on an annual basis to be initiated by PSALM through submission before this Honorable Commission on or before the 15<sup>th</sup> day of March of every year of a detailed Variance Analysis Report (hereinafter, "VAR"), certified by an Independent Third-Party Auditor as well as the relevant documents to support true-up adjustments as part of the VAR.

The VAR shall be the basis by which the Honorable Commission will approve inclusion of any under recovery in the current year's level of NPC SD availment of the UC or mandate a reimbursement due to over recovery by way of reduction in the current year's level of NPC SD Portion of the UC.

3. In its 25 January 2019 letter, PSALM requested this Honorable Commission for an extension of the deadline to file, among others, the instant Petition and the update/VAR on the implementation of the UC- SD True-up Adjustments for CYs 2011-2012, from 15 March 2019 to 31 July 2019.

The extension was necessary for the following reasons: (i) the certified financial statements would be available only by 15 February 2019, and have to be analyzed to properly identify and distinguish the components that are eligible for recovery under Stranded Contract Costs ("SCC") and those qualified under the SD True-up Adjustment, and (ii) a certification from the Independent Third Party Auditor has to be obtained by PSALM to support the data in its Petition.

PSALM's 25 January 2019 letter is hereto attached as Annex "A".

4. PSALM sent a follow-up letter (dated 04 March 2019) stating that as the certification on the VAR from PSALM's Independent Third Party Auditor, the Commission on Audit ("COA") in this case, is issued after it has completed the Annual Audit Report or after March 15, it is impossible for PSALM to file its UC-SD Petition together with

the COA duly certified VAR on 15 March 2019. This same reason constrained PSALM in the past to seek an extension of time in filing its UC-SD Petitions.

PSALM's 04 March 2019 follow-up letter is hereto attached as **Annex "A-1"**.

5. This Honorable Commission, in its letter dated 12 March 2019, approved PSALM's request to extend the deadline and gave it until 30 June 2019 within which to file the instant Petition.

The Honorable Commission's 12 March 2019 letter is hereto attached as **Annex "B"**.

6. Hence, the instant Petition for True-Up Adjustment is filed within the period granted by this Honorable Commission.

### III.

#### PETITIONER

7. Petitioner PSALM is a government-owned and controlled corporation created by virtue of RA 9136 or the EPIRA, with principal office address at 24th Floor Vertis North Corporate Center 1 Astra corner Lux Drives, North Avenue, Quezon City.

8. 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 Independent Power Producer (hereinafter, "**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** (emphasis supplied) 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).

9. It is PSALM's responsibility to calculate the amount of the SD of NPC that can be recovered through the UC, subject to the review and approval by the Honorable Commission.<sup>1</sup> The recovery of NPC SD through the UC shall be uniform to all the end-users.<sup>2</sup>

---

<sup>1</sup> Article V, Amended Rules for Recovery

<sup>2</sup>Section 1, Article V, Amended Rules for Recovery

10. PSALM is likewise responsible for initiating true-up adjustments through the submission of the VAR certified by an Independent Third-Party Auditor as well as the calculation and collation of supporting documents for UC-SD<sup>3</sup>.

#### IV.

#### ANTECEDENTS

11. The Stranded Debts of NPC refer to “any unpaid financial obligations which have not been liquidated by the proceeds from the sales and privatization of NPC assets.” [EPIRA, Section 4(vv)]

12. On 07 February 2011, this Honorable Commission approved and adopted ERC Resolution No. 2, Series of 2011 or the Amended Rules for Recovery which, among others, established the procedure and manner in which PSALM shall file its Petitions for availment from the UC with respect to NPC SCC and SD recovery, and defined the parameters in calculating said SCC and SD.

13. On 28 January 2013, the Honorable Commission rendered its decision on ERC Case No. 2011-092 RC (hereinafter, “**ERC Decision**”), disapproving the petition of PSALM for the recovery of NPC’s SD portion of the UC and setting the recoverable SD to zero (0) “*since the allowable SD for CY 2011 can be fully covered and paid from the proceeds of NPC’s operation. This is without prejudice to the filing of annual true-up adjustments for the recovery of succeeding SD, for the year 2011 and succeeding years.*”

#### V.

#### VARIANCE ANALYSIS REPORT TO SUPPORT THE CY 2018 UC-SD TRUE-UP ADJUSTMENT

14. Under Section 3, Article VIII of the Amended Rules for Recovery, the VAR to be submitted by PSALM to the Honorable Commission shall contain, at the minimum, the following:

- a. Quantity Variance (hereinafter, “**QV**”), which refers to the difference between the billing determinant used pursuant to the ERC Decision and the Actual kWh sales to end-users;
- b. Cost Variance (hereinafter, “**CV**”), which refers to the difference in the estimated costs considered in establishing the approved level of stranded debts and actual costs

---

<sup>3</sup> Article VIII, Amended Rules for Recovery

- incurred covering Gross Debt Service, Privatization Proceeds, and Projected Net Cash Flow from NPC Main Grid Operations; and
- c. The over/under recovery for the stranded debts shall be equivalent to the sum of CV and QV translated in absolute peso amount (QV multiplied by the PhP/kWh stranded debt approved by the Honorable Commission).

