

Republic of the Philippines
ENERGY REGULATORY COMMISSION
San Miguel Avenue, Pasig City
OFFICE OF THE GENERAL COUNSEL
NATIONAL POWER CORPORATION

IN THE MATTER OF THE APPLICATION
FOR THE APPROVAL OF TRUE COST
GENERATION RATE FOR THE PROVINCE
OF SQUIJOR, WITH PROVISIONAL
AUTHORITY

10 SEP 15 P2:54

Resolved By: 2433

ERC CASE NO. 2010-087 RC

NATIONAL POWER CORPORATION -
SMALL POWER UTILITIES GROUP,
Applicant.

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ORDER

D O C K E T E D

Date: SEP 13 2010

By: [Signature]

On July 15, 2010, the National Power Corporation-Small Power Utilities Group (NPC-SPUG) filed an application for the approval of the True Cost Generation Rate (TCGR) for the Province of Siquijor, with prayer for provisional authority.

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


1. Pursuant to Section 70 of Republic Act No. (R.A. 9136), otherwise known as the Electric Power Industry Reform Act (EPIRA) of 2001, it is responsible for providing power generation and associated power delivery systems in areas that are not connected to the transmission system;
2. Under Section 1, Rule 13 of the Implementing Rules and Regulations (IRR) of the EPIRA, the Department of Energy (DOE) is tasked to encourage the inflow of private capital and the manner whereby other parties, including distribution utilities (DUs) and qualified third parties (QTPs), can participate in missionary electrification. On January 26, 2004, the DOE issued Department Circular No. 2004-01-001, entitled "Prescribing the Rules and Procedures for Private Sector Participation in Existing NPC-SPUG Areas";
3. On January 30, 2006, it filed a petition before the Commission for the approval of its True Cost Generation Rate (TCGR) docketed as ERC Case No. 2006-004 RC, to be used to determine the appropriate

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level of Missionary Electrification (ME) Subsidy for the applicable period. Said case is still pending resolution by the Commission. On July 5, 2010, the National Power Corporation (NPC) filed a motion for the exclusion of Siquijor from ERC Case No. 2006-004 RC;

4. The International Finance Corporation (IFC), the transaction adviser for the competitive selection of the New Power Providers (NPPs), is set to bid out the generation function of Siquijor Area. It is urgent and necessary to establish the TCGR for the Province of Siquijor which will serve as the basis for the ceiling price for Siquijor's NPP tariff during the transition period prior to the commissioning date of the NPP's proposed power plant and the Universal Charge Missionary Electrification (UCME) to be extended to the NPP for the consideration and approval of the Commission;
5. It submits the instant application for approval of the proposed Siquijor TCGR without prejudice to the approval of its previous application on the proposed NPC-SPUG TCGR for the other areas under ERC Case No. 2006-004 RC;
6. It used the Return on Rate Base (RORB) methodology and 2009 financial components in computing the proposed TCGR for Siquijor, to wit:
 - a. The RORB methodology stipulated under Section 2 (s) of Article 1 of Resolution No. 11, Series of 2005, approved by the Commission on July 6, 2005;
 - b. The Rate Base items consisting specifically of Electric Plant in Service (EPS) and Cash Working Capital;
 - c. The desired RORB of eight percent (8%) based on the minimum required return stipulated in the loan covenants of NPC with foreign creditors, such as the World Bank and Asian Development Bank (ADB); and
 - d. Operating Expenses for the test year 2009 used for calculating the Revenue Requirement consisting of: Depreciation, Fuel Costs, Personal Services and Maintenance and other Operating Expenses (MOOE) and Head Office (HO) allocation.
7. The Province of Siquijor is actually composed of two (2) power barges and a land-based diesel power plant. Shown below are the most critical bases used in the computation of the TCGR for the Province of Siquijor:

Particulars	Power Barge #113	Power Barge #116	Siquijor DPP	Siquijor Area
Heat Rate, BTU, kWh	12,063.00	13,575.00	11,311.00	-
Fuel Rate, L/kWh	0.333	0.375	0.312	-
Fuel cost, PhP/Ltr	-	-	-	26.1463

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8. At eight percent (8%) RORB, a TCGR of PhP12.5339/kWh for Siquijor DPP is arrived at. Considering that Siquijor DPP is the most efficient plant in the area, it proposes to adopt Siquijor DPP's TCGR to become the ceiling price for the NPP's tariff during the transition period prior to commissioning date of the NPP's power plant and the basis for availment of UCME of the NPP.

