

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



IN THE MATTER OF THE
APPLICATION FOR THE
MAXIMUM ALLOWABLE
REVENUE (MAR) FOR
CALENDAR YEAR (CY) 2015
AND THE NET PERFORMANCE
INCENTIVE FOR 2014 UNDER
THE RULES FOR SETTING THE
TRANSMISSION WHEELING
RATES, WITH PRAYER FOR
PROVISIONAL AUTHORITY

ERC CASE NO. 2014-155 RC

NATIONAL GRID
CORPORATION OF THE
PHILIPPINES (NGCP),
Applicant.

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DOCKETED
Date: NOV 10 2014
By: *W*

ORDER

On October 17, 2014, the National Grid Corporation of the Philippines (NGCP) filed an application for the approval of the Maximum Allowable Revenue (MAR) for Calendar Year (CY) 2015 and the Net Performance Incentive for 2014 under the Rules for Setting the Transmission Wheeling Rates (RTWR), with prayer for provisional authority.

In the said application, NGCP alleged, among others, the following:

1. It is a corporation created and existing under the laws of the Republic of the Philippines, with principal office address at NGCP Building Quezon Avenue corner BIR Road, Diliman, Quezon City. It is the concessionaire which assumed the power transmission functions of the

National Transmission Corporation (TRANSCO) pursuant to Republic Act No. 9136, otherwise known as the "Electric Power Industry Reform Act of 2001 or the EPIRA";

2. Pursuant to Republic Act No. 9511 (R.A. 9511)¹, it was granted a franchise to operate, manage and maintain, and in connection therewith, to engage in the business of conveying or transmitting electricity through high voltage back-bone system of interconnected transmission lines, substations and related facilities, system operations, and other activities that are necessary to support the safe and reliable operation of the transmission system² and is authorized to charge its customers at the rates approved by the Commission;

Antecedent Facts

3. On December 18, 2009, it filed its Third Regulatory Reset Application³ for the approval of its MAR for the Third Regulatory Period (2011-2015), docketed as ERC Case No. 2009-180 RC. In the Decision dated November 22, 2010, the Commission resolved the said application and issued a Final Determination (FD);
4. On December 16, 2010, it filed its MAR₂₀₁₁ Application⁴ for the approval of the MAR₂₀₁₁ and PIS₂₀₁₀. In a Decision dated July 4, 2011, the Commission approved the said application with modifications. On September 2, 2011, it filed a motion for reconsideration seeking, among others, for the adoption of new weightings (W_1 and W_2) in the

¹ "An Act Granting the National Grid Corporation of the Philippines A Franchise to Engage in the Business of Conveying or Transmitting Electricity Through High Voltage Back-bone System or Interconnected Transmission Lines, Substations and Related Facilities, and For Other Purposes"

² Id, Section 1

³ "In the Matter of the Application for the Approval of the Maximum Annual Revenue for the Third Regulatory Period (2011 to 2015) of the National Grid Corporation of the Philippines (NGCP) During the Regulatory Reset Process for the Third Regulatory Period in Accordance with the Alternative Form of Rate Setting Methodology under the Rules in Setting the Transmission Wheeling Rates (RTWR)"

⁴ ERC Case No. 2010-152 RC

Change in Weighted Index (CWI) computation. The Commission granted the said motion in its Order dated September 17, 2012;

5. On October 17, 2011, it filed its MAR₂₀₁₂ Application⁵ for the approval of its MAR₂₀₁₂ and PIS₂₀₁₁. In a Decision dated September 24, 2012, the Commission approved NGCP's MAR₂₀₁₂ of PhP42,903.05 Million and PIS₂₀₁₁ of PhP503.12 Million;
6. On October 17, 2012, it filed its MAR₂₀₁₃ Application⁶ for the approval of its MAR₂₀₁₃ and PIS₂₀₁₂. In a Decision dated December 2, 2013, the Commission approved NGCP's MAR₂₀₁₃ of PhP44,567.18 Million and PIS₂₀₁₂ of PhP609.05 Million;
7. On October 17, 2013, it filed its MAR₂₀₁₄ Application⁷ for the approval of its MAR₂₀₁₄ and PIS₂₀₁₃. In an Order dated December 9, 2013, the Commission provisionally approved its MAR₂₀₁₄ of PhP42,506.68 Million;
8. In this MAR₂₀₁₅ Application, it seeks for the approval of its MAR₂₀₁₅ and PIS₂₀₁₄ filed in accordance with Article VI of the RTWR;