**VI.**

**FINANCIAL OBLIGATIONS SERVICED IN CY 2018**

15. PSALM’s total financial obligations serviced/paid in CY 2018 consist of i) regular debt maturities of the NPC, NPC-Small Power Utilities Group (“NPC-SPUG”), PSALM, and the National Transmission Corporation (“TransCo”); and ii) Build-Operate-Transfer (“BOT”) lease obligations pertaining to eligible (for SCC calculation purposes) and ineligible Independent Power Producer (“IPP”) contracts (relevant in calculating SD) due for the said year.

16. For CY 2018, total debts and BOT lease obligations serviced are summarized in the table below:

<b>Total Financial Obligations</b>	<b>Amount (in PhP)</b>
i) NPC's outstanding financial obligations as of effectivity of EPIRA	31,041,207,488.17
- Debts	1,971,697,466.76
- Lease Obligation of all IPPs	29,069,510,021.41
ii) New loans contracted by NPC after the effectivity of EPIRA	1,246,671,910.58
iii) Loans incurred by PSALM in behalf of NPC	46,462,076,276.14
<b>Total Financial Obligations Serviced</b>	<b>78,749,955,674.89</b>

**Table 1: Summary of Financial Obligations Serviced in CY 2018**

The schedules of Financial Obligations Serviced in CY 2018, consisting of Total Actual Debt Service for the period ended 31 December 2018, and Lease Obligations paid in 2018 are hereto attached as Annexes “C”, “C-1” and “C-2”, respectively.

## VII.

### GROSS DEBT SERVICE (GDS)

#### Recoverable Financial Obligations

17. Pursuant to Section 2, Article V of the Amended Rules for Recovery, the financial obligations that shall be included as part of the GDS for purposes of the SD true-up calculations are as follows:

- i) NPC's outstanding financial obligations as of the effectivity of EPIRA;
- ii) New loans contracted by NPC after the effectivity of the EPIRA;
- iii) Loans incurred by PSALM in behalf of the NPC; and
- iv) Loans contracted by TransCo prior to its privatization.

18. On the other hand, the financial obligations that shall be excluded for purposes of the SD true-up calculations are as follows:

- i) Capacity fees and debt service related to eligible IPP contracts;
- ii) All other loans incurred by PSALM; and
- iii) All loans pertaining to NPC-SPUG.

19. Consistent with the ERC Decision on the recovery of UC-SD, Capacity Fees/Lease Obligations of IPP contracts not eligible for recovery under SCC (Lease obligations of ineligible IPPs) shall be included as part of GDS under NPC's outstanding financial obligations as of the effectivity of the EPIRA.

#### Allowable GDS

20. Out of the total financial obligations serviced by PSALM in 2018, the SD share in debt service or the allowable GDS was calculated by applying to each component of debt service (principal repayment, interest, guarantee fee, and other charges) the percentage share utilization of SD in the loan proceeds. The percentage share utilization of SD is based on the extent of loan proceeds that was utilized for generation/transmission/other power assets and ineligible IPPs which are all eligible for recovery under SD ("**SD Percentage**").

21. The Allowable GDS also includes the capacity fees/lease obligations for ineligible IPP contracts, namely: San Roque, Luzon Hydro (Bakun), Ilijan, Kalayaan 3 and 4, and Mindanao Coal/STEAG. In other words, allowable GDS excludes capacity fees/lease

obligations of IPP contracts for Sual and Pagbilao Coal plants which are eligible for recovery under the UC-SCC.

22. Out of the PhP78.750 Billion total financial obligations serviced in CY 2018, Allowable GDS amounts to PhP47.185 Billion, as shown below:

<b>GDS</b>	<b>Amount (in PhP)</b>
i) NPC's outstanding financial obligations as of effectivity of EPIRA	11,643,635,648.96
- Debts	1,971,697,466.76
- Lease Obligation of non-eligible IPPs	9,671,938,182.20
ii) New loans contracted by NPC after effectivity of EPIRA	775,100,807.00
iii) Loans incurred by PSALM in behalf of NPC	34,766,235,677.07
<b>Total Allowable GDS</b>	<b>47,184,972,133.03</b>

Table 2: Summary of Total Allowable GDS for CY 2018

23. The Allowable GDS of PhP47.185 Billion was further reduced by PhP22.743 Billion, representing principal repayment portion of loans (consisting of LBP<sup>4</sup> 75Bn Syndicated Term Loan, ROP<sup>5</sup> Relending Facility and ROP Relent-\$500M Onshore Dollar Bond) that were used to service debt maturities included in the CYs 2011 and 2012 GDS and SD calculations (Loans for Refinancing), to avoid double recovery.

