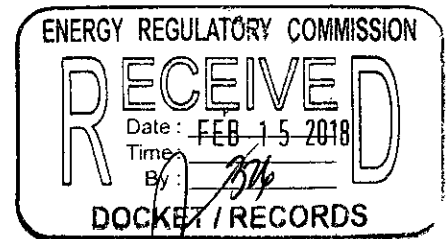


Republic of the Philippines  
**ENERGY REGULATORY COMMISSION**  
Pacific Center Building, San Miguel Avenue  
Ortigas Center, Pasig City

IN THE MATTER OF THE 17<sup>th</sup>  
APPLICATION FOR THE RECOVERY  
OF THE INCREMENTAL COSTS ON  
FOREIGN CURRENCY EXCHANGE  
RATE FLUCTUATIONS UNDER THE  
INCREMENTAL CURRENCY  
EXCHANGE RATE ADJUSTMENT  
(ICERA) WITH PRAYER FOR  
PROVISIONAL AUTHORITY (PA)



2018-007

ERC Case No. \_\_\_\_\_

**NATIONAL POWER CORPORATION**  
*Applicant.*

X-----X

**APPLICATION**

Applicant **NATIONAL POWER CORPORATION** ("NPC"), through undersigned counsel, and to this Honorable Commission, most respectfully states that:

1. NPC is a government-owned and controlled corporation, created and existing under and by virtue of Republic Act No. 6395, as amended, (otherwise known as the NPC Charter), with principal office address at NPC-Office Building Complex (NPC-OBC), corner Quezon Avenue and BIR Road, East Triangle, Diliman, Quezon City.

2. Pursuant to Section 70 of R.A. 9136, otherwise known as the Electric Power Industry Reform Act (EPIRA) of 2001, NPC through its Small Power Utilities Group (NPC-SPUG), with the same principal office address stated above, is responsible for providing power generation and its associated power delivery systems in areas that are not connected to the transmission system.

3. In the performance of its missionary electrification function, NPC-SPUG incurs additional operating costs/savings as a result of the fluctuation of foreign exchange which affects the costs of

servicing foreign currency debts (excluding interest) and/or foreign exchange-related expenses such as insurance and imported power plant/transmission parts.

4. In the Order dated 24 February 2003, this Honorable Commission issued and adopted the Implementing Rules for the Incremental Currency Exchange Rate Adjustment (ICERA) providing for, among others, the mechanisms for the recovery/(refund) of the deferred incremental costs/(savings) on foreign currency exchange rate fluctuations and carrying charges.

5. This Application is being filed consistent with Section 4(e) Rule 3 of the Implementing Rules and Regulations (IRR), as amended, of EPIRA dated June 8, 2001.

6. The Application covers the billing period from January 2016 to December 2016. Further, Applicant has fully complied with the ICERA's monthly reportorial requirements in support of the calculated allowable costs covering the billing period, as evidenced by the submitted reports/compliances duly received by this Honorable Commission and hereto attached as **Annexes "A" and series.**

7. Applicant proposes to recover the Deferred Accounting Adjustments (DAAs) corresponding to additional costs from foreign exchange fluctuations in the settlement of Debt Service (principal repayment portion) and Operating Expenses (OPEX), as well as the corresponding carrying charges for the billing period January 2016 to December 2016 for Luzon, Visayas and Mindanao.

8. Considering the foregoing, and pursuant to all the relevant Decisions and Orders issued by the Honorable Commission, the Applicant has calculated the total deferred costs for recovery under this instant Application comprising of the deferred debt service, OPEX and the corresponding carrying charges for Luzon, Visayas and Mindanao covering the billing period from January 2016 to December 2016, as shown below:

**Table 1. Total Deferred FOREX Costs, in PhP**

	<b>Principal</b>	<b>Carrying Charges</b>	<b>TOTAL DAA</b>
<b>TOTAL</b>	<b>17,597,774</b>	<b>67,028</b>	<b>17,664,802</b>

9. This application seeks the Honorable Commission's approval for the recovery of the above-stated total deferred FOREX costs for the billing period January 2016 to December 2016 through the imposition of the following proposed DAA charges:

**Table 2. Total Deferred FOREX Costs, in PhP/kWh**

Deferred Costs (PhP)	Recovery Period	Projected Energy Sales (MWh)	ICERA DAA Rate (PhP/kWh)
17,664,802	12 months	726.753	0.0243

10. Applicant NPC proposes a recovery period of twelve (12) months as approved by its Board of Directors. If this application is approved as filed, the proposed rate above shall be billed to island grid customers for twelve months.

