

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 SHORTFALL IN THE
MISSIONARY
ELECTRIFICATION SUBSIDY
FOR CY 2015 AND THE
CORRESPONDING
ADJUSTMENT OF THE
UNIVERSAL CHARGE FOR
MISSIONARY
ELECTRIFICATION (UC-ME)**

ERC CASE NO. 2017-006 RC

**NATIONAL POWER
CORPORATION,**
Petitioner.
X-----X

D O C K E T E D
Date: **APR 19 2018**
By: *[Signature]*

NOTICE OF PUBLIC HEARING

TO ALL INTERESTED PARTIES:

Notice is hereby given that on 27 January 2017, the National Power Corporation (NPC) filed a *Petition* dated 12 January 2017, seeking the Commission's approval of the recovery from the universal charge of the shortfall in the missionary electrification subsidy for Calendar Year (CY) 2015, and the corresponding adjustment of the Universal Charge for Missionary Electrification (UC-ME).

NPC alleged the following in its *Petition*:

1. National Power Corporation (NPC) is a government owned and controlled corporation created and existing under and by virtue of Republic Act No. 6395 as amended ("NPC Charter") with principal address at NPC Office Building Complex corner Quezon Avenue and BIR Road, Diliman, Quezon City where it may

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be served with orders and other processes of the Honorable Commission.

2. Pursuant to Section 70 of Republic Act No. 9136 (Electric Power Industry Reform Act or "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.

3. NPC is filing this Petition in its capacity as the implementing agency for Missionary Electrification (ME) which function shall be funded from the revenue from sales in missionary areas and from the universal charge (UC) to be collected from all electricity end-users as determined by the Energy Regulatory Commission (ERC) and in line with Section 2 (a) of the RA 9136 Implementing Rules and Regulations or EPIRA IRR.

4. Pursuant to Section 4 of Republic Act No. 6395, as amended, and Executive Order No. 86¹, issued by virtue of the authority granted to the President of the Republic of the Philippines under R.A. 7684², Petitioner NPC is duly authorized to charge twelve percent (12%) return on its rate base composed of the sum of its net assets in operation plus two (2) months operating capital.

5. On 22 August 2011, the ERC approved and issued Resolution No. 21, Series of 2011³, which provides for the guidelines for the setting and approval of electricity generation rates and subsidies for Missionary Electrification areas and for the fixing of and availment of subsidies for Missionary Electrification areas as well as the cash incentives for the Renewable Energy (RE) Developers for Missionary Electrification from the UC-ME.

Said resolution allows NPC and the New Power Providers (hereafter, NPPs) to recover the TCGR as approved by the ERC. In cases where the TCGR is higher than the SAGR, then NPC and the NPP shall be allowed to recover the difference between the TCGR and the SAGR from the UC-ME⁴. Further, in the same resolution, it is provided that if the reconciliation results in the NPC having a deficiency, as confirmed by the ERC, NPC shall be entitled to an increase in the UC-ME to cover the shortfall caused by several factors as therein specified (*i.e.* adjustments due to GRAM and ICERA, adjustments in the NPP TCGR and other analogous cases)⁵.

6. The Honorable Commission likewise issued ERC Resolution No. 22, Series of 2006⁶ on 03 May 2006 which

¹ "Fixing the Rate of Return on Rate Base of the National Power Corporation at twelve percent (12%) of the Rate Base as Defined in Section 4 of Republic Act No. 6395, as Amended"

² "Electric Power Crises Act of 1993"

³ Amended Guidelines for the Setting and Approval of Electricity Generation Rates and Subsidies for Missionary Electrification Areas

⁴ Article II Section 4

⁵ Article V, Section 2 (c)

⁶ Rules for the Regulation of the Qualified Third Parties Performing Missionary Electrification in Areas Declared Unviable by the Department of Energy

mandates NPC to file a quarterly application, if necessary, with the ERC to recover any shortfall in the UC-ME caused by factors such as collection shortfall, adjustments in the FCRR and other analogous cases⁷. Also, it is provided therein that “if the reconciliation results in the NPC experiencing deficiency, it shall be entitled to file an application with the ERC for an increase in the UC-ME to cover the shortfall⁸.”