24. Hence, Net Allowable GDS, net of the above-mentioned principal repayment portion of Loans for Refinancing, amounts to PhP24.442 Billion, as shown below:

<b>Net Allowable GDS</b>	<b>Amount (in PhP)</b>
Gross Debt Service	47,184,972,133.03
LESS: Principal Repayment Portion of New Loans for Refinancing	22,742,860,779.08
<b>Allowable GDS Net of Principal Repayment Portion of New Loans for Refinancing (Net Allowable GDS)</b>	<b>24,442,111,353.95</b>

Table 3: Summary of Net Allowable GDS for CY 2018

The details of Net Allowable GDS is hereto attached as Annex "D", while the schedule of Lease Obligations of Ineligible IPP Plants paid in 2018 is hereto attached as Annex "D-1".

<sup>4</sup> Land Bank of the Philippines

<sup>5</sup> Republic of the Philippines

## VIII.

### PRIVATIZATION PROCEEDS (PP)

25. Consistent with the EPIRA and the UC-SD formula under the Amended Rules for Recovery, the following PP components shall be used to further reduce the allowable GDS:

- i) Proceeds from the sale of assets or equity in the privatized entities;
- ii) Proceeds from the privatization of non-eligible IPP contracts; and
- iii) Proceeds from the concession of operations of the transmission system.

26. Guided by the considerations on PP in the ERC Decision covering UC-SD True-up Adjustment for CYs 2011-2012, the PP for CY 2018 is shown below:

Privatization Proceeds	Amount (in PhP)
IPP Administrator Monthly Payment	12,335,687,500.37
Interest on TransCo's Concession Agreement	3,551,982,122.08
Other Priva-related Proceeds	573,307,216.29
<b>Total Privatization Proceeds</b>	<b>16,460,976,838.74</b>

Table 4: Details of Privatization Proceeds for CY 2018

27. The details of the privatization proceeds for CY 2018 are as follows:

- a. The IPP administrator Monthly Payments amounting to PhP12.336 Billion, net of Value Added Tax ("VAT") shouldered by PSALM, represent the privatization proceeds from the two (2) IPP Administrators, namely, Strategic Power Development Corporation ("SPDC") and South Premiere Power Corporation ("SPPC"), as a result of PSALM's privatization of IPP contracts covering San Roque and Ilijan plants, respectively.

Vivant Sta. Clara Northern Renewable Generation Corporation ("VSCNRGC") filed a petition for corporate rehabilitation with the Regional Trial Court ("RTC") Branch 11, Cebu City on 16 May 2017. The court issued a Commencement/Stay Order declaring the entity under rehabilitation on 26 May 2017. PSALM subsequently filed several pleadings, the last of which was the 20 December 2018 Supplemental



Comment/Opposition (to VSCNRGC's 25 October 2018 Manifestation with Motion) that prayed for: the denial of the third Rehabilitation Plan, dismissal of the rehabilitation proceedings as to PSALM, and lifting of the 26 May 2017 Stay Order against PSALM. Pending the court's resolution on PSALM's Opposition with Prayer to Lift Stay Order, VSCNRGC continues to administer the contracted capacity of Bakun Plant sans payment of Monthly Payment to PSALM. Unpaid Monthly Payments of VSCNRGC for CY 2018 amounted to USD0.014 Billion and PhP0.461 Billion, effectively increasing the SD for the year by said amounts.

In any event, and regardless of the outcome of the case, the foregoing shall be without prejudice to and shall not constitute a waiver of PSALM's rights and remedies under any contract, relevant laws and regulations, and jurisprudence, or any of PSALM's claims, defenses, etc. under any pending litigation or arbitration to which PSALM is a party. PSALM respectfully reserves its rights and requests that it be allowed to include any necessary and resulting adjustments in its succeeding SD Petitions.

- b. The interest on TransCo's Concession Agreement amounting to PhP3.552 Billion represents the interest payments made by the National Grid Corporation of the Philippines ("NGCP") in 2018. These interest payments are based on NGCP's computation of the outstanding balance of the concession fee under the Concession Agreement.

On 15 July 2013, NGCP remitted to PSALM the amount of PhP57.883 Billion. NGCP sought to have such amount be treated as a prepayment of its concession fee under the Concession Agreement. According to NGCP, the amount corresponds to the tenth (10<sup>th</sup>) to thirtieth (30<sup>th</sup>) deferred payment amortizations that are due starting 15 January 2014 up to 15 January 2024. On or about 15 May 15, 2017, PSALM and the National Transmission Corporation ("TransCo") informed NGCP that pursuant to the Concession Agreement, NGCP's payment in 2013 cannot be applied as a prepayment of its concession fee. This is because at the time of such payment, NGCP has amounts that were

due and in arrears to TransCo and/or PSALM under the Concession Agreement and other Transaction Documents.

On 14 February 2018, TransCo and PSALM received a notice of arbitration filed by NGCP under the rules of the Singapore International Arbitration Centre for alleged violations of the Concession Agreement. The accounts relating to the concession fee due from NGCP under the Concession Agreement, including the interest payment made by NGCP since 15 January 2014, may be adjusted subject to the outcome of the arbitration filed by NGCP.

The foregoing shall be without prejudice to and shall not constitute a waiver of PSALM's rights and remedies under any contract, relevant laws and regulations, and jurisprudence, or any of PSALM's claims, defenses, etc. under any pending litigation or arbitration to which PSALM is a party. PSALM respectfully reserves its rights and requests that it be allowed to include any necessary and resulting adjustments in its succeeding SD Petitions.