Discussion

9. It submits the financial and demand data together with the required economic values for CWI for the 12-month period ending August 2014;
10. The Formula. It computed the MAR₂₀₁₅ in accordance with the Price Control Formula in Section 5.2.3 of the RTWR, viz.:

$$\text{MAR}_t = [\text{MAR}_{t-1} \times \{1 + \text{CWI}_t - X\}] - K_t$$

⁵ ERC Case No. 2011-140 RC

⁶ ERC Case No. 2012-109 RC

⁷ ERC Case No. 2013-202 RC

Where:

MAR_t	Maximum Allowable Revenue for Application Year or MAR_{2015}
MAR_{t-1}	Maximum Allowable Revenue for the Previous Year or MAR_{2014}
CWI_t	Change in Weighted Index
X	Productivity or Efficiency Factor
K_t	Correction Factor for Over or Under Recovery of Revenue

- 10.1. **W_1 and W_2 .** In the instant application, it used the new weightings provided in the Order dated September 17, 2012 in ERC Case No. 2010-152 RC. The updated CPI⁸ and revisions in the weightings resulted to a CWI_t of 4.760%. A copy of the Change in Weighted Index (CWI_t) computation is attached to the application as Annex "A";
- 10.2. **X Factor.** In Section 7.6.1 of the FD, the Commission set the X Factor at three percent (3%) in positive value for the whole Third Regulatory Period;
- 10.3. **K_t and RBR_t Computations.** It computed the K_t pursuant to Section 5.3.3 of the RTWR and proposes the amount of PhP7.54 Million representing fifty percent (50%) of its reported revenue of PhP15.08 Million from co-location and rental of equipment. Some of these revenues were derived from rental and joint pole attachment to specific sub-transmission facilities. A copy of the Revenue Under Recovery computation is attached to the application as Annex "B";

⁸ www.psa.gov.ph

10.4. **Manila Reference Rate (MRR).** Section 5.3.4 of the RTWR prescribes that the K_t shall be subject to an interest rate adjustment (i_t) equivalent to the simple average of the monthly 180-day weighted-average MRR_{Aug} in nominal percent per annum terms published by the Banko Sentral ng Pilipinas (BSP);

10.5. Following the Price Control Formula, it computed for its MAR_{2015} and arrived at the following values:

Particulars	MAR_{2015}
MAR_{t-1}	PhP42,240.80 Million
CWI_t	4.760%
X	3.000%
K_t	PhP(94.71)
MAR_t	PhP43,078.95 Million

10.6. **CPI.** It adopted the actual and updated CPI from National Statistics Office (NSO);

11. **Customer Segments.** In accordance with the Commission's Order dated August 2, 2006 in ERC Case No. 2005-041 RC, the transmission customers in Luzon, Visayas and Mindanao will be billed based on their respective power delivery service rates;

12. **Compliance with the Side Constraint Limitation Formula.** Consistent with Section 6.4 of the RTWR, and other issuances of the Commission⁹, the MAR_{2015} has not breached the Side Constraint Limitations;

Grid	AQk, t-1	FQk, t	SC Condition	SC Limitation	SC Limitation Revenue	MAR_{2015}
Luzon	99,081	102,160	0.9770	1.1008	34,680.21	31,878.43
Visayas	16,320	18,794	0.8503	1.2295	6,461.59	5,169.47
Mindanao	17,585	18,724	0.9649	1.1368	6,643.74	6,031.05
Philippines	132,985	139,678	0.9584	1.1213	47,785.55	43,078.95

Notes: AQk, t-1 and FQk, t are in MW while SC Limitation Revenue and MAR_{2015} are in PhP Million

⁹ Orders dated June 13, 2006, August 24, 2006, December 14, 2006 and February 2, 2007 in ERC Case No. 2006-041 RC, page 5 of paragraph 1.4 of the FD

A copy of the Side Constraint computation is attached to the application as Annex "C";

13. **Indicative Rate.** Using the forecast demand (in kW), the figures below show the indicative rates of the proposed MAR₂₀₁₅. A copy of the Summary of Billing Determinants is attached to the application as Annex "D";

	MAR ₂₀₁₄	MAR ₂₀₁₅
In PhP, Million	42,506.68	43,078.95
Forecast Demand (MW)	133,351	139,678
Forecast Energy (GWh)	66,249	69,918
Indicative Average, PhP/kW	318.76	308.42
Inc/(Dec)		(10.34)
% Inc/(Dec)		(3.24%)
Indicative Average P/kWh	0.6416	0.6161
Inc/(Dec)		(0.0255)
% Inc/(Dec)		(3.97%)

14. **Regulated Transmission Services.** Consistent with the provisions of the FD and the Open Access Transmission Services (OATS) Rules¹⁰, it shall recover the MAR₂₀₁₅ through the following charges on Regulated Transmission Services:

- Power Delivery Service (PDS) Charge
- System Operator Charge (SOC)

	Proposed 2015 SO Rates	
	FIRM (PhP/kW-mo.)	NON-FIRM (PhP/kW/day)
	15.82	0.5201

Note: Non-firm rate is computed as Firm rate x (12months/365 days).

