

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



IN THE MATTER OF THE APPLICATION FOR THE TRUE UP ADJUSTMENT OF FUEL AND PURCHASED POWER COSTS (TAFPPC) AND FOREIGN EXCHANGE-RELATED COSTS (TAFxA) UNDER THE RULES FOR THE AUTOMATIC RECOVERY OF MONTHLY FUEL AND PURCHASED POWER COSTS AND FOREIGN EXCHANGE-RELATED COSTS BY THE NATIONAL POWER CORPORATION, AS AMENDED,

ERC CASE NO. 2011-115 RC

IN THE MATTER OF THE 2ND APPLICATION FOR THE TRUE UP ADJUSTMENT OF FUEL AND PURCHASED POWER COSTS (TAFPPC) AND FOREIGN EXCHANGE-RELATED COSTS (TAFxA) UNDER THE RULES FOR THE AUTOMATIC RECOVERY OF MONTHLY FUEL AND PURCHASED POWER COSTS AND FOREIGN EXCHANGE-RELATED COSTS BY THE NATIONAL POWER CORPORATION, AS AMENDED, WITH PRAYER FOR THE ISSUANCE OF PROVISIONAL AUTHORITY,

DOCKETED
Date: JUL 21 2017
By: [Signature]

ERC CASE NO. 2012-067 RC

**IN THE MATTER OF THE 3RD
APPLICATION FOR THE TRUE
UP ADJUSTMENT OF FUEL
AND PURCHASED POWER
COSTS (TAFPPC) AND
FOREIGN EXCHANGE-
RELATED COSTS (TAFxA)
UNDER THE RULES FOR THE
AUTOMATIC RECOVERY OF
MONTHLY FUEL AND
PURCHASED POWER COSTS
AND FOREIGN EXCHANGE-
RELATED COSTS BY THE
NATIONAL POWER
CORPORATION, AS
AMENDED,**

ERC CASE NO. 2013-092 RC

**IN THE MATTER OF THE 4TH
APPLICATION FOR THE TRUE
UP ADJUSTMENT OF FUEL
AND PURCHASED POWER
COSTS (TAFPPC) AND
FOREIGN EXCHANGE-
RELATED COSTS (TAFxA)
UNDER THE RULES FOR THE
AUTOMATIC RECOVERY OF
MONTHLY FUEL AND
PURCHASED POWER COSTS
AND FOREIGN EXCHANGE-
RELATED COSTS BY THE
NATIONAL POWER
CORPORATION, AS
AMENDED,**

ERC CASE NO. 2014-098 RC

**IN THE MATTER OF THE 5TH
APPLICATION FOR THE TRUE
UP ADJUSTMENT OF FUEL
AND PURCHASED POWER
COSTS (TAFPPC) AND
FOREIGN EXCHANGE-
RELATED COSTS (TAFxA)
UNDER THE RULES FOR THE
AUTOMATIC RECOVERY OF
MONTHLY FUEL AND
PURCHASED POWER COSTS
AND FOREIGN EXCHANGE-
RELATED COSTS BY THE
NATIONAL POWER
CORPORATION, AS
AMENDED,**

ERC CASE NO. 2015-124 RC

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

Applicant.

x ----- x

DECISION

Before the Commission for resolution are the first to fifth (1st-5th) Applications for the True-up Adjustment of Fuel and Purchased Power Costs (TAFPPC), and the Foreign Exchange Related Cost (TAFxA) Automatic Recovery of Monthly Fuel and Purchased Power Costs (FPPCA) and Foreign Exchange-Related Costs (FxA) by the National Power Corporation (NPC), As Amended filed by Applicant Power Sector Assets and Liabilities Management Corporation (PSALM).

On 03 August 2009, the Commission issued ERC Resolution No. 19, Series of 2009, "A Resolution Adopting the Rules for the Automatic Recovery of Monthly Fuel and Purchased Power Costs and Foreign Exchange-Related Costs by the National Power Corporation" (ACRM Rules).

On 10 December 2010, PSALM filed a *Motion for Clarification* seeking the Commission's guidance as to when the initial and the subsequent true-up applications for Automatic Cost Adjustment (ACA) should be filed.

On 29 July, 2011, the Commission issued an *Order* directing PSALM to conduct immediate verification of the ACA rates, namely the FPPCA and the FxA. Likewise, PSALM was directed to file its true-up adjustments within twenty (20) days from receipt of the said *Order*.