- c. The proceeds from the sale of other privatization-related activities amounting to PhP0.573 Billion consist of the following: i) Fuel Inventory of Naga Power Plant Complex; and ii) Purchase Price of Optioned Assets under Land Lease Agreement for Pantabangan Hydroelectric Power Plant (Pantabangan HEPP) and Limay Combined Cycle Thermal Power Plant (Limay CCTPP).

28. The PP are net of VAT, consistent with the Bureau of Internal Revenue's ("BIR") Revenue Memorandum Circular No. 11-2012 which states, among others, that:

"x x x Considering that the sale of electricity is now subject to VAT, the real properties sold by PSALM are regarded as real properties used in the trade or business. While it is clear under the Tax Code of 1997 that such sale is not subject to income tax, there is no provision under the same Code that exempts it from VAT nor subject it to VAT at zero rate. x x x"

"x x x Moreover, gross receipts of PSALM from the lease of NPC transferred assets and other assets are

deemed in the ordinary course of trade or business, hence, subject to VAT under the Tax Code of 1997.”

29. Considering that the IPP Administrator Agreement between PSALM and the IPP Administrator provides that, “[i]n the event that the Monthly Payments are determined with finality to be subject to value added tax, all applicable value added tax on such payments shall be for the account of PSALM...”, for purposes of SD calculations, the IPP Administrator Monthly Payment received by PSALM was reduced by the VAT shouldered by PSALM.

The Schedule of Actual Privatization Proceeds (for SD Recovery), based on the Schedule of Actual Privatization Proceeds, and the Schedule of VAT and EWT on Privatization Proceeds are hereto attached as Annexes “E”, “E-1” and “E-2”, respectively.

**IX.**

**PROCEEDS FROM NPC OPERATIONS (PO)**

30. Consistent with the Amended Rules for Recovery and the ERC Decision on the UC-SD, the PO is used to reduce the allowable GDS.

Below is the list of generating assets and ineligible IPP contracts for CY 2018 whose operating results were considered in calculating the PO:

<b>PSALM Owned Plants</b>	<b>IPP Plants</b>	<b>IPPs under IPPA</b>
Malaya Agus-Pulangui	Caliraya Botocan Kalayaan I and II Casecnan Mindanao Coal Mt. Apo 1 & 2	Luzon Hydro (Bakun) San Roque Ilijan

**Table 5: List of Plants and IPPs**

31. The PO of the remaining generating assets and IPP contracts for CY 2018 that were considered in the SD true-up calculations are shown below:

<b>Proceeds From NPC Operations</b>	<b>Amount (In PhP)</b>
<b>REVENUES</b>	
Net Utility Revenue (NUR)	24,921,015,882.83
Generation Payment Billings	24,200,352,072.27

Proceeds From NPC Operations	Amount (In PhP)
Net, Other Income	30,124,493.51
<b>Total Revenues</b>	<b>49,151,492,448.61</b>
<b>COSTS</b>	
Fuel	24,355,168,059.50
Purchased Power Cost	15,248,199,281.46
Pumping Cost	4,478,950,099.28
Other OPEX	1,810,531,468.47
<b>Total Costs</b>	<b>45,892,848,908.71</b>
<b>Net PO</b>	<b>3,258,643,539.90</b>

Table 6: Summary of Proceeds from NPC Operations

The detailed PO for CY 2018 is hereto attached as **Annex "F"**.

32. The components of the PO for CY 2018 are as follows:

- a. Net Utility Revenues refer to revenues generated from the provision by the remaining generating assets and ineligible IPP plants of energy and ancillary service to customers and the spot market. These revenues were based on the Operating Results, Cash Flow or the Results of Operation (hereinafter, "**ROO**") for CY 2018 broken down into Ineligible and Eligible plants, hereto attached as **Annex "F-1"**.
- b. Generation Payments represent billings made to IPP Administrators of ineligible IPP plants, namely Luzon Hydro (Bakun), San Roque, and Ilijan.

Generation Payments from IPP Administrators covering ineligible IPP contracts that were privatized are considered in the PO "as billed" by PSALM

As the Generation Payments reflect the billed amount, the SD computation is effectively lower *sans* actual collection from the IPP Administrators, as in the case of VSCNRGC, which lowered the SD by PhP0.232 Billion representing VSCNRGC's unpaid Generation Payments in CY 2018. Such is the effect of the Commencement/Stay Order issued in VSCNRGC's favor by the trial court relative to its Corporate Rehabilitation.

As of 31 December 2018, the unpaid balance in Generation Payments of SPPC has accumulated to PhP12.506 Billion.

In CY 2015, with SPPC's failure to settle the balance within the prescribed period, SPPC was declared in default. As a result thereof, and in accordance with the provisions of the contract, PSALM served SPPC the following documents: (i) Notice of Termination; (ii) Demand Letter and Demand Certificate demanding payment of PhP0.600 Billion representing the performance bond; and (iii) Cessation Notice and Payment Mandate.