¹⁰ Revised Rules, Terms and Conditions for the Provision of Open Access Transmission Service or OATS Rules

- Metering Service Provider Charge (MSPC)

Per Voltage Level	Proposed 2015 MSP Rates, in PhP	
	Full	Meter Only
500/230 kV	39,670	7,433
138/115 kV	26,741	5,010
69 kV	17,372	3,255
34.5/23 kV	10,032	1,880
13.8 kV and below	5,241	982
Common Charge	3,618	

Note: Based on 3rd RP SKM unit cost according to voltage levels

The copies of the 2015 SO Charge Computation and 2015 MSP Charge computation are attached to the application as Annexes "E" and "F", respectively;

15. **Performance Incentive Computation.** It computed the limits of the rewards or penalties with reference to the three percent (3%) of the Annual Revenue Requirement (ARR) of the application year¹¹ that is the ARR for CY 2015 of PhP46,673.14 Million¹². It proposes a net performance incentive of PhP923.08 Million to be billed in CY 2015 with the ASAI incentive/penalty set at zero (0) consistent with the Decision dated September 24, 2012 in ERC Case No. 2011-140 RC.

It simulated the ASAI targets for Luzon, Visayas and Mindanao using the 19-month data from February 2012 to August 2013 and discovered that some of the low deadbands and collars of the Luzon, Visayas and Mindanao Grids indicate negative values. This implies that the samples are not yet sufficient to establish realistic and statistically sound ASAI parameters.

A copy of NGCP's Proposed 2014 Net Performance Incentive is attached to the application as Annex "G";

¹¹ The regulatory year that immediately follows the calculation year

¹² FD, Table 7.5, page 133

16. **Historical and Forecast Financial and Operational Data.** Pursuant to Sections 6.3.2 and 6.3.3 of the RTWR, the Historical Financial and Operational Data and the Forecast Financial and Operational Data are attached to the application as Annexes "H" and "I", respectively. It intends to collect the MAR₂₀₁₅ based on its current demand forecasts;
17. **Other Parameters.** Section 6.5 of the RTWR requires it to demonstrate its compliance with the following:
 - a. Orders dated June 26, 2002 and September 20, 2002 in ERC Case No. 2001-901 in so far as such Orders are not inconsistent with the OATS Rules.
 - b. Orders in ERC Case Nos. 2001-901, 2002-253 and 2005-041 RC, it has adopted the same methodology for the treatment of system losses or loss factors as defined in the OATS Rules as they affect the data presented in the instant application.
18. **Management Approval.** The filing of the instant application has been approved by its Board of Directors on September 29, 2014.

A copy of the Secretary Certificate dated October 15, 2014 is attached to the application as Annex "J";

19. The proposed MAR₂₀₁₅ and PIS₂₀₁₄ were designed and developed in accordance with the provisions of the RTWR and other pertinent issuances of the Commission for a fair and reasonable transmission rates that will serve the public interest and convenience and signals the efficient utilization of transmission facilities that will ultimately redound to the best interest and benefit of the public;

Allegations in Support of the Application for Provisional Authority

20. It restates the foregoing allegations insofar as they may be applicable hereunder;

20.1 It moves for the issuance of a provisional authority in accordance with Clause 6.2 of the RTWR. In the instant application, the proposed rates were all computed in accordance with the provisions of the RTWR and OATS Rules; and

20.2 The issuance of a provisional authority will allow it to timely implement its Capital Expenditure (CAPEX) programs and cover its Operation and Maintenance (O&M) expenditures for CY 2015. Also, the timely implementation of the rate translation of the MAR will reduce, if not eliminate, the risk of under recovery which is substantial to it. In support of these allegations, it submitted a copy of the Judicial Affidavit of Ms. Ma. Cynthia Y. Manrique, which is attached to the application as Annex "K"; and

21. It prays that:

- a. a provisional authority to implement the collection of the MAR₂₀₁₅ in the amount of PhP43,078.95 Million and the PIS₂₀₁₄ of PhP923.08 Million and the corresponding SO and the MSP Charges beginning the billing period of December 26, 2014 - January 25, 2015 be immediately granted;
- b. the authority to collect the MAR₂₀₁₅ in the amount of PhP43,078.95 Million, the PIS₂₀₁₄ of PhP923.08 Million and the corresponding SO and the MSP Charges be approved; and
- c. the fifty percent (50%) of PhP15.08 Million or the equivalent of PhP7.54 Million as RBR_t from co-location and rental of equipment be approved.

