

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



IN THE MATTER OF THE PETITION
FOR THE APPROVAL OF THE
RECOVERY FROM THE UNIVERSAL
CHARGE OF THE SHORTFALLS IN
THE MISSIONARY ELECTRIFICATION
SUBSIDY FOR CY 2003 TO CY 2009
UNDER THE TRUE-UP MECHANISM
PURSUANT TO ERC RESOLUTION
NO. 11, SERIES OF 2005 AND THE
CORRESPONDING ADJUSTMENT OF
THE UNIVERSAL CHARGE FOR
MISSIONARY ELECTRIFICATION
(UCME), WITH PRAYER FOR A
PROVISIONAL AUTHORITY

ERC CASE NO. 2011-074 RC

NATIONAL POWER CORPORATION-
SMALL POWER UTILITIES GROUP
(NPC-SPUG),

Petitioner.

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D O C K E T E D

Date: AUG 04 2011

By: *ll*

O R D E R

On May 19, 2011, the National Power Corporation-Small Power Utilities Group (NPC-SPUG) filed a petition for the approval of the recovery from the Universal Charge (UC) of the shortfalls in the Missionary Electrification Subsidy for Calendar Years 2003 to 2009 under the true-up mechanism pursuant to the Commission's Resolution No. 11, Series of 2005 and the corresponding adjustment of the Universal Charge for Missionary Electrification (UCME), with prayer for a provisional authority.

In the said petition, NPC-SPUG alleged, among others, that:

1. Pursuant to Section 70 of Republic Act No. 9136 (R.A. 9136), otherwise known as the "Electric Power Industry Reform Act of 2001 (EPIRA)", NPC shall remain as a National Government owned and controlled corporation to perform the missionary electrification

function through its Small Power Utilities Group (SPUG) and shall be responsible for providing power generation and its associated power delivery systems in areas that are not connected to the transmission system;

2. It is also the implementing agency for the Missionary Electrification Development Plan (MEDP) adopted and promulgated by the Department of Energy (DOE) pursuant to Section 1 (c), Rule 13 of the Implementing Rules and Regulations (IRR) of the EPIRA. The MEDP sets out the National Government's plan that will implement the policies and programs to sustain the provision of adequate, reliable and efficient supply of electricity in the missionary or off-grid areas;
3. The Commission issued Resolution No. 11, Series of 2005 which provides, among others, that in each of the SPUG areas, it shall be allowed to recover its True Cost Generation Rate (TCGR) and in case that the same is higher than the Subsidized/Approved Generation Rate (SAGR), it may recover the difference from the ME subsidy. It may also file a quarterly petition, if necessary, to recover any shortfall in the ME subsidy;
4. The Commission in ERC Case Nos. 2002-165, 2003-424 and 2009-028 approved the following UC-ME subsidy for the years 2003, 2004 to 2008 and 2009 respectively:

Year	Amount, In Million (PhP)	PhP/kWh	Date of Order
2003	1,343.31	0.0373	June 26, 2003
2004 to 2008	1,340/year	0.0373	Feb. 28, 2006
2009	5,693.21	0.0978	Aug. 17, 2009
2010 to 2013	2,763.01/year	0.0454	Aug. 16, 2010

5. In the course of its operation, it incurred incremental fuel costs as a result of the fluctuations in fuel prices, for which it filed applications for recovery under the Generation Rate Adjustment Mechanism (GRAM) in ERC Case Nos. 2007-097 RC, 2009-032 RC and 2009-58 RC.

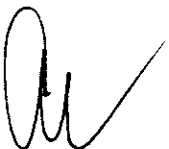
As of the filing of the instant petition, the aforesaid cases are still pending resolution by the Commission. In ERC Case No. 2007-097 RC, the Commission issued an Order allowing it to recover its Deferred Accounting Adjustment (DAA) in Luzon (PhP0.9492/kWh), Visayas (PhP1.1950/kWh) and Mindanao (PhP1.4680/kWh) starting January 2011 billing month;

6. It proposes to recover the pending GRAM and Incremental Currency Exchange Rate Adjustment (ICERA) through the true-up adjustment in addition to the existing UCME to mitigate the impact to the customers;

