

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



**IN THE MATTER OF THE
PETITION FOR THE
APPROVAL OF THE
AVAILMENT FROM THE
UNIVERSAL CHARGE FOR
MISSIONARY
ELECTRIFICATION (UCME)
FOR CY 2018 WITH PRAYER
FOR THE ISSUANCE OF
PROVISIONAL AUTHORITY**

ERC CASE NO. 2017-054 RC

**NATIONAL POWER
CORPORATION,**

Petitioner.

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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 30 May 2017, the National Power Corporation (NPC) filed a *Petition* dated 25 May 2017, seeking the Commission's approval of the availment from the Universal Charge for Missionary Electrification (UCME) for Calendar Year (CY) 2018, with prayer for the issuance of provisional authority.

NPC alleged the following in its *Petition*:

1. Petitioner NPC is a government owned and controlled corporation created and existing under 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 be served summons 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 (hereafter, 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.

3. On 22 August 2011, the Honorable Commission approved and issued Resolution No. 21 Series of 2011 entitled "*Amended Guidelines for the Setting and Approval of Electricity Generation Rates and Subsidies for Missionary Electrification Areas*" providing for the guidelines for the setting and approval of electricity generation rates and subsidies for Missionary Electrification areas, 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 Universal Charge for Missionary Electrification (UC-ME). The said resolution is also in line with Chapter VII Section 15 (b) of the Republic Act No. 9153¹, which provides for the basis in the calculation of Cash Incentive of Renewable Energy Developers for Missionary Electrification and ERC Resolution 7, series of 2014².

4. Pursuant to Section 4 of Republic Act No. 6395, as amended, and Executive Order No. 863, issued by virtue of the authority granted to the President of the Republic of the Philippines under R.A. 7648⁴, Petitioner NPC is duly authorized to include twelve percent (12%) return on its rate base composed of the sum of its net assets in operation plus two (2) months operating capital in the Revenue Requirement.

5. 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 as provided under Section 2 (a) of the EPIRA Implementing Rules and Regulations.

6. Likewise, NPC is filing this petition to seek approval from this Honorable Commission of the Missionary Electrification Subsidy that would sufficiently cover the estimated requirements for all NPC SPUG areas and private entities that have taken in full or part the generation function of NPC-SPUG in certain missionary areas, the operating costs in mini-grids and Qualified Third Parties (QTPs) including the fixed cost of transmission/substations and for the cash incentive payment to RE Developers.

**AVAILMENT FROM THE UNIVERSAL CHARGE OF
THE SHARE FOR MISSIONARY ELECTRIFICATION
(UCME) SUBSIDY FOR CALENDAR YEAR 2018**

¹ Otherwise known as "Renewable Act of 2008" or RE Act of 2008"

² entitled "A Resolution adopting the Rules to Govern the Availment and Disbursement of Cash Incentive to Renewable Energy (RE) Developers operating in Missionary Areas"

³ "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"

⁴ "Electric Power Crises Act of 1993"

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7. The calculation of the total Basic UCME Subsidy requirements as herein proposed is based on the formula as specifically provided in Article V Section 2 of ERC Resolution No. 21, Series of 2011 entitled "UCME Filing Requirements and Procedures".

8. In view of the foregoing and in compliance with the above-cited provisions of law and ERC resolution particularly as regards the requirement prescribed in the determination of corresponding subsidy, NPC calculated the estimated UCME requirements for the following: A) NPC SPUG Subsidy; B) Delegated SPUG areas (NPP/QTP) Subsidy; and C) Cash Incentive of RE Developers, to wit:

A. ABSTRACT OF THE PROPOSED BASIC UCME SUBSIDY

9. Consistent with the NPC Missionary Electrification Plan (MEP), its forecasts on the demand and sales growth, scheduled generation and transmission projects and improvement in service level as well as the expansion of coverage to other missionary areas, and taking into account the afore-mentioned guidelines and provisions, NPC considered the key parameters and assumptions used in the projections and in the determination of proposed UCME subsidy for the calendar year 2018, as follows:

A.1. Basic UCME Subsidy for NPC SPUG

10. In the calculation of NPC revenue requirements, the following accounts and cost were considered:

- a. Results of Operations for CY 2016
- b. Fuel Cost for CY 2018 – calculated based on actual 2016 cost in P/kWh multiplied by the NPC projected energy sales;
- c. Other Operating Expenses, which includes Personal Services and Maintenance and other Operating Expenses as of December 2016, in P/kWh multiplied by the NPC projected energy sales;
- d. Depreciation as of December 2016;
- e. NPC-TCGR – based on the calculated Total Revenue requirements established in CY 2016 test period;
- f. The calculated Revenue based on the existing NPC-SPUG SAGR as of March 2017;
- g. NPC-SPUG Projected Results of Operations for CY 2018;
- h. NPC-SPUG Projected Energy Sales, kWh for CY 2018 based on the CY 2017-2021 NPC MEP;
- i. Philippine Electricity Sales Forecast based on DOE's Philippine Power Development Plan 2015-2030 (PDP).

The detailed breakdown of the Basic UCME Subsidy for NPC SPUG is hereto attached as ANNEX "A", which shall form an integral part of this instant petition

11. In this instant petition, petitioner has utilized the authorized RORB methodology using the year 2016 base rate being the most recent financial statement available during the calculation stage.

A.2. UCME Subsidy for Delegated NPC SPUG areas (NPP/QTP)

12. The amount of NPPs and QTP subsidies considered were based on the following:

- a. Forecasted Energy Sales based on their submission of Forecasted generation and/or minimum off-take as provided in their respective ERC-Approved Power Supply Agreement (PSA);
- b. NPP TCGR and SAGR – TCGR calculated based on the most recent subsidy invoice paid to each NPP and QTP claims at the time of calculation. Whereas, SAGR considered is based on the NPC SPUG existing effective rate as of March 2017;

Detailed breakdown of the NPP and QTP Subsidy requirement for CY 2018 and supporting documents are attached herewith as ANNEXES “B”, “B-1” to “B-20”, which shall form an integral part of this instant petition.

A.3. UCME Subsidy for the Cash Generation-Based Incentive for Renewable Energy (RE) Developer in the Off-grid

13. The renewable energy cash incentive (RE-CI), on the other hand, is based on the following:

- a. Total Projected Off-grid Energy Sales – sum of the NPC SPUG and NPP Projected Energy Sales;
- b. Blended TCGR – calculated based on the average of the NPC SPUG cost of generation and NPP true cost of generation;
- c. SAGR – based on the NPC SPUG SAGR as of December 2016;
- d. Cash Incentive Rate – equivalent to 50% of the calculated UCME Subsidy Rate;

The calculation of the proposed amount required for RED-CI is shown in the attached ANNEX “C”. Likewise, attached as ANNEX “C-1” to “C-6” are the submitted CI claims of RE Developers which shall form an integral part of this instant petition.

B. PROPOSED Basic UCME Subsidy per component

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14. Based on the results of the calculations made, the total proposed UCME Subsidy requirement for the missionary electrification will amount to **PhP13.304Bn** for CY 2018 inclusive of the Cash Incentive for Renewable Energy as shown in Table 1 below.

Table 1 Proposed UCME Requirement and Proposed UCME Subsidy rate for CY 2018

ITEM	PARTICULARS	PROPOSED UCME FOR CY 2018
	Total Cost of Service	9,441,695,043
	Variable Cost	4,630,851,435
	Fixed Cost	4,810,843,608
	Operating Plants	4,625,010,842
	Depreciation	135,239,993
	Personnel Cost	1,481,013,476
	MOOE	3,008,757,373
	Transmission and Substation	185,832,766
	Depreciation	138,778,000
	Personnel Cost	21,547,424
	MOOE	25,507,342
	Return on Rate Base	1,439,440,337
	Total Revenue Requirement	10,881,135,380
	Less: Revenue from SAGR	3,608,016,015
1	Total ME Subsidy for NPC-SPUG	7,273,119,365
	NPP True Cost Generation Rate	12,412,819,992
	Less: Revenue from SAGR	6,777,678,645
2	Total ME Subsidy for Delegated NPC-SPUG Areas	5,635,141,347
	QTP True Cost Generation Rate	252,404,076
	Less: Revenue from SAGR	126,362,413
3	Total ME Subsidy Served by Qualified Third Party	126,041,663
	UCME for NPC/NPP/QTP	13,034,302,375
4	Renewable Energy Developer Cash Incentive	269,970,832
5	Total UCME, PhP	13,304,273,207
6	Philippine Projected Energy Sales, kwh	86,951,835,619
7	Rate Impact on UCME, P/kwh	0.1530