Subsequently, PSALM filed the following applications for the TAFPPC and TAFxA under the Rules for the Automatic Recovery of Monthly FPPCA and FxA by the NPC:

Table 1. PSALM's True-Up Applications.

ERC Case Number	Test Period	Date of Application
2011-115 RC (1 st True-Up)	March 2010 to February 2011	18 August 2011
2012-067 RC (2 nd True-Up)	March 2011 to December 2011	30 April 2012
2013-092 RC (3 rd True-Up)	January 2012 to December 2012	2 May 2013
2014-098 RC (4 th True-Up)	January 2013 to December 2013	30 June 2014
2015-124 RC (5 th True-Up)	January 2014 to December 2014	29 June 2015

The said Applications were set for initial hearing by the Commission on the following dates:

Table 2. Date of Initial Hearing.

ERC Case Number	Date of Hearing
2011-115 RC (1 st True-Up)	17 October 2011
2012-067 RC (2 nd True-Up)	27 June 2012
2013-092 RC (3 rd True-Up)	27 August 2013
2014-098 RC (4 th True-Up)	22 September 2014
2015-124 RC (5 th True-Up)	07 September 2015

In the course of the proceedings of each case, the Applicant submitted documents showing its compliance with the publication and posting requirements as ordered by the Commission. The Commission verified the Applicants' compliance with the said jurisdictional requirements, all of which were marked as:

Table 3. PSALM's Compliance with the Jurisdictional Requirements.

ERC Case Number	Exhibits
2011-115 RC (1 st True-Up)	"A" to "F-29", inclusive
2012-067 RC (2 nd True-Up)	"A" to "F-29", inclusive
2013-092 RC (3 rd True-Up)	"A" to "F-24", inclusive
2014-098 RC (4 th True-Up)	"A" to "F-27", inclusive
2015-124 RC (5 th True-Up)	"A" to "F-43", inclusive

Thus, the Commission acquired jurisdiction over the said cases.

Subsequently, PSALM submitted its Formal Offer of Evidence (FOE) on the following dates:

Table 4. PSALM's Submission of its Formal Offer of Evidence.

ERC Case Number	Date of FOE Submission
2011-115 RC (1 st True-Up)	23 August 2012
2012-067 RC (2 nd True-Up)	28 August 2012
2013-092 RC (3 rd True-Up)	12 September 2014
2014-098 RC (4 th True-Up)	07 August 2015
2015-124 RC (5 th True-Up)	20 May 2016

The Commission issued an *Order* dated 21 December 2016 admitting the exhibits contained in the FOEs filed by PSALM, and submitting the applications for resolution.

PSALM's 1st to 5th Applications

The true-up adjustment applications cover the billing period of March 2010 to December 2014.

Pursuant to Article V, Section 1 of the ACRM Rules, PSALM submitted the monthly reporting requirements that include calculations for the monthly recovery/ (refund) of the incremental/ downward adjustments in FPPCA and FxA, as well as supporting documents.

Each application has two (2) components, thus:

1. True-up Adjustment of Fuel and Purchased Power Cost (TAFPPC); and
2. True-up Adjustment of Foreign Exchange-Related Costs (TAFxA).

PSALM proposed to recover/ (refund) the following Total True-Up Adjustment for the billing period March 2010 to December 2014:

Table 5. PSALM's Proposed Total True-Up Adjustments.

	Luzon	Visayas	Mindanao
1 st True-Up Adjustment	2,814,445,409.57	2,203,027,423.04	(858,196,413.63)
2 nd True-Up Adjustment	2,199,519,977.03	1,649,720,311.56	(1,736,510,987.45)
3 rd True-Up Adjustment	(661,105,136.51)	896,352,777.57	(1,894,698,704.41)
4 th True-Up Adjustment	(634,898,730.20)	1,635,457,476.07	(2,041,853,962.58)
5 th True-Up Adjustment	(126,006,799.55)	996,802,980.44	(1,395,059,496.25)
Total True-Up Adjustment	3,591,954,720.34	7,381,360,968.68	(7,926,319,564.32)

The total true-up adjustment amount translates to the following proposed rates:

Table 6. Proposed Rate per Grid (PhP/kWh).