Finding the said application to be sufficient in form and in substance with the required fees having been paid, the same is hereby set for jurisdictional hearing, pre-trial conference, expository

presentation and evidentiary hearing on the following dates and venues:

DATE	TIME	VENUE	PARTICULARS
December 11, 2014 (Thursday)	Ten o' clock in the morning (10:00 A.M.)	15th Floor, Pacific Center Building, San Miguel Avenue, Pasig City	Jurisdictional Hearing and Expository Presentation
January 21, 2015 (Wednesday)	Nine o' clock in the morning (9:00 A.M.)	ERC Mindanao Field Office, Mintrade Building, Monteverde Avenue corner Sales Street, Davao City	Expository Presentation
January 28, 2015 (Wednesday)	Nine o' clock in the morning (9:00 A.M.)	Cebu Parklane International Hotel, Archbishop Reyes Avenue corner Escario St., Cebu City	Expository Presentation
February 3, 2015 (Tuesday)	Ten o' clock in the morning (10:00 A.M.)	15th Floor, Pacific Center Building, San Miguel Avenue, Pasig City	Pre-trial Conference and Evidentiary Hearing

NGCP is hereby directed to cause the publication of the attached Notice of Public Hearing, at its own expense, twice (2x) for two (2) successive weeks in two (2) newspapers of general circulation in the Philippines, with the date of the last publication to be made not later than ten (10) days before the date of the scheduled initial hearing. It is also directed to inform the consumers within its franchise area, by any other means available and appropriate, of the filing of the instant application, its reasons therefor, and of the scheduled hearing thereon.

Let copies of the application, this Order and the attached Notice of Public Hearing be furnished the Office of the Solicitor General (OSG), the Commission on Audit (COA) and the Committees on Energy of both Houses of Congress. They are hereby requested, if they so desire, to send their duly authorized representatives at the scheduled hearing.

Likewise, let copies of this Order and the attached Notice of Public Hearing be furnished the Offices of the Mayors of Quezon City, Cebu City and Davao City for appropriate posting thereof on their respective bulletin boards.

NGCP is hereby directed to furnish all those making requests therefor with copies of the application and its attachments, subject to reimbursement of reasonable photocopying costs.

On the date of the initial hearing, NGCP must submit to the Commission its written Compliance with the jurisdictional requirements attaching therewith, methodically arranged and duly marked, the evidences on the actual posting and publication of the Notice of Public Hearing consisting of certifications issued to that effect, signed by the aforementioned Mayors or their duly authorized representatives, bearing the seals of their offices, and the affidavits of the Editors or Business Managers of the newspapers where the said Notice of Public Hearing were published together with the complete issues of the said newspapers, and such other proofs of compliance with the requirements of the Commission.

NGCP and all other interested parties are directed to submit, at least five (5) days before the date of initial hearing and pre-trial conference, their respective Pre-trial Briefs containing, among others:

- (a) a summary of admitted facts and proposed stipulation of facts;
- (b) the issues to be tried or resolved;
- (c) the documents or exhibits to be presented, stating the purposes thereof and proposed markings therefore; and
- (d) the number and names of the witnesses, with their written testimonies in an individual affidavit form, to be attached to the Pre-trial Brief.

Failure of NGCP to submit the required Pre-Trial Brief and Judicial Affidavits of its witnesses within the prescribed period shall be a ground for cancellation of the scheduled hearing, and the resetting of which shall be six (6) months from said date of cancellation.

As part of the pre-trial conference, NGCP must also be prepared to make an expository presentation of its application, aided by whatever communication medium that it may deem appropriate for the purpose, in order to put in plain words and explain, for the benefit of the consumers and other concerned parties, what the application is all about and the reasons and justifications being cited in support thereof.

SO ORDERED.

Pasig City, November 3, 2014.

FOR AND BY AUTHORITY
OF THE COMMISSION:


ZENAIDA G. CRUZ-DUCUT
Chairperson *gub*


MVA/NJS

Copy Furnished:

1. National Grid Corporation of the Philippines (NGCP)
NGCP Building, Quezon Avenue corner BIR Road,
Diliman, Quezon City
2. Office of the Solicitor General (OSG)
134 Amorsolo Street, Legaspi Village,
City of Makati 1229
3. Commission on Audit (COA)
Commonwealth Avenue,
Quezon City 1121
4. Senate Committee on Energy
GSIS Building, Roxas Boulevard,
Pasay City 1300
5. House of Representatives Committee on Energy
Batasan Hills, Quezon City 1126
6. The Office of the City Mayor
Quezon City
7. The Office of the City Mayor
Cebu City
8. The Office of the City Mayor
Davao City
9. President
Philippine Chamber of Commerce and Industry (PCCI)
3rd Floor, ECC Building,
355 Sen. Gil Puyat Ave., Makati City