

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

**IN THE MATTER OF THE ADOPTION OF  
THE GENERATION RATE ADJUSTMENT  
MECHANISM (3<sup>rd</sup> GRAM), WITH PRAYER  
FOR PROVISIONAL AUTHORITY**

**ERC CASE NO. 2007-097 RC**

**NATIONAL POWER CORPORATION -  
SMALL POWER UTILITIES GROUP  
(NPC-SPUG),**

**Applicant.**

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**D O C K E T E D**

Date: JAN 20 2008

By: [Signature]

**NOTICE OF PUBLIC HEARING**

**TO ALL INTERESTED PARTIES:**

Notice is hereby given that on March 27, 2007, the National Power Corporation-Small Power Utilities Group (NPC-SPUG) filed with the Commission, pursuant to the provisions of Republic Act No. 9136, an application for the adoption of the Generation Rate Adjustment Mechanism (3<sup>rd</sup> GRAM), with prayer for provisional authority.

In the said application, NPC-SPUG alleged, among others, that:

1. Pursuant to Section 70 of Republic Act No. 9136, otherwise known as the "Electric Power Industry Reform Act (EPIRA) of 2001", it is responsible for providing power generation and its associated power delivery systems in areas that are not connected to the transmission system;
2. In the performance of its missionary electrification function, it incurs additional fuel operating costs as a result of the fluctuation of the prices of fuel used in power generation. It also absorbs purchased power cost losses pending the approval of its purchased power agreements (PPA). The additional fuel and purchased power costs, which it incurred without the benefit of any recovery through rates has contributed to its deteriorating financial condition;
3. In its Order dated February 24, 2003, the Commission issued and adopted the Implementing Rules for the Generation Rate Adjustment Mechanism (GRAM) providing for, among others, the mechanisms for the recovery of deferred fuel costs and purchased power costs;
4. Formula for Generation Rate Calculation. In compliance with Section 6 of the said Implementing Rules, the formula which allows for the updating of fuel and purchased power cost components of the generation rate was adopted in this application, as follows:

$$GR = BR + [ (FC_{period\ i} + PP_{period\ i}) / kWh\ Sales_{period\ i} ] + DAA$$

Where:

GR Generation Rate for test period i

BR Base Rate per grid based on CY 2000 costs

FC Fuel costs (if applicable) as approved by the ERC subject to heat rate cap

PP Purchased power costs as approved by the ERC

DAA Deferred accounting adjustment

5. Formula for Deferred Accounting Adjustment (DAA) Calculation. The formula below was used to calculate for DAA in the instant application in accordance with Section 7 of the same Implementing Rules:

$$DAA = DB/T$$

Where:

DAA Deferred Accounting Adjustment

DB The balance in the deferred generation cost account as of the end of the test period

T The total estimated sales for the recovery period

6. The GRAM Implementing Rules facilitated the approval of its petition for recovery of deferred fuel costs for the Test Period December 26, 2003 to June 25, 2004 in ERC Case No. 2004-421 entitled "In the Matter of the Adoption of the Generation Rate Mechanism" (NPC-SPUG 1<sup>st</sup> GRAM) on January 5, 2005;
6. On February 10, 2006, the Commission, in ERC Case No. 2005-038 RC entitled "In the Matter of the Adoption of the Generation Rate Mechanism" (NPC-SPUG 2<sup>nd</sup> GRAM), approved its recovery of deferred fuel costs for the Test Period June 26, 2004 to December 25, 2004. The said Order also contains a directive that the DAA should be charged and recovered from the Universal Charge - Missionary Electrification (UC-ME) on yearly basis, depending on the level of the UC-ME until the full amount has been recovered;

8. In the same Order, the Commission likewise adopted the proposed breakdown of the basic generation rates it submitted, as follows:

	Adopted Breakdown of Existing Effective Rates (PhP/kWh)				
	Palawan	Mindoro	Other Areas of Luzon	Visayas	Mindanao
Unbundled Rate (Oct. 2002 base)	3.7064	3.7064	3.7064	5.6404	4.8024
Fixed Rate	1.0314	0.9837	1.1795	1.2475	1.0250
Fuel Rate (j2a + j2b)	2.0282	2.0282	2.0282	3.8942	3.2787
a. Fuel (Ila)	0.8630	0.8630	0.8630	0.7950	1.0175
b. Fuel cost Adjustments (FCA)	1.1652	1.1652	1.1652	3.0992	2.2612
Purchased Power Cost	0.0000	0.0000	0.0000	0.0000	0.0000
FOREX	0.4987	0.4987	0.4987	0.4987	0.4987
Transmission Rate	0.1481	0.1958	0.0000	0.0000	0.0000