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7. In the course of its operations, given the levels of the approved ME subsidy and the SAGR, it incurred shortfalls in the ME subsidy from years 2003 to 2009 due to the following:
 - a. Under-recovery of incremental fuel costs (GRAM) and foreign currency denominated operating expenses (ICERA). The SAGR is not sufficient to cover fuel cost which is the largest component of the Operating Expense; and
 - b. Non-provision of the Return on Rate Base (RORB) in the calculation of the true-cost of generation. Return is an item in the approved RORB designed to provide for the working capital, unrecovered expense and capitalized expenses;

8. The true-up adjustment is the difference of its revenue requirements of the TCG vis-à-vis the Commission's approved Revenue. In the calculation of the revenue requirement, the following accounts in the Results of Operation were adjusted:
 - a. Fuel Cost was calculated using the then Energy Regulatory Board's (ERB, now Commission) approved heat rate cap in 1993 for Visayas and Mindanao, and in 1996 for Luzon;
 - b. Purchased Power – excluded in the revenue requirement due to non-approval/non-filing of the Purchase Power Agreements (PPA) with the Commission;
 - c. Other Operating Expenses – For the years 2008 to 2009, its management approved the use of rationalized Home Office (HO) allocation. This means that on all HO expenses allocated to the operations and recorded in the books are included in the revenue requirement. The separation of business of main grid from off-grid was effected in 2008. Therefore, some of the HO expenses that were previously shared by the main grid and off-grid were shouldered solely by it beginning the year 2008. To rationalize the amount of HO allocation of expenses to the operation, NPC management decided to use the average HO allocation of NPC-SPUG from 2003 to 2007 for the years 2008 to 2009. This is comparable with the head office allocation for SPUG in CY 2003 to 2006 when most of the Main Grid plants were not yet privatized and most of the HO costs were allocated among them;
 - d. RORB of twelve percent (12%) is included in the revenue requirement consistent with the approved design of the RORB Methodology. The twelve percent (12%) is the maximum rate of return that it is authorized to avail;
 - e. The foreign exchange fluctuation on debt servicing (principal only) was limited to the difference between the Commission's approved base rate and the actual foreign exchange used at the time of payment; and
 - f. The unrealized revenues were recorded at the time the cost was incurred for proper matching to arrive at the correct balance.



9. The inclusion of the RORB will enable it to perform its mandate under the government's MEDP. It proposes to include the RORB of twelve percent (12%) as allowed under Republic Act No. 7648 (Electric Power Crises Act of 1993), to provide for at least two (2) months cash working capital, operating expenses not allowed for recovery and the capitalized maintenance expenses of the generating plants;
10. Under the foregoing premises, it proposes to recover the shortfall in the ME subsidy which was derived after deducting the expenses and proposed RORB from the net revenue to come up with the total UC-ME requirement and thereafter deducting therefrom the approved UC-ME. The proposed true-up adjustment are as follows:

Covered Year	Shortfall/(Surplus), In '000 PhP	Proposed True-up Adjustment Rate, PhP/kWh
2003	878,147.20	0.0142
2004	973,296.59	0.0157
2005	3,537,215.07	0.0572
2006	3,602,586.66	0.0582
2007	3,176,209.99	0.0513
2008	5,179,505.32	0.0837
2009	(274,721.38)	(0.0044)
TOTAL	17,072,239.45	0.2759

Proj. Phils. Energy Sales, MWh
 (for July 2011 to December 2011 and January 2012 to June 2012) 61,877,104.74

The corresponding projected energy sales utilized to determine the proposed UCME true-up charges in PhP/kWh was based on the Energy Sales forecast under DOE's Power Development Plan (PDP) for CY 2009 to 2030.