Grid	1st	2nd	3rd	4th	5th
Luzon	0.1059	0.2689	(0.2068)	(1.8449)	(1.8924)
Visayas	0.1157	0.1233	0.0778	0.1537	0.5107
Mindanao	(0.0258)	(0.0448)	(0.0506)	(0.2821)	(0.1966)

PSALM also proposed the following recovery period for the true-up adjustment for each grid, thus:

Table 7. Proposed Recovery Period.

Grid	1st	2nd	3rd	4th	5th
Luzon	5 years	5 years	5 years	5 years	1 year
Visayas	5 years	5 years	5 years	5 years	1 year
Mindanao	5 years	5 years	5 years	5 years	1 year

ISSUE

The issue to be resolved in the instant case is whether PSALM is authorized to recover/(refund) the True-up Adjustment for Fuel and Purchased Power Costs and for Foreign Exchange-Related Costs.

COMMISSION'S RULING

The Commission, on 17 January 2017, AUTHORIZED PSALM to recover/(refund) the True-up Adjustments, WITH MODIFICATION as regards the recovery period. However, due to supervening events¹, the Decision could no longer be promulgated without undergoing reconfirmation by the Commission *En Banc*. Thus, the Commission resolved to reconfirm the same on 20 June 2017.

DISCUSSION

Article V, Section 3 of the ACRM Rules provide, to wit:

Section 3. Post Verification.- At least every twelve (12) months, the ERC shall verify the recovery of FPPCA and FXA by comparing the actual allowable costs incurred for the period with the actual revenues for the same period generated by the Generation Rates.

True-up Adjustment of Fuel and Purchased Power Costs (TAFPPC).

Pursuant to Article V, Section 4 of the ACRM Rules, the Commission calculated the TAFPPC based on the following formula:

$$\text{TAFPPC} = \text{FPPCA}_{\text{afppc}} - \text{FPPCA}_{\text{billed}} - \text{FPPCA}_{\text{peso}}$$

Where:

TAFPPC = True-Up Adjustment of Fuel and Purchased Power Costs in Peso;

FPPCA_{afppc} = Actual allowable fuel and purchased power costs for the test period;

¹ The Chairman was placed on preventive suspension as per Order of the Office of the President (OP-DC Case No. 17-D-094) dated 02 May 2017 and received on 04 May 2017.

**ERC CASE NO. 2011-115 RC; 2012-067 RC; 2013-092 RC;
2014-098 RC; 2015-124 RC**

DECISION/20 JUNE 2017

PAGE 8 OF 13

FPPCA_{billed} = Fuel and Purchased Power costs billed through the last ERC approved base rate for the test period;

FPPCA_{peso} = Recovered/billed fuel and purchased power costs from the customers.

The actual allowable fuel and purchased power costs (FPPCA_{afppc}) is determined by getting the Allowable Fuel Cost and Allowable Purchased Power Cost covering the test period March 2010 to December 2014.

The Allowable Fuel Cost is calculated based on the Heat Rate Cap set by the Commission in its *Order* in ERC Case No. 2009-003 RC² dated 25 April 2015, or on the computed actual Heat Rate per plant, whichever is lower.

On the other hand, the Allowable Purchased Power Cost was calculated based on the actual purchased power cost, or the cap/base rate levels stated in various decisions issued by the Commission, whichever is lower.

The Commission calculated the following allowable fuel and purchased power costs per grid:

Table 8. Allowable Fuel and Purchased Power Costs.

Grid	Allowable Fuel Costs	Allowable Purchased Power Costs	FPPCA _{afppc}
Luzon	15,318,712,946.25	21,417,038,404.46	36,735,751,350.71
Visayas	13,532,896,689.64	35,053,329,741.67	48,586,226,431.31
Mindanao	24,472,478,630.25	38,280,945,417.45	62,753,424,047.70

The fuel and purchased power costs billed (FPPCA_{billed}) applied the base rate approved by the Commission pertinent to the FPPCA_{billed} variable for the corresponding billing period. It is calculated by multiplying the Transition Supply Contract (TSC) sales with the fuel and purchased power cost component of the provisionally approved Basic Generation Charge (BGC) under ERC Case No. 2009-004 RC³.

² In the Matter of the Application for the Approval of the Proposed Revised Plant Heat Rates for Luzon, Visayas and Mindanao Grids with Prayer for Provisional Authority filed by PSALM.