9. Based on the approved GRAM methodology and basic rate breakdown shown above, the DAAs were determined as follows:

**Deferred Accounting Adjustment (PhP)**

Areas	Deferred Fuel Costs	Carrying Charges	Total DAA
<b>17 Rates Grouping</b>			
1. Occidental Mindoro	98,290,219.56	2,972,274.20	101,262,493.76
2. Oriental Mindoro	572,939,450.76	28,173,589.00	601,113,039.76
3. Marinduque	100,244,646.59	4,207,248.87	104,451,895.46
4. Mainland Palawan	101,685,784.36	5,205,621.29	106,891,405.64
5. Catanduanes	112,631,062.93	4,737,999.75	117,369,062.68
6. Masbate	152,038,745.83	6,289,597.59	158,328,343.41
7. Tablas	100,689,754.25	4,455,196.73	105,144,950.98
8. Romblon	37,031,114.66	1,638,405.05	38,669,519.71
9. Bantayan	59,244,908.19	2,357,107.30	61,602,015.49
10. Camotes	23,792,029.97	1,024,920.60	24,816,950.58
11. Siquijor	45,679,836.75	1,912,138.20	47,591,974.95
12. Tawi-Tawi	71,701,088.11	3,027,737.49	74,729,425.59
13. Basilan	62,707,064.05	2,400,931.39	65,197,995.44
14. Sulu	135,122,903.76	5,558,570.23	140,681,563.99
15. Other Luzon	190,342,132.30	8,439,927.81	198,782,060.10
16. Other Visayas	23,683,959.25	986,449.50	24,670,408.75
17. Other Mindanao	89,770,365.29	3,825,004.35	93,595,369.64
<b>Total SPUG</b>	<b>1,977,685,756.00</b>	<b>87,212,719.34</b>	<b>2,064,898,475.94</b>
14. Luzon	1,465,892,911.22	66,119,860.28	1,532,012,771.50
15. Visayas	152,400,734.17	6,280,615.61	158,681,349.78
16. Mindanao	359,392,111.21	14,812,243.46	374,204,354.67

**Proposed GRAM DAA Recovery Periods**

Areas	Recovery Period	Energy Sales		Total Projected Sales (kWh)
		2007	2008	
<b>17 Rates Grouping</b>				
1. Occidental Mindoro	2	75,535,857.55	89,386,859.09	164,922,716.64
2. Oriental Mindoro	2	128,190,694.24	139,960,118.19	268,150,812.43
3. Marinduque	2	43,968,694.00	50,037,251.94	94,005,945.93
4. Mainland Palawan	2	163,367,364.41	193,934,096.60	357,301,461.00
5. Catanduanes	2	35,392,607.06	40,045,554.31	75,438,161.36
6. Masbate	2	48,134,347.44	54,231,894.78	102,366,242.22
7. Tablas	2	21,452,024.37	24,255,539.51	45,707,563.88
8. Romblon	2	7,409,776.70	8,532,813.70	15,942,590.39
9. Bantayan	2	20,865,372.21	25,325,560.98	46,190,933.19
10. Camotes	2	6,605,588.30	7,530,553.53	14,136,141.83
11. Siquijor	2	13,382,145.47	14,985,401.57	28,367,546.98
12. Tawi-Tawi	2	13,184,597.73	14,385,649.09	27,570,246.82
13. Basilan	2	23,420,039.45	25,639,222.58	49,059,262.04
14. Sulu	2	29,902,635.53	33,317,312.62	63,219,948.15
15. Other Luzon	2	40,347,504.04	46,367,692.31	86,715,196.35
16. Other Visayas	2	5,483,655.58	6,277,004.97	11,760,660.55
17. Other Mindanao	2	19,224,027.53	21,412,677.88	40,636,705.41
<b>Total SPUG</b>		<b>695,866,931.61</b>	<b>795,625,203.58</b>	<b>1,491,492,135.20</b>
14. Luzon	2	563,798,869.80	646,751,820.42	1,210,550,690.22
15. Visayas	2	46,336,761.57	54,118,520.99	100,455,282.56
16. Mindanao	2	85,731,300.25	94,754,862.17	180,486,162.42

10. It proposes to recover all the above-stated under/over-recoveries within two (2) - year recovery period. The recovery periods for this application are assumed to start in the billing period of January 2007. Shown below is the schedule of recovery periods and the resulting DDA:

		DAA			DAA
1	Occidental Mindoro	0.6140	10	Camotes	1.7556
2	Oriental Mindoro	2.2417	11	Siquijor	1.6777
3	Marinduque	1.1111	12	Tawi-Tawi	2.7105
4	Mainland Palawan	0.2992	13	Basilan	1.3290
5	Catanduanes	1.5558	14	Sulu	2.2253
6	Masbate	1.5467	15	Other Luzon	2.2924
7	Tablas	2.3004	16	Other Visayas	2.0977
8	Romblon	2.4255	17	Other Mindanao	2.3032
9	Bantayan	1.3336			

11. The projected energy sales for the relevant recovery periods are based on the component energy sales forecasts in its areas prepared by the Department of Energy (DOE) and submitted to the Commission as part of its application for UC-ME for 2004-2008;

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12. Consistent with the Government's Private Sector Participation (PSP) Program per DOE Circular 2004-01-001, it proposes the revised generation rates clustered into seventeen (17) rate groupings comprising of the following:

- a. 14 First Wave Areas for PSP;
- b. Other Luzon Areas;
- c. Other Visayas Areas; and
- d. Other Mindanao Areas.