On 08 September 2015, SPPC filed a case against PSALM for Specific Performance with Injunction before the Regional Trial Court Branch 209, Mandaluyong City. SPPC questioned, among others (i) PSALM's termination of the IPPA for the Ilijan Power Plant, and (ii) application of the correct rate of the Generation Payments due PSALM.

On 28 September 2015, the court granted SPPC's prayer for injunction, that enjoined PSALM "*xxx from further proceeding with the termination of the independent power producer administration (IPPA) agreement between SPPC and PSALM while the main case is pending xxx.*" PSALM continues to bill SPPC based on the rates as reflected on the IPPA AA.

In any event, and regardless of the outcome of the case, the foregoing shall be without prejudice to and shall not constitute a waiver of PSALM's rights and remedies under any contract, relevant laws and regulations, and jurisprudence, or any of PSALM's claims, defenses, etc. under any pending litigation or arbitration to which PSALM is a party. PSALM respectfully reserves its rights and requests that it be allowed to include any necessary and resulting adjustments in its succeeding SD Petitions.

The Summary of IPPA Billings - Generation Payments is hereto attached as **Annex "F-2"**.

- c. Net Other Income/(Expense) consists of other income less other expenses not directly attributable to the operations of existing power plants.
- d. Costs include fuel, purchased power costs ("PPC"), energy purchased from the Philippine Electricity

Market Corporation ("PEMC"), pumping costs and other plant operating expenses ("Other OPEX"). Details of fuel and purchased power costs of remaining plants and IPP contracts (excluding IPP contracts under IPP Administration Agreement) showing their allocation between Transition Supply Contract/Contract for the Sale of Electric Energy ("TSC/CSEE") and Wholesale Electricity Spot Market ("WESM") customers are in Annex "F-3". The fuel and purchased power cost allocations are based on the proportion of each plant/IPP's sales to the respective markets. Other OPEX includes NPC's Operation and Maintenance Agreement ("OMA") costs, station use, share in national wealth, Energy Regulation ("ER") 1-94, real property taxes, insurance and technical and administrative expenses. For PSALM's remaining generating assets and ineligible IPP plants, the cost components are based on the CY 2018 ROO. On the other hand, cost components for IPP plants under IPPA were based on the CY 2018 Schedules of Fixed and Variable Costs of Ineligible Plants under IPPAA.

The Fixed Cost of Ineligible Plants under the IPPAA for the Period Ended 31 December 2018 and the Variable Cost of Ineligible Plants under IPPAA are hereto attached as Annexes "F-4" and "F-5", respectively.

## X.

### COST VARIANCE (CV)

33. As mentioned above, CV refers to the difference in the:
- (i) Estimated costs covering GDS, PP and PO considered in establishing the approved level of stranded debts; and
  - (ii) Actual costs covering GDS, PP and PO.

34. Since the ERC set the recoverable SD to zero, it follows that the value of estimated cost is also zero. As such, actual costs (GDS less PP and PO) for CY 2018 will necessarily be equivalent to the CV for the same period, amounting to PhP4.722 Billion, as shown below:

Particulars	Amount(in PhP)
Gross Debt Service	24,442,111,353.95
Less: Privatization Proceeds	16,460,976,838.74
Proceeds from NPC Operation	3,258,643,539.90
<b>CY 2018 Actual SD</b>	<b>4,722,490,975.31</b>
Less: SD Approved for Recovery	0.00
<b>Cost Variance</b>	<b>4,722,490,975.31</b>

Table 8: Cost Variance

XI.

**QUANTITY VARIANCE (QV)**

35. QV, as previously mentioned, refers to the difference between the billing determinant used pursuant to the ERC Decision and the Actual kWh sales to end-users. This will be the QV in kWh sales.

36. To determine the QV in absolute amount, QV is multiplied by the PhP/kWh SD approved by this Honorable Commission. Since the Honorable Commission set the recoverable SD in PhP/kWh to zero, QV in absolute amount will also be zero regardless of the QV in kWh sales that will be computed.

XII.

**CY 2018 NPC UC-SD TRUE-UP ADJUSTMENT**

37. In accordance with the guidelines implemented by this Honorable Commission, the NPC SD True-Up Adjustment for CY 2018 amounts to PhP4.722 Billion, representing the sum of Cost Variance and the peso value of the Quantity Variance, as shown below:

Particulars	Amount (PhP)
<b>Cost Variance</b>	<b>4,722,490,975.31</b>
<b>Add: Quantity Variance</b>	<b>0.00</b>
<b>True-Up Adjustment/ Under-Recovery</b>	<b>4,722,490,975.31</b>

Table 9: UC-SD True-up Adjustment for CY 2018

A copy of the CY 2018 VAR as certified by the Commission on Audit (COA), the Third Party Auditor, is hereto attached as **Annex "G"**.

38. The equivalent rate of the CY 2018 UC-SD True-Up Adjustment is PhP0.0063/kWh, calculated by dividing the PhP4.722 Billion by the projected energy sales from January 2020 to June 2026

based on the Department of Energy's Electricity Sales Forecast by Grid (2019-2040), with details as follows:

UC-SD True-Up Adjustment for CY 2018 (in PhP)	Energy Sales Forecast (GWh)	UC-SD Rate (PhP/kWh)
4,772,490,975.31	749,084	0.0063

Table 10: UC-SD True-up Adjustment for CY 2018 in PhP/kWh

A copy of the Electricity Sales Forecast, PDP (2019-2040) as sourced from the DOE is hereto attached as Annex "H".