11. It proposes to recover the shortfall within twelve (12) months in order to augment its current financial requirements and to settle the pending obligations on fuel and other suppliers which will enable it to shore up its financial situation;
12. The shortfall in the ME subsidy had dire consequences on its finances, which were felt only after the NPC-Main Grid could no longer advance any expense to tide it over until it collected the approved subsidy and its revenues from sales;
13. It has not yet been able to recover its incremental fuel costs and incremental foreign currency adjustments. The revenue from SAGR is not enough to pay the fuel costs. Only about 31% and 33% of the amount of actual and allowable fuel costs, respectively, were recovered thru the revenue from sales or from SAGR. The total amount of actual and allowable fuel costs represent 65% and 62%, respectively, of the Operating Expenses from 2003 to 2009, the largest component of the OPEX;

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14. To enable it to continue its present operation in the Off-grid areas and to prevent the shortage of fuel and its consequent shut-down of the power plants, there is an urgent need for the issuance of a provisional authority allowing it to recover the shortfall as proposed or as otherwise approved by the Commission; and
15. It prays that after due notice and hearing, the Commission approves the proposed true-up adjustment of PhP0.2759/kWh recoverable for twelve (12) months and to be collected on top of the existing UC-ME subsidy of PhP0.0454/kWh to all electricity consumers. It, likewise, prays for the approval of the methodology adopted and allow it to recover the shortfalls in the ME Subsidy as proposed with the corresponding adjustment in the UCME.

DISCUSSION

Pursuant to Section 70 of the EPIRA, NPC shall continue to perform the Missionary Electrification (ME) function through the NPC-SPUG and shall be responsible for providing power generation and its associated power delivery systems in areas that are not connected to the transmission system.

In accordance with Section 1 (c), Rule 13 of the EPIRA IRR, NPC-SPUG was designated as the implementing agency to perform missionary electrification function consistent with the MEDP promulgated by the DOE. The MEDP sets out the policies and programs to ensure adequate, reliable and efficient supply of electricity in the missionary or off-grid areas.

The Commission was tasked by virtue of Section 34 of the EPIRA to determine and fix the UC that shall be imposed on all electricity end-users for purposes of, among others, missionary electrification. Thus, it promulgated Resolution No. 11, Series of 2005, entitled "*The Guidelines for the Setting and Approval of Electricity Generation Rates and Subsidies for Missionary Electrification Areas*", which authorized NPC-SPUG to recover its TCGR from the ME subsidy.



On various dates, the Commission approved the following UC-ME subsidy for NPC-SPUG for the years 2003 to 2010 under ERC Case Nos. 2002-165, 2003-424 and 2009-028RC:

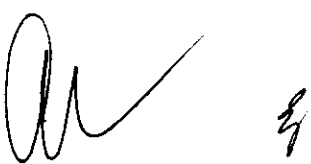
Year	Amount, in Million (PhP)	PhP/kWh	Date of Order/Decision
2003	1,343.31	0.0373	June 26, 2003
2004-2008	1,340.00/year	0.0373	February 28, 2006
2009	5,693.21	0.0978	August 17, 2009
2010-2013	2,763.01/year	0.0454	August 16, 2010

Pursuant to Resolution No. 11, Series of 2005, NPC-SPUG may file a true-up adjustment to recover any shortfall from the approved UC-ME due to the following factors:

- a. Lower national electricity sales compared to forecast;
- b. Collection shortfall;
- c. Adjustments due to GRAM and ICERA;
- d. Adjustments in the NPP TCGR;
- e. Reasonable financing costs incurred to cover any ME Subsidy shortfall; and
- f. Other analogous cases.

NPC-SPUG alleged that there was a shortfall on the UC-ME for the funds granted to it for CYs 2003 to 2009. In the course of its operations and given the levels of the approved ME subsidy and the SAGR, it incurred shortfalls in view of the following:

- a. Under-recovery of incremental fuel costs (GRAM) and foreign currency denominated operating expenses (ICERA). The SAGR is not sufficient to cover the fuel cost which is the largest component of its Operating Expense; and
- b. Non-provision of the RORB in the calculation of its true cost of generation. The Return is an item in the approved RORB Design which will provide for the working capital, un-recovered expenses and for the capitalized expenses.



The true-up adjustment shall be the difference between the revenue requirements of the adjusted reasonable cost of generation vis-à-vis the revenue requirement for NPC-SPUG's approved UC-ME computation.