7. NPC is filing this petition pursuant to Rule 20 (A) of the ERC Rules of Practice of Procedure as approved by this Honorable Commission on 22 June 2006 in Resolution No. 38, Series of 2006.

ABSTRACT OF THE PROPOSED RECOVERY OF THE SHORTFALL IN THE UC-ME

8. **Reconciliation of Actual UC-ME.** Based on CY 2015 test period, NPC utilizes in its calculation the following documents:

- a. Certified CY 2015 NPC Financial Statements;
- b. Actual Results of Operation;
- c. The actual disbursements of UC-ME to NPPs, QTP and RED-CI;

9. **Total UC-ME Shortfall.** Based on the foregoing documents and as a result of the calculations made, the total shortfall that NPC proposes to recover from the UC-ME is equivalent to **PhP1,111,902,576.28**. It has an equivalent proposed monthly rate of **PhP0.0134/kWh** based on the twelve (12) - month recovery period as summarized in Table 1 below.

Table 1: Summary of Shortfall

Particulars	TOTAL
REVENUE REQUIREMENT	12,975,367,971.20
Less: REVENUE FROM SALES	5,731,168,529.37
REQUIRED REVENUE FROM UC-ME	7,244,199,441.82
CY 2015 ACTUAL UC-ME REVENUE (Basic)	6,211,057,121.24
UC-ME SHORTFALL, in PhP	1,033,142,320.58
Add: Renewable Energy Developer's Cash Incentive Balance as of Dec 2015	78,760,255.70
UC-ME SHORTFALL, in PhP	1,111,902,576.28
Rate Impact, P/kWh	0.0134
Projected Energy Sales, MWh (CY 2017)	82,726,573.85

10. In the reconciliation, the resulting shortfall in the revenue from UC-ME was calculated based on the following formula:

$$\text{UC-ME True-Up Shortfall/(Surplus)} = \text{Total UC-ME Requirement} - \text{Approved UC-ME}$$

Where:

⁷ Article IV, Section 3 (b)
⁸ Article IV Section 3 (d)

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Total UC-ME Requirement =
(NPC Revenue Requirement – Revenue from Sales) +
(NPPs, QTP and RED-CI)

11. The total revenue considered was based on the amount granted and accrued from the UC-ME as well as from the revenue from sales based on approved SAGR. Likewise considered were all the allowable expenses incurred by NPC as well as total UC-ME paid to NPPs, QTP and RED-CI.

12. In the calculation of the NPC revenue requirement, the following accounts and actual costs were considered:

- a. Actual Fuel Costs
- b. Other Operating Expenses, which includes Personal Services and Maintenance and Other Operating Expense
- c. Depreciation
- d. The foreign exchange fluctuation on debt servicing
- e. Rate Base as of December 2015
- f. Revenues from Sales

13. The amount of UCME for NPPs, QTP and RED-CI were based on the actual disbursements and payment made consistent with the UC-Settlement Agreement (SA) between NPC and respective power providers taking into account their respective ERC-approved Power Supply Agreement (PSA).

14. The Projected Energy Sales Forecast under DOE's Power Development Plan (PDP) for CY 2017 was utilized to determine the proposed UC-ME true-up charges in P/kWh.

15. As shown in Table 1 above, the CY 2015 actual revenue received from UC-ME was not sufficient to cover the total UC-ME requirements for NPC, NPPs and QTP.

16. The following documents are submitted in support of the proposed recovery of shortfall in the UC-ME:

- | | | |
|-------------|---|---|
| Annex "A" | - | National Power (NP) Board Resolution No. 2016-34 dated 22 September 2016. |
| Annex "B" | - | Summary of Shortfall and Adjustment Calculation |
| Annex "C" | - | NPC Results of Operations (ROO) |
| Annex "D" | - | NPC Income Statement and Balance Sheet |
| Annex "E" | - | Discussion on Revenue Requirement and Rate Base Components |
| Annex "F" | - | Summary of UC-ME Subsidy Fees Paid to NPPs and QTP |
| Annex "F-1" | - | Summary of RED-CI Availments |

Annex "G" - Summary of Actual UC-ME Received from PSALM

Annex "H" - Projected Philippines Energy Sales

**RATE IMPLICATIONS OF THE
PROPOSED RECOVERY OF UC-ME SHORTFALL**

17. Under the foregoing premises, the recovery of PhP1,111,902,576.28 or an equivalent monthly rate impact of PhP0.0134/kWh is proposed to be collected from the nationwide electricity end-consumers within the period of twelve (12) months and be charged over and above the existing UC-ME rate.