XIII.

**ACTUAL OUTSTANDING DEBT SERVICE  
 AS OF 31 DECEMBER 2018**

39. Pursuant to Section 3, Article V of the ERC Amended Rules for Recovery, PSALM shall include in the filing of the True-up Adjustments the actual outstanding Gross Debt Service as of the current year to account for any adjustment on the Gross Debt Service for reasons, such as, but not limited to, PSALM's refinancing of existing debts. Such recalculated Gross Debt Service shall be used in the true-up computation.

40. Shown below is the actual outstanding GDS as of 31 December 2018 as compared with the outstanding GDS as of 31 December 2010, 31 December 2011 and 2012, 31 December 2013, 31 December 2014, 31 December 2015, 31 December 2016 and 31 December 2017:

Particulars	As of 31 December								
	2010 (PhP B)	2011 (PhP B)	2012 (PhPB)	2013 (PhP B)	2014 (PhP B)	2015 (PhP B)	2016 (PhP B)	2017 (PhP B)	2018 (PhP B)
i) NPC's outstanding financial obligations as of effectivity of EPIRA (including Lease Obligations of non-eligible IPPs)	254.60	224.95	188.54	173.04	140.88	126.74	113.94	102.97	96.68
ii) New loans contracted by NPC after the effectivity of EPIRA	84.20	55.88	38.52	37.20	32.61	29.00	1.63	0.79	---
iii) Loans incurred by PSALM in behalf of NPC	201.12	260.67	311.41	268.36	260.49	242.57	236.71	217.38	218.62



Particulars	As of 31 December								
	2010 (PhP B)	2011 (PhP B)	2012 (PhPB)	2013 (PhP B)	2014 (PhP B)	2015 (PhP B)	2016 (PhP B)	2017 (PhP B)	2018 (PhP B)
<b>Outstanding GDS</b>	<b>539.92</b>	<b>541.49</b>	<b>538.47</b>	<b>478.60</b>	<b>433.98</b>	<b>398.31</b>	<b>352.29</b>	<b>321.14</b>	<b>315.30</b>

Table 11: Outstanding GDS as of 31 December 2010, 2011, 2012, 2013, 2014, 2015, 2016, 2017 and 2018

41. The GDS as of 31 December 2010 was considered by the ERC in its Decision dated 28 January 2013 under ERC Case No. 2011-092. GDS as of 31 December 2011 and 2012, 2013, 2014, 2015, 2016 and 2017, on the other hand, were reported in PSALM's petition under ERC Case No. 2013-195, submitted in PSALM's compliance to this Honorable Commission, and reported in PSALM's petitions under ERC Case No. 2015-144 RC, ERC Case No. 2016-150 RC, ERC Case No. 2017-069 RC and ERC Case No. 2018-087, respectively.

The details of the **Actual Outstanding GDS** as of 31 December 2018, based on the **Inventory of Financial Obligations** relative to the **Principal, and Interest, Guarantee Fee and Other Charges** are hereto attached as **Annexes "I", "I-1" and "I-2"**, respectively. Relative to the GDS, the Lease Obligations as of 31 December 2018 is hereto attached as **Annex "D-1"**.

#### XIV.

#### UPDATE ON THE IMPLEMENTATION OF THE NPC'S SD PORTION OF THE UC FOR CYs 2011-2012

42. On 27 June 2017, the ERC issued a Decision on ERC Case No. 2013-195 RC, *"In the Matter of the Petition for True-Up Adjustments for the NPC's SD Portion of the UC for Luzon, Visayas and Mindanao Grids for CYs 2011 and 2012, with Prayer for Provisional Authority (PA),"* authorizing PSALM to recover UC-SD for CYs 2011-2012 effective August 2017 amounting to PhP24,198,852,235.17 at the rate of PhP0.0265/kWh for the Luzon, Visayas and Mindanao Grids until the approved amount has been fully recovered. The ERC directed all distribution utilities (DUs) and NGCP to collect from the consumers the approved UC-SD starting August 2017 billing period. Pursuant to *Section 34 of Republic Act No. 9136*, such collections by the DUs and TransCo (now NGCP) shall be remitted to PSALM Corporation on or before the 15th of the succeeding month.

43. Further, PSALM is directed, on a yearly basis, to include in its VAR the status of collection of the ERC-approved CYs 2011-2012 UC-SD True-Up amount.