³ In the Matter of the Application for the Approval of the Proposed New Basic Generation Rates for Luzon, Visayas and Mindanao Grids with Prayer for Provisional Authority filed by PSALM.

The recovered/billed fuel and purchased power costs from customers (FPPCA_{peso}) pertain to costs recovered/billed from customers through the monthly recovery/refund of incremental/downward adjustment in FPPC. It is calculated by getting the total FPPCA billed from the customers sourced from the abstract of the power bills.

The Commission calculated the FPPCA_{billed} and FPPCA_{peso} per grid as follows:

Table 9. Calculated FPPCA_{billed} and FPPCA_{peso} per Grid.

Grid	FPPCA_{billed}	FPPCA_{peso}
Luzon	30,396,296,183.06	2,532,521,357.23
Visayas	38,168,392,844.18	2,808,533,853.35
Mindanao	67,866,306,389.56	2,714,892,106.44

Likewise, the calculated TAFPPC for each grid covering the test period March 2010 to December 2014 is as follows:

Table 10. Calculated TAFPPC per Grid.

Grid	TAFPPC
Luzon	3,806,960,810.43
Visayas	7,609,299,733.79
Mindanao	(7,827,774,448.31)

True-up Adjustment of Foreign Exchange-Related Costs (TAFxA).

Pursuant to Article V, Section 4 of the ACRM Rules, the Commission calculated the TAFxA based on the following formula:

$$\text{TAFxA} = \text{FXA}_{\text{afxc}} - \text{FXA}_{\text{peso}}$$

Where:

TAFxA = True-up adjustment of Foreign Exchange-Related Costs in Peso;

FXA_{afxc} = Actual Foreign Exchange- Related Costs for the test period;

**ERC CASE NO. 2011-115 RC; 2012-067 RC; 2013-092 RC;
2014-098 RC; 2015-124 RC
DECISION/20 JUNE 2017
PAGE 10 OF 13**

FxA_{peso} = Recovered/billed Foreign exchange-Related Costs from the customers.

The Actual Foreign Exchange-Related costs for the test period (FxA_{afxc}) is calculated based on the difference between the principal debt payments made during the billing period converted to Peso using the actual exchange rate as of the date of payment and the principal debt payments made during the same period converted to Peso using the base foreign exchange rate of PhP 44.0494/US\$1.00.

The table below shows the calculated actual foreign exchange related costs and the incremental/ downward adjustment in foreign exchange costs recovered/billed from the customers of each grid covering the period March 2010 to December 2014, to wit:

Table 11. Calculated FxA_{afxc} and FxA_{peso} per Grid.

Grid	FxA_{afxc} (PhP)	FxA_{peso} (PhP)
Luzon	588,972,504.01	(889,957,240.33)
Visayas	(54,218,111.71)	180,039,610.70
Mindanao	68,141,931.60	166,525,718.59

As a result, the Commission calculated the total true-up adjustment of foreign exchange related costs for each grid as follows:

Table 12. Total True-up Adjustment of Foreign Exchange Related Costs.

Grid	TAFxA (PhP)
Luzon	(300,985,330.43)
Visayas	(234,257,722.41)
Mindanao	(98,383,787.00)

The TAFPPCA and TAFxA for the billing period March 2010 to February 2011 (1st True Up) are adjusted to reflect debit/credit issue adjustments on the customers' power bill, thus:

Table 13. Debit/ Credit Issue Adjustment per Grid.

Grid	FPPCA and FxA Debit/Credit Issue Adjustment (PhP)
Luzon	(85,979,240.33)
Visayas	(6,318,957.30)
Mindanao	161,329.00

Based on the foregoing, the Commission calculated the following True-up Adjustment in Peso, thus:

Table 14. True-up Adjustment in PhP.

Grid	TAFPPC (PhP)	TAFxA (PhP)	FPPCA and FxA Debit/Credit Issue Adjustment (PhP)	Total True-Up Adjustment (PhP)
Luzon	3,806,960,810.43	(300,985,330.43)	(85,979,240.33)	3,591,954,720.33
Visayas	7,609,299,733.79	(234,257,722.41)	(6,318,957.30)	7,381,360,968.68
Mindanao	(7,827,774,448.31)	(98,383,787.00)	161,329.00	(7,926,319,564.31)

**Recovery/ (Refund) Scheme
of ACRM True-up
Adjustments.**

The ACRM True-up Adjustments, as shown in Table 14, should be recovered from customers whose electricity requirements were supplied by NPC/ PSALM during the entire period covered by the 1st to 5th True-up Adjustment applications.