18. The recovery of shortfall within one (1) year or twelve months would be reasonable and timely in order for NPC to augment its financial requirements and to provide up to date recovery and adjustment of the ensuing years' subsidy requirements.

19. The costs proposed for recovery are merely reimbursement of actual expenses made for CY 2015 and although the recovery scheme is deferred in nature, there are no carrying charges calculated and being proposed herein.

20. NPC's Subsidized Approved Generation Charge (SAGR), is not reflective of the TCGR or the Revenue Requirement in the island grid. It is only 67% of the total fuel cost for CY 2015.

Table 2: Actual Fuel Costs vis-a vis Revenue from Sales

Particulars	Amount	Percentage
Actual Fuel Costs	3,041,974,066.62	100%
Average, P/kWh	7.7277	
Actual Revenue from Sales	2,048,427,875.00	67%
Average, P/kWh	2,5240	
Difference	993,546,191.62	33%
PkWh	2.5240	
Actual Energy Sales, kWh	393,646,871.40	

21. The amount proposed for recovery is already an incurred cost of NPC and within the reasonable cost of servicing the consumers in the missionary areas considering the nature of operation and the level of demand in the off-grid areas.

22. An additional funding thru the approval of this instant Petition will ensure an uninterrupted electricity supply as this would fully augment the funding requirements of NPC, NPPs, QTP and RED-CI. Given the increasing demand for energy and in line with the government thrust of economic development in the off-grid areas, availability of funding thru the UC-ME more particularly for fuel requirements will enable NPC, NPPs, QTP and RED-CI to optimize the use of available plant capacity.

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23. The Department of Budget and Management (DBM) allows only NPC augmentation of its Corporate Budget if it can source guaranteed funding through the approval of the cost recoveries. The approval therefore of this Petition will enable NPC to support and meet its projected budgetary requirements for CY 2016 and 2017 especially its funding requirement for fuel and UCME to NPPs, QTP and RED-CI.

24. The corresponding Basic Rate for the CY 2015 to CY 2016 was filed under ERC Case No. 2014-135RC last September 15, 2014 where NPC proposed for the UC-ME rate adjustment from PhPo.0454/kWh to PhPo.1476/kWh and PhPo.1467/kWh including RE Cash Incentive for CY 2015 and CY 2016, respectively, to cover NPC's operating cost requirement including guaranteed sufficient subsidy payment for NPP and RE Developers.

25. With the proposed Basic UCME adjustment, the Honorable Commission on November 3, 2014 issued a Provisional Approval (PA) under ERC Case No. 2014-135 RC authorizing NPC to extend the implementation of the current CY 2014 UC-ME subsidy amounting to PhPo.1561/kWh (or PhPo.1544/kWh excluding RED-CI) from January to August 2015. On August 17, 2015, the Honorable Commission extended the PA granted as shown in its Order dated November 3, 2014.

26. In compliance with the above orders, NPC implemented the UC-ME for CY2015 of PhP927Mn per month or equivalent to PhPo.1544/kWh. The total 2015 UC-ME of PhP11.135Bn was reconciled with NPC's Corporate Operating Budget (COB) for FY 2015 and the same was presented and approved by the National Power Board on 21 April 2015. Details of the UCME rates and its corresponding amount are shown below:

Table 3: 2015 UC-ME Rates (in P/kWh)

Particulars	Jan to May	Jun to Aug	Sep to Dec	Remarks
	2015	2015	2015	
Basic UCME	0.0454	0.1163	0.1163	
CY 2010 True-up	0.0381			effective Jan-Apr
CY 2011 True-up	0.0709			effective Jan-Mar
CY 2012 True-up			0.0381	effective May-Dec
TOTAL	0.1544	0.1544	0.1544	

Table 4: 2015 UC-ME (in Absolute Amount)

Particulars	Amount
Basic UCME	6,211,057,121.24
CY 2010 True-up	1,907,271,986.78
CY 2011 True-up	1,185,655,605.22
CY 2012 True-up	1,831,947,377.68
TOTAL	11,135,932,090.92

COMPLIANCE WITH PRE-FILING REQUIREMENTS

27. In Compliance with Rule 6 of the ERC Rules of Practice and Procedure, Petitioner has furnished the legislative bodies of each of the local government units where it principally operates, a

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copy of this petition including all its annexes and accompanying documents.