Particulars	Power Barge #113	Power Barge #116	Siquijor DPP	Siquijor Area
Rated Capacity, MW	2.62	3.36	1.50	7.48
Dependable Capacity, MW	2.00	2.10	1.29	5.39
Peak Demand, MW	1.05	1.22	1.22	3.13
Gross Generation, MWH	3,008.45	2,910.86	7,861.42	13,780.73
Energy Sales, MWH	2,930.35	2,323.38	7,224.50	12,478.23
No. of Manpower	17.00	13.00	14.00	44.00
Equivalent Availability Factor, %	57.46	52.44	77.00	-
TCGR, PhP/kWh (8% RORB)	18.8501	24.1125	12.5339	16.1731
Existing SAGR, PhP/kWh	6.2553	6.2533	6.2533	6.2533
UCME Requirement, PhP/kWh	(12.5948)	(17.8592)	(6.2806)	(9.9198)

9. The proposed TCGR for the Province of Siquijor was approved by the National Power Board in its Resolution No. 2010-20 dated May 21, 2010;
10. It prays that the Commission approve the foregoing proposed TCGR for the Province of Siquijor, and for the same to be adopted as the ceiling price for the NPP's tariff during the transition period prior to the commissioning date of the NPP's power plant and the basis for the availment of the UCME of the said NPP. The above-mentioned SAGR of PhP6.2553/kWh shall remain as the effective selling rate; and
11. The approved TCGR is a necessary pre-requisite for the competitive selection process for the NPP of the Province of Siquijor. It prays that a provisional authority be issued by the Commission.

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, expository presentation, pre-trial conference and evidentiary hearing on October 5, 2010 (Tuesday) at two o'clock in the afternoon (2:00 P.M.) at the Don Disco Hotel, Siquijor, Siquijor.

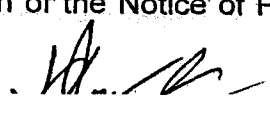
NPC-SPUG is hereby directed to cause the publication of the attached Notice of Public Hearing, at its own expense, twice (2x) for two (2) successive weeks in two (2) newspapers of general circulation in the Philippines, with the date of the last publication to be made not later than ten (10) days before 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 Office of the Governor of the Province of Siquijor and the Offices of the Mayors of the Municipalities within the Province of Siquijor for the appropriate posting thereof on their respective bulletin boards.

NPC-SPUG 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, NPC-SPUG must submit to the Commission its written compliance with the jurisdictional requirements attaching therewith, methodically arranged and duly marked, the evidence on the actual posting and publication of the Notice of Public Hearing consisting of certifications

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issued to that effect, signed by the aforementioned Governor and 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 will be published together with the complete issues of the said newspapers, and such other proofs of compliance with the requirements of the Commission.

NPC-SPUG 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 NPC-SPUG 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, NPC-SPUG must also be prepared to make an expository presentation on 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 of the rate adjustments prayed for.

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DISCUSSION

The TCGR will represent the revenue requirement or the actual generation cost of NPC in SPUG areas. It is calculated based on the RORB Methodology.

Based on the submitted documents, the Commission initially arrived at the following TCGR for the Province of Siquijor:

Particulars	Power Barge	Power Barge	Siquijor	Total
	113	116	DPP	Siquijor
Fuel	19,806,942	20,727,383	54,345,652	94,879,978
Personal Services	742,364	815,715	4,955,339	6,513,418
MOOE	1,312,407	1,627,285	1,176,864	4,116,557
HO Allocation	-	-	-	-
Depreciation	3,384,000	2,808,000	-	6,192,000
Total - PhP	25,245,713	25,978,384	60,477,856	111,701,953
Return on Rate Base (8%) - PhP	824,671	753,542	4,087,434	5,665,647
Total Revenue Requirement - PhP	26,070,384	26,731,926	64,565,290	117,367,600
kWh Sales - 2009 Actual	3,008,449	2,858,522	8,045,424	13,912,395
TCGR - PhP/kWh	8.6657	9.3517	8.0251	8.4362
Proposed - PhP/kWh	18.8501	