15. The Philippine Electricity Sales Forecast under DOE's Power Development Plan (PDP) for CY 2018 was utilized to determine the proposed UCME charges of **PhPo.1530/kWh**.

C. IMPLICATIONS OF UCME SUBSIDY AND THE PROPOSED RATES

16. The proposed basic UCME for CY 2018 of **PhPo.1530/kWh** (inclusive of Cash Incentive to RE Developer of **PhPo.0031/kWh**), purposely to finance the operation for the year will result to an increase of Php 0.035/kWh in UCME from provisionally approved basic UCME rate of PhPo.1163/kWh for NPC-SPUG and NPPs/QTPs and for RED-CI of PhPo.0017/kWh. Table 2 below shows the rate calculation of the Proposed Subsidy amount and the corresponding rates in P/kWh:

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TABLE 2 Proposed CY 2018 UCME & Rates

PARTICULARS	NPC	NPPs	QTPs	REDCI	TOTAL
Revenue Requirement, in PhP	10,881,135,380.35	12,412,819,991.95	252,404,075.52		23,546,359,447.81
Less:					
Revenue from Sales	3,608,016,015.25	6,777,678,644.63	126,362,412.77		10,512,057,072.65
UCME	7,273,119,365.09	5,635,141,347.31	126,041,662.75		13,034,302,375.16
Add: RED Cash Incentive				269,970,831.81	269,970,831.81
TOTAL UCME SUBSIDY CY 2018	7,273,119,365.09	5,635,141,347.31	126,041,662.75	269,970,831.81	13,304,273,206.97
Rate Impact on UCME, P/kWh	0.0836	0.0648	0.0014	0.0031	0.1530
Philippine Projected Energy Sales, kWh					86,951,835,619.09

17. The UCME Subsidy for the Cash Incentive will be remitted to PSALM since PSALM is mandated to directly disburse the same to eligible RE Developer consistent with Article IV, Section 2 of Resolution 21, series of 2011. Hence, the Proposed UCME Subsidy Requirement that will be managed by NPC is Net of Cash Incentive.

18. The proposed UCME rate considered the commitment of NPC in ensuring that:

- a. the required volume of fuel will be timely paid to NPC suppliers to avoid non-delivery of fuel supply;
- b. the payments of NPPs & QTPs subsidy are timely made; and
- c. the missionary electrification functions in SPUG areas are fulfilled through continues operation of existing generating units and implement power development plans for each islands/grid.

19. The National Power Board approved the filing of this instant petition as evidenced by the Secretary Certificate dated 23 May 2017, hereto attached as **ANNEX "D"**.

20. The proposed UCME for CY 2018 is based on the following pertinent documents attached herewith and correspondingly marked, as follows:

- Annex "E"** - Actual Results of Operations for CY 2016
- Annex "F"** - Statement of Financial Position CY 2016
- Annex "G"** - Projected Philippines Electricity Sales Forecast (PDP 2015-2030)
- Annex "H"** - NPC-SPUG Projected Gross Generation and Energy Sales for CY 2018
- Annex "I"** - NPC SPUG Projected Results of Operations for CY 2018

ALLEGATION IN SUPPORT OF THE PRAYER FOR THE ISSUANCE OF A PROVISIONAL AUTHORITY

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22. The issuance of a provisional authority under the instant petition is appropriate based on the following justifications:

- a. The proposed Basic UCME rate of **Php0.1530/kWh** inclusive of RE Cash Incentive for CY 2018 is necessary in order to cover the required subsidy requirements and at the same time, maintain a reliable and stable funding source for its operating costs requirements including a sufficient subsidy for payment to NPPs/QTPs and RE Developers.
- b. There is a need to meet the customer's electricity requirements through the implementation of the proposed improvement of NPC's generation function aimed to provide a sustainable development in the off-grid areas and be able to connect electricity to the unserved communities in the far-flung areas including those areas whose electric services were waived by the Electric Cooperatives. The same can be done by bringing the gap between cost and revenue closer.
- c. The lack of funds from the UCME Subsidy and from supposedly transitory funds which can be sourced thru loans will definitely affect flexibility in NPC's funding and operation. Be it recalled that the Department of Justice (DOJ) issued an opinion which limited and suspended NPC's authority to borrow funds or enter into a loan agreement.
- d. The need to fulfill NPC's commitment to provide efficient operation of its plant consistent with the specific programs in the missionary areas that NPC is currently serving. NPC operates numerous small power plants. Small Islands and Isolated Grids (SIIGs) are relatively very expensive.

23. The issuance of a provisional authority is authorized under Section 3 Rule 14 of the Rules of Practice and Procedure. Likewise, the authority of the Honorable Commission to issue a provisional authority is confirmed by the Supreme Court in the case of Freedom from Debt Coalition, et. al. vs. ERC, et. al., G.R. No. 161113 (June 15, 2004), when it held that "the power to approve provisional rate increases is included among the powers transferred to the ERC by virtue of Section 44 since the grant of that authority is not inconsistent with the EPIRA; rather, it is in full harmony with the thrust of the law which is to strengthen the ERC as the new regulatory body."

24. NPC-SPUG is thus imploring the kind consideration of this Honorable Commission and respectfully prays for the issuance of a provisional authority under the foregoing premises.

COMPLIANCE

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25. In support of this petition and in compliance with Rule 6 of the ERC Rules of Practice and Procedures under ERC Resolution No. 38, Series of 2006 as well as Section 4(e) Rule 3 of the EPIRA IRR, Petitioner attaches and submits the following:

- a. Proof of Publication of the Petition once in a newspaper of general circulation hereto attached as **ANNEX "J"**.
- b. Proof of service of this Petition to the Legislative Bodies of the Local Government Units where NPC principally operate, hereto attached as **ANNEX "K"**

PRAYER

WHEREFORE, premises considered, petitioner NPC, respectfully prays **THAT**:

a. Pending the hearing on the merits, an Order be issued granting **PROVISIONAL APPROVAL** to the proposed Basic UCME for CY 2018 amounting to **PhP13,304,273,206.97** or equivalent rate of **PhPo.1530/kWh**.

b. The approval of the proposed Basic UCME for CY 2018 be on a per item basis as identified in **Table 2**, to wit:

	ABSOLUTE AMOUNT	P/kWh
NPC	7,273,119,365.09	0.0836
NPP	5,635,141,347.31	0.0648
QTP	126,041,662.75	0.0014
REDCI	269,970,831.81	0.0031
TOTAL UCME	13,304,273,206.97	0.1530

c. After the hearing on the merits, the instant petition be **GRANTED** by the Honorable Commission.

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
23 August 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

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<p>29 August 2018 (Wednesday) at ten o'clock in the morning (10:00 A.M.)</p>	<p>Energy Regulatory Commission- Visayas Field Office (ERC-VFO), St. Mary's Drive, Banilad, Cebu City</p>	<p>Expository Presentation</p>
<p>05 September 2018 (Wednesday) at ten o'clock in the morning (10:00 A.M.)</p>	<p>Energy Regulatory Commission- Mindanao Field Office (ERC-MFO), Mezzanine Floor, Mintrade Building, Monteverde Avenue cor. Sales Street, Davao City</p>	<p>Expository Presentation</p>
<p>19 September 2018 (Wednesday) at ten o'clock in the morning (10:00 A.M.)</p>	<p>ERC Hearing Room, 15th Floor, Pacific Center Building, San Miguel Avenue, Pasig City</p>	<p>Pre-Trial Conference and Evidentiary Hearing</p>

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: /GLS/APV