Under-Recovery as of 31 December 2018 of the ERC-approved CYs 2011-2012 UC-SD True-Up

44. The under recovery as of 31 December 2018 for the CYs 2011-2012 UC-SD is PhP21.545 Billion, details of which are shown below:

PARTICULARS	QUANTITY VARIANCE (GWh)	AMOUNT (PhP)	RATE PhP/kWh
Billing Determinant and Approved Level of CYs 2011-2012 SD pursuant to the ERC Decision	914,561.00	24,198,852,235.17	0.0265
Less: Energy Sales Billed/Remitted covering 01 September 2017 to 31 December 2017 Remittance Period (PhP526,004,320.71/ PhP0.0265/kWh)	19,879.58	526,004,320.71	0.0265
Quantity Variance/ Under or (Over) Recovery, as certified by COA	894,681.42	23,672,847,914.46	0.0265
Less: Energy Sales Billed/Remitted covering 01 January 2018 to 31 December 2018 Remittance Period (PhP2,128,172,069.59/PhP0.0265/kWh)	80,431.22	2,128,172,069.59	0.0265
Quantity Variance/ Under (Over) Recovery	814,250.20	21,544,675,844.87	0.0265

Table 13: CYs 2011-2012 UC-SD Update

A copy of the COA Independent Auditor's Report on the VAR on the implementation of the CYs 2011-2012 True-Up Adjustment of the NPC SD Portion of the UC as of 31 December 2018 is attached as Annex "J".

45. In compliance with 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 Quezon City. A copy of the Affidavit of Service is hereto attached as Annex "K". The Petition (excluding Annexes) was also published in a newspaper of general circulation. A copy of the Affidavit of Publication is hereto attached as Annex "L".

XVI.

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

46. The petition covers the true-up adjustment for the UC-SD for CY 2018. As PSALM has vigorously pursued its mandate of privatizing the generation assets and the power facilities, revenues from the sale of electricity of the remaining assets are not enough to

cover its operations and provide funds for the payment of NPC debts and obligations. To address the funding gaps, PSALM is forced to resort to temporary solution by borrowing, which entails borrowing costs, which in turn will form part of the UC-SD, effectively increasing the UC burden of all electricity end-users.

47. On the other hand, if PSALM will be allowed to immediately recover the UC-SD under this petition through provisional approval, new loans and refinancing to service maturing debts and lease obligations would lessen. This would redound to the benefit of electricity end-users due to reduced borrowing costs, effectively reducing the UC burden.

48. Pursuant to the Honorable Commission's Rules of Practice and Procedure, the Honorable Commission may exercise its discretion by granting provisional authority ("PA") or interim relief prior to a final decision. PSALM humbly seeks this Honorable Commission's indulgence to grant the PA to enable it to immediately recover the SD and accumulate sufficient funds to service its financial obligations. Early SD recovery will likewise translate to substantial savings on borrowing costs, as refinancing to service maturing financial obligations would lessen.

49. In support of the prayer for the issuance of PA, the Affidavit of Ms. Luisa A. Esteban, Manager of PSALM's Universal Charge and Administration Department, establishing certain facts and circumstances that would justify the Honorable Commission's exercise of discretion granting the prayer for PA or interim relief prior to a final decision is attached hereto and made an integral part hereof as Annex "M".

50. It is understood that the interim relief sought by Petitioner PSALM that may be granted by the Commission, shall be subject to adjustments and other conditions that the Commission may impose after hearing and final determination of the Honorable Commission.

### PRAYER

**WHEREFORE**, premises considered, Petitioner respectfully prays of this Honorable Commission that, after due notice and hearing:

1. The calculated True-Up Adjustment/Under Recovery for the National Power Corporation Stranded Debts Portion of the Universal Charge for CY 2018 amounting to **PhP4,722,490,975.31**, with an equivalent rate of **PhP**

**0.0063/ kWh** based on a six and one half (6 and ½) years recovery period, be **APPROVED**.

2. Provisional Authority allowing PSALM to charge, collect the computed UC-SD True-up Rate or such amount determined by the Honorable Commission be **GRANTED**; and
3. Submission of the following documents be deemed in **FULL COMPLIANCE** to the directive of ERC Resolution No. 02, Series of 2011:
  - a.) Details of Outstanding GDS as of 31 December 2018 (**Annex "I"**); and
  - b.) Inventory of Financial Obligations (Principal) as of 31 December 2018(**Annex "I-1"**);
  - c.) Inventory of Financial Obligations (Interest, Guarantee Fee and Other Charges) as of 31 December 2018(**Annex "I-2"**);
  - d.) Outstanding Lease Obligations of Eligible and Ineligible IPPs as of 31 December 2018 (**Annex "C-2"**);
  - e.) Outstanding Lease Obligations of Ineligible IPP Plants as of 31 December 2018 (**Annex "D-1"**).
4. Submission of the COA Independent Auditor's Report relative to the VAR on the update on the implementation of the CYs 2011-2012 True-Up Adjustment of the NPC SD Portion of the UC as of 31 December 2018 (**Annex "J"**) be deemed in **FULL COMPLIANCE** to the directive of this Honorable Commission in its 27 June 2017 Decision under ERC Case No. 2013-195 RC and Resolution No. 02, Series of 2011.

Other reliefs just and equitable are likewise prayed for.

Quezon City for Pasig City, 21 June 2019.