It should be noted that there are end users during the relevant billing period whose TSCs have already expired. These end users should still be liable for the ACRM because they drew power from NPC/PSALM.

In addition, the Commission adopts a period of sixty (60) months to recover the ACRM True-up Adjustments. This is consistent with the policy of the Commission to allow recovery/ (refund) of deferred amounts for a period corresponding to the period of incurrence. The said recovery scheme will not only mitigate the impact of the cost recovery to the end users, but will also give PSALM due compensation for its service within a reasonable period of time.

WHEREFORE, in view of the foregoing, the Commission hereby:

1. Authorizes PSALM to recover/ (refund) the following True-up Adjustments of Fuel and Purchased Power Costs (TAFPPC) and of Foreign Exchange-Related Costs (TAFxA) effective its next billing period, thus:

Grid	Total ACRM True-up Adjustment (PhP)
Luzon	3,591,954,720.33
Visayas	7,381,360,968.68
Mindanao	(7,926,319,564.31)

2. Directs PSALM to submit a mechanism or scheme as to how it will manage and implement the approved true-up adjustment within a sixty-month period; and
3. Directs all Distribution Utilities to fully comply with the above-mentioned directives.

SO ORDERED.

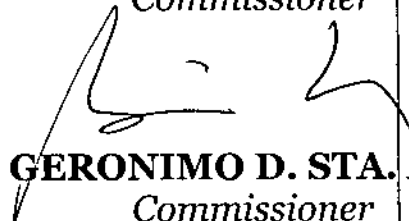
Pasig City, 20 June 2017.

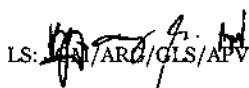
JOSE VICENTE B. SALAZAR*
Chairman and CEO

(On Leave)
ALFREDO J. NON
Commissioner


GLORIA VICTORIA C. YAP-TARUC
Commissioner


JOSEFINA PATRICIA A. MAGPALE-ASIRIT
Commissioner


GERONIMO D. STA. ANA
Commissioner

LS: /ARC/GLS/APV

ROS//AMDB/AJMO/EG/D

* The Chairman was placed on preventive suspension as per Order of the Office of the President (OP-DC Case No. 17-D-094) dated 02 May 2017 and received on 04 May 2017.

Copy furnished:

- 1. Power Sector Assets and Liabilities Management Corporation (PSALM)**
Applicant
7th Floor, Bankmer Building,
Ayala Avenue, Makati City
- 2. Office of the Solicitor General**
134 Amorsolo Street, Legaspi Village
Makati City, Metro Manila
- 3. Commission on Audit**
Commonwealth Avenue
Quezon City, Metro Manila
- 4. Senate Committee on Energy**
GSIS Building, Roxas Boulevard
Pasay City, Metro Manila
- 5. House Committee on Energy**
Batasan Hills
Quezon City, Metro Manila
- 6. President**
Philippine Chamber of Commerce and Industry (PCCI)
McKinley Hill, Fort Bonifacio, Taguig
- 7. The General Manager**
Philippine Rural Electric Cooperative Association (PHILRECA)
4th Floor, Casman Building, 372 Quezon Avenue,
Quezon City, Metro Manila
- 8. Administrator**
National Electrification Administration (NEA)
ODFC Building, 1050 Quezon Avenue,
Quezon City, Metro Manila
- 9. All Distribution Utilities**
- 10. Manila Electric Company (MERALCO)**
Lopez Building, MERALCO Compound,
Ortigas Avenue, Pasig City
- 11. Engr. Robert F. Mallillin**
151 EDSA, Brgy. Wack-Wack,
Mandaluyong City
- 12. National Power Corporation (NPC)**
National Power Corporation Bldg., BIR Road cor.
Quezon Avenue, Diliman, Quezon City
- 13. Regulatory Operations Service**
Energy Regulatory Commission, 17th Floor Pacific Center,
San Miguel Ave., Ortigas Center, Pasig City