13. GRAM calculations based on the said groupings will help prepare the areas for PSP by reducing cross-subsidies;

14. As calculated in accordance with the ERC-approved GRAM guidelines, the fuel costs and DAA for the Test Period are determined as follows:

Areas	Actual/Calculated Fuel Costs, In PhP/kWh											
	Generation			DAA	DAA	Trans.	Approved SAGR & Effective Rates	3rd GRAM				Total Calculated New Gen. Rates
	Fuel	Fixed	FOREX	1st GRAM	1 <sup>st</sup> ICERA			New Fuel Costs	Subtotal Gen. Cost	PPC*	DAA	
(a)	(b)	(c)	(d)	(e)	(f)	(g) =	(h)	(i) =	(j)	(k)	(l) =	
<b>14 Areas for PSP</b>							(a)+(b)+(c)		(b)+(c)			(b)+(c)+(e)
							(d)+(e)+(f)		(e)+(f)+(h)			(f)+(h)+(k)
1 Occidental Mindoro	3.6479	0.9837	0.8130			0.1958	5.6404	4.36805	6.3606	1.2738	0.6140	6.9746
								Inclusive of Purch. Power Cost -->				8.2484
2 Oriental Mindoro	3.6479	0.9837	0.8130			0.1958	5.6404	8.65569	10.6482		2.2417	12.8899
3 Marinduque	3.6479	1.1795	0.8130				5.6404	5.79271	7.7852		1.1111	8.8963
4 Mainland Palawan	3.6479	1.0314	0.8130			0.1481	5.6404	3.19471	5.1872	5.6273	0.2992	5.4864
								Inclusive of Purch. Power Cost -->				11.1137
5 Catanduanes	3.6479	1.1795	0.8130				5.6404	6.33088	8.3234		1.5558	9.8792
6 Masbate	3.2787	1.0250	0.8130				5.1167	6.11426	7.9523		1.5467	9.4989
7 Tablas	3.6479	1.1795	0.8130				5.6404	8.64934	10.6418		2.3004	12.9422
8 Romblon	3.6479	1.1795	0.8130				5.6404	8.79615	10.7887		2.4255	13.2142
9 Bantayan	4.1948	1.2475	0.8130				6.2553	8.69590	10.7564		1.3336	12.0900
10 Camotes	4.1948	1.2475	0.8130				6.2553	8.94392	11.0044		1.7556	12.7600
11 Siquijor	4.1948	1.2475	0.8130				6.2553	8.83702	10.8975		1.6777	12.5752
12 Tawi-Tawi	3.2787	1.0250	0.8130				5.1167	9.63652	11.4745		2.7105	14.1850
13 Basilan	3.2787	1.0250	0.8130				5.1167	6.33478	8.1728		1.3290	9.5017
14 Sulu	3.2787	1.0250	0.8130				5.1167	8.52316	10.3612		2.2253	12.5864
15 Other Luzon	2.0282	1.1795	0.4987	0.2109	0.3143		4.2316	8.49370	10.4862		2.2924	12.7786
16 Other Visayas	3.8942	1.2475	0.4987	0.3006	0.3143		6.2553	10.38010	12.4406		2.0977	14.5383
17 Other Mindanao	3.2787	1.0250	0.4987		0.3143		5.1167	9.27910	11.1171		2.3032	13.4203

The Commission has set the application for hearing on the following schedules:

Date and Time	Venue	Particulars
March 3, 2011 - Nine o'clock in the morning (9:00 A.M.) to five o'clock in the afternoon (5:00 P.M.)	Astoria Hotel, Jaldon Street, Zamboanga City	Jurisdictional Hearing, Expository Presentation, Pre-Trial Conference and Evidentiary Hearing
March 29, 2011 - Eight thirty in the morning (8:30 A.M.)	Asia Stars Hotel, P. Zamora Street, Tacloban City	

All persons who have an interest in the subject matter of the proceeding may become a party by filing, at least five (5) days prior to the initial hearing and subject to the requirements in the ERC's Rules of Practice and Procedure, a verified petition with the Commission giving the docket number and title of the proceeding and stating: (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 proceeding may file their opposition to the application or comment thereon at any stage of the proceeding before the applicant concludes the presentation of its evidence. No particular form of opposition or comment is required, but the document, letter or writing should contain the name and address of such person and a concise statement of the opposition or comment and the grounds relied upon.

All such persons who may wish to have a copy of the application may request the applicant, prior to the date of the initial hearing, that they be furnished

with a copy of the application. The applicant is hereby directed to furnish all those making such request with copies of the application and its attachments, subject to reimbursement of reasonable photocopying costs. Likewise, any such person may examine the application and other pertinent records filed with the Commission during the usual office hours.

**WITNESS**, the Honorable Chairperson, **ZENaida G. CRUZ-DUCUT**, the Honorable Commissioners, **RAUF A. TAN**, **ALEJANDRO Z. BARIN**, **MARIA TERESA A.R. CASTAÑEDA** and **JOSE C. REYES**, Energy Regulatory Commission, this 18<sup>th</sup> day of January 2011 at Pasig City.

  
**ATTY. FRANCIS SATURNINO C. JUAN**  
Executive Director III

  
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