*-signatories on the following page-*



**JULIUS M. LOTILLA**  
*General Counsel*

IBP Lifetime No. 010574 (Antique)  
MCLE Compliance No. VI - 0023624 (04-14-2019)  
Roll of Attorney No. 47461



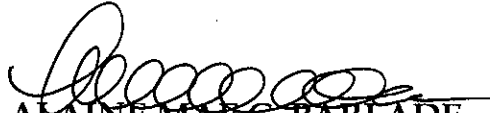
**GEOFFRY D. MASANCAY**  
*Corporate Legal Counsel*

IBP No. 064493 (01-08-19, Quezon City)  
MCLE Compliance No. VI-0020686 (3-25-2019)  
Roll of Attorney No. 52696



**MARIA ILYN G. GERONIMO-ALBITO**  
*Corporate Legal Counsel*

IBP No. 064494 (01-08-19, RSM)  
MCLE Compliance No. VI-0015994 (12-07-2018)  
Roll of Attorney No. 58287



**LALAINÉ MAE C. PARLADE**  
*Corporate Attorney*

IBP Lifetime No. 012817  
MCLE Compliance No. V-0020703 (03-25-2019)  
Roll of Attorney No. 63192

**GRACIELA MONA LUMANG-GUTIERREZ**  
*Corporate Attorney*

IBP No. 064495 (01-08-19, Nueva Ecija)  
MCLE Compliance No. V-0006296 (02-16-2015)\*  
Roll of Attorney No. 42822

**POWER SECTOR ASSETS AND LIABILITIES  
MANAGEMENT CORPORATION**

24<sup>th</sup> Floor Vertis North Corporate Center 1,  
Astra corner Lux Drives,  
North Avenue, 1105 Quezon City  
Telefax No. (+632) 902-9000  
Email address: mardelacruz@psalm.gov.ph

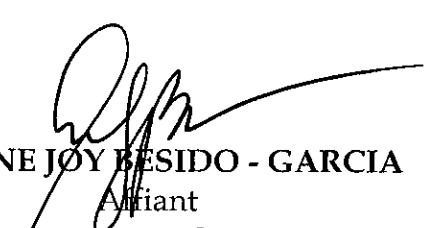
(Republic of the Philippines )  
(Quezon City ) S.S.

**VERIFICATION AND CERTIFICATION**

I, **IRENE JOY BESIDO - GARCIA**, of legal age, married, with office address at the Power Sector Assets and Liabilities Management (PSALM) Corporation, 24<sup>th</sup> Floor, Vertis North, Corporate Center I, Astra corner Lux Drives, North Avenue, Quezon City, after having been duly sworn to in accordance with law, do hereby depose and state for myself and for PSALM, that:

- (1) I am the designated President and Chief Executive Officer of the Power Sector Assets and Liabilities Management (PSALM) Corporation with authority to commence, initiate, sign and file the foregoing Petitions for the Stranded Debt, Stranded Contract Costs and Ninth (9<sup>th</sup>) True-Up Adjustment of Fuel, Purchased Power, and Foreign Exchange-Related Costs Covering January to December 2018 Test Period, pursuant to the Secretary's Certificates for PSALM Board Resolutions Nos. 2019-0524-01, 2019-0524-02 and 2019-0524-03 all dated 24 May 2019, respectively;
- (2) I have read the Petitions and the allegations therein are true and correct based on my personal knowledge or the authentic records available to PSALM;
- (3) I or PSALM have not commenced any other action or proceeding involving the same issues in the Supreme Court, the Court of Appeals or any court, tribunal, or quasi-judicial agency and, to the best of my knowledge, no such other action or claim is pending therein; and
- (4) If I or PSALM should hereinafter learn that the same or a similar action or claim has been filed or is pending in the Supreme Court, the Court of Appeals or any court, tribunal, or quasi-judicial agency, I shall report the said fact within five (5) days from discovery thereof to the Honorable Commission.

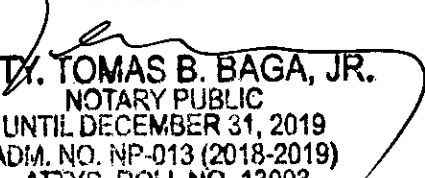
**JUN 21 2019** June 2019, Quezon City, Philippines.

  
**IRENE JOY BESIDO - GARCIA**  
Affiant

**JUN 21 2019**

**SUBSCRIBED and SWORN TO** before me this \_\_\_\_\_ day of June 2019, with affiant **IRENE JOY BESIDO-GARCIA** presenting to me her Philippine Passport I.D. No. P0087701B, issued at DFA Manila on 03 January 2019, valid until 02 January 2029, known to me and to me known to be the same person who executed the foregoing Verification and Certification.

**NOTARY PUBLIC**

  
**ATTY. TOMAS B. BAGA, JR.**  
NOTARY PUBLIC  
UNTIL DECEMBER 31, 2019  
ADM. NO. NP-013 (2018-2019)  
ATTYS. ROLL NO. 13003  
IBP NO. 050254, 01/03/19  
PTR NO. 8827969 / 1-3-19 N, COT.  
MCLE NO. IV-0026098  
RSH BLDG. TIMOG COR. PANAY AVE. QC

Doc. No. 40;  
Page No. II;  
Book No. LXXVI  
Series of 2019.