Proof of receipts by the Sangguniang Panlungsod is attached hereto as **Annex "I"**. Proof of service to the legislative bodies of the local government units where NPC also operates is attached hereto as **Annex "J"**.

28. Furthermore, Petitioner caused the publication of the subject Petition in its entirety in the newspaper of general circulation and copies of the newspaper and corresponding affidavit of publication are attached hereto as **Annexes "K" and "L"**, respectively.

PRAYER

WHEREFORE, premises considered, petitioner NPC respectfully prays that, after notice and hearing, (1) the Honorable Commission approved the recovery of the CY 2015 shortfall in UCME of **PhP1,111,902,576.28** based on the equivalent rate of PhP0.0134/kWh; and (2) thereafter, directing PSALM to remit monthly to NPC the actual UC-ME collected from all electricity end-consumers.

Other just and equitable reliefs are likewise prayed for.

The Commission has set the *Petition* for determination of compliance with the jurisdictional requirements, expository presentation, Pre-trial Conference, and presentation of evidence on the following dates and venues:

Date and Time	Venue	Particulars
20 September 2018 (Thursday) at ten o'clock in the morning (10:00 A.M.)	ERC Hearing Room, 15th Floor, Pacific Center Building, San Miguel Avenue, Pasig City	Jurisdictional and Expository Presentation
27 September 2018 (Thursday) at ten o'clock in the morning (10:00 A.M.)	Energy Regulatory Commission- Visayas Field Office (ERC-VFO), St. Mary's Drive, Banilad, Cebu City	Expository Presentation
04 October 2018 (Thursday) at ten o'clock in the morning (10:00 A.M.)	Energy Regulatory Commission- Mindanao Field Office (ERC-MFO), Mezzanine Floor, Mintrade Building, Monteverde Avenue cor. Sales Street, Davao City	Expository Presentation
11 October 2018 (Thursday) at ten o'clock in the morning (10:00 A.M.)	ERC Hearing Room, 15th Floor, Pacific Center Building, San Miguel Avenue, Pasig City	Pre-Trial Conference and Evidentiary Hearing

All persons who have an interest in the subject matter of the instant case may become a party by filing with the Commission a verified Petition to Intervene at least five (5) days prior to the initial hearing and subject to the requirements under Rule 9 of the ERC's 2006 Rules of Practice and Procedure, indicating therein the docket number and title of the case and stating the following:

- 1) The petitioner's name and address;
- 2) The nature of petitioner's interest in the subject matter of the proceeding and the way and manner in which such interest is affected by the issues involved in the proceeding; and
- 3) A statement of the relief desired.

All other persons who may want their views known to the Commission with respect to the subject matter of the case may file their Opposition or Comment thereon at any stage of the proceeding before Petitioner rests its case, subject to the requirements under Rule 9 of the ERC's 2006 Rules of Practice and Procedure. No particular form of Opposition or Comment is required, but the document, letter, or writing should contain the following:

- 1) The name and address of such person;
- 2) A concise statement of the Opposition or Comment; and
- 3) The grounds relied upon.

All such persons who wish to have a copy of the *Petition* may request from Petitioner that they be furnished with the same, prior to the date of the initial hearing. Petitioner is hereby directed to furnish all those making such request with copies of the *Petition* and its attachments, subject to the reimbursement of reasonable photocopying costs. Any such person may likewise examine the *Petition* and other pertinent records filed with the Commission during the standard office hours.

WITNESS, the Honorable Chairperson and CEO **AGNES VST DEVANADERA**, and the Honorable Commissioners **ALFREDO J. NON**, **GLORIA VICTORIA C. YAP-TARUC**, and **GERONIMO D. STA. ANA**, Energy Regulatory Commission, this 4th day of April 2018 in Pasig City.

FOR AND BY AUTHORITY OF
THE COMMISSION:


JOSEFINA PATRICIA A. MAGPALE-ASIRIT
Oversight Commissioner for Legal

LS: 
LS: ARG/GLS/APV