11. As authorized under the Implementing Rules of the ICERA, Applicant utilized the carrying charge interest rates, as shown in Table 3:

**Table 3. Allowable Carrying Charge Interest Rates**

Test/Billing Months	Prevailing 91-day T-Bill Rate <sup>1/</sup>	Authorized Allowance <sup>2/</sup>	Allowable Rate
JAN 2016	1.684	3.00	4.684
FEB	1.513	3.00	4.513
MAR	1.469	3.00	4.469
APR	1.551	3.00	4.551
MAY	1.674	3.00	4.674
JUN	1.588	3.00	4.588
JUL	1.447	3.00	4.447
AUG	1.479	3.00	4.479
SEP	1.321	3.00	4.321
OCT	1.281	3.00	4.281
NOV	1.484	3.00	4.484
DEC	1.555	3.00	4.555

1- Source: **Bangko Sentral ng Pilipinas**  
 ([www.bsp.gov.ph/statistics/sdds/tbillsdds.htm](http://www.bsp.gov.ph/statistics/sdds/tbillsdds.htm))

2- As authorized in the ICERA Implementing Rules

12. The proposed ICERA DAA is fair and reasonable as it is computed in line with the ICERA Guidelines.

13. In support of the proposed 17<sup>th</sup> ICERA DAA, Applicant respectfully submits the following documents annexed herewith to form part of this Application:

Calculation of Deferred Cost and Proposed Charges	<b>Annex "B"</b>
Calculation of Deferred Debt Service/OPEX and corresponding carrying charges	<b>Annex "C" and series</b>
The Projected Energy Sales (in MWh) used to calculate the proposed DAA charges in P/kWh	<b>Annex "D"</b>
91-day Treasury Bill Rates	<b>Annex "E"</b>

14. The proposed ICERA was approved for filing by the Board of Directors of Applicant on 30 January 2018, a certified true copy of Secretary's Certificate is hereto attached as **Annex "F and series"** and made an integral part hereof.

### **ALLEGATIONS IN SUPPORT OF THE PRAYER FOR PROVISIONAL AUTHORITY**

15. Consistent with the principle of structural and functional unbundling of the electric power industry participants, the proposed ICERA is based on foreign exchange-related adjustments attributable only to NPC-SPUG operations, i.e. excluding those associated with NPC's operation in the main grids.

16. The existing approved based foreign exchange rates used in the calculation are based on the 1993 levels of P27.40 to US1.00 and P0.2329 to Japanese Y1.

17. Since these expenses were incurred in the year 2016 immediate recovery of this adjustment through a provisional authority would help alleviate the operational funding of applicant, without prejudice to the authority of the Honorable Commission to approve

the recovery of this adjustment as part of the applicant's True Cost Generation Rate (TCGR).

18. Moreover, pursuant to Rule 15, Section 3 of the Commission's Rules of Practice and Procedure, the Honorable Commission has the authority to grant a provisional authority pending final approval of the instant petition, it states, as follows:

*"Section 3. Action and Motion. – Motions for provisional authority or interim relief may be acted upon with or without hearing. The Commission shall act on the motion on the basis of the allegations of the application or petition and supporting documents and other evidences that applicant or petitioner has submitted and the comments or oppositions filed by any interested person, if any there be any." (Emphasis supplied)*

19. Based on the foregoing justifications, NPC finds it proper to respectfully request the Honorable Commission for a provisional authority pending the hearing on the merits of the subject application and the final approval of the proposed ICERA DAA and the corresponding rate for CY 2016.

20. With due respect, the proposed 17<sup>th</sup> ICERA DAA adjustment, once approved, should be implemented or applied on top of the SAGR in both NPC-SPUG and delegated NPC-SPUG areas, or upon entry of NPPs thereof to level the rates in the said areas and consistent with Resolution 21 and with the clarification letter of ERC dated 05 March 2012 issued to NPC during the implementation of the 4<sup>th</sup> to 6<sup>th</sup> GRAM and ICERA DAA, copy of which is hereto attached as **Annex "G and series"** hereof.

### **PRAYER**

**WHEREFORE, PREMISES CONSIDERED,** it is most respectfully prayed that this Honorable Commission issue an Order, as follows:

1. Approving the deferred cost of **PhP17,664,802** and the corresponding proposed ICERA DAA of **P0.0243/kWh** for NPC-SPUG areas;
2. Imposing/charging the ICERA directly to consumers in NPC-SPUG areas as per the ICERA rules, subject to the

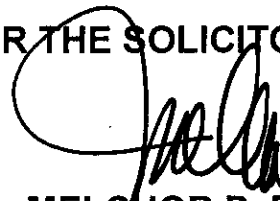
discretion of the Honorable Commission in line with ERC Resolution No. 21.

3. Allowing the continued collection of the ICERA even with the entry of private sector players in a specific NPC-SPUG area;
4. Approving the implementation of the proposed rates on top of the existing Subsidized Approved Generation Rates (SAGR) of NPC-SPUG and SAGR of Delegated NPC-SPUG Areas where NPPs operate for the purpose of determining the level of subsidy; and
5. Granting NPC a Provisional Authority for the implementation of the proposed rates and DAAs for the immediate recovery of deferred FOREX adjustments within the above proposed twelve (12) months recovery period.

Other just and equitable reliefs are likewise prayed for from the Honorable Commission.

Quezon City for Pasig City, 01 February 2018.

**FOR THE SOLICITOR GENERAL**



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