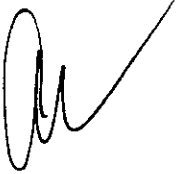
In the calculation of the adjusted revenue requirement, NPC-SPUG considered the following accounts in the Results of Operation (RO):

1. Fuel Cost;
2. Purchase Power Cost;
3. Other Operating Expense;
4. 4.12% Return on Rate Base;
5. Foreign Exchange Adjustment; and
6. Actual Revenues in Relation to the Actual Sales.

Shown below are NPC-SPUG's proposed true-up adjustments which it intends to recover for a period of two (2) years:

Covered Year	Shortfall/(Surplus), (PhP'000)	Proposed True-Up Adjustment (Rate, PhP/kWh)
2003	878,147.20	0.0142
2004	973,296.59	0.0157
2005	3,537,215.07	0.0572
2006	3,602,586.66	0.0582
2007	3,176,209.99	0.0513
2008	5,179,505.32	0.0837
2009	(274,721.38)	(0.0044)
TOTAL	17,072,239.45	0.2759

Upon initial evaluation of the documents submitted, the Commission deems it proper to provide NPC-SPUG an immediate relief in order to meet its financial obligations and to continue its operation within SPUG areas. The interim relief shall be limited only to its incremental cost for fuel price fluctuations and incremental adjustment in foreign currency payment or the DAAs.



The Commission calculated the cost adjustment by using the data submitted by NPC-SPUG in its GRAM and ICERA applications for the CY 2006 to 2009 and arrived at an initial amount of PhP4,146,636,906.00.

Section 1 (b) of Article III of Resolution No. 11, Series of 2005 provides that NPC-SPUG's fuel cost and foreign exchange adjustments can be applied to the SAGR (GRAM and ICERA as additional charge) or NPC-SPUG TCGR (through UC-ME) at the Commission's discretion, to wit:

"(b) GRAM and ICERA Adjustments. The NPC SPUG TCGR shall include GRAM and ICERA adjustments as approved by ERC prior to the promulgation of these Guidelines. Subsequent adjustments due to GRAM and ICERA and such other adjustment mechanism that the ERC may hereafter adopt shall be applied to the SAGR or the NPC SPUG TCGR, at the discretion of the ERC."

On the basis of the foregoing provision and to cushion the impact of the proposed rate to electricity end-users, the Commission finds it prudent to approve the initial amount of PhP4,146,636,906.00, equivalent to PhP0.0709/kWh, as part of the cost adjustment of NPC-SPUG to be recovered from the UC-ME in accordance with Section 34 of R.A. 9136. The remaining recoverable amount shall be resolved by the Commission in the pending GRAM and ICERA applications of NPC-SPUG.

WHEREFORE, the foregoing premises considered, the Commission hereby **PROVISIONALLY APPROVES** the petition for the approval of the recovery from the Universal Charge (UC) of the shortfalls in the Missionary Electrification Subsidy for Calendar Years 2003 to 2009 under the true-up mechanism pursuant to the Commission's Resolution No. 11, Series of 2005 and the corresponding adjustment of the Universal Charge for Missionary

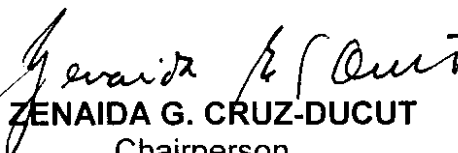
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Electrification (UCME) filed by the National Power Corporation-Small Power Utilities Group (NPC-SPUG), with modification.

Accordingly, the Power Sector Assets and Liabilities Management Corporation (PSALM) is authorized to release to NPC-SPUG the amount of PhP4,146,636,906.00 for a period of one (1) year pursuant to the True-up Mechanism Adjustment under Section 2 (b) of the Commission's Resolution No. 11, Series of 2005. All distribution utilities and the National Grid Corporation of the Philippines (NGCP) are directed to collect the UC-ME charge in the amount of PhP0.0709/kWh from the consumers starting August 2011 billing period and remit the same to PSALM, on or before the 15th day of the succeeding month, until otherwise ordered by the Commission.

SO ORDERED.

Pasig City, August 1, 2011.


ZENAIDA G. CRUZ-DUCUT
Chairperson


MARIA TERESA A. R. CASTAÑEDA
Commissioner


JOSE C. REYES
Commissioner

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ERC Case No. 2011-074 RC
Order/August 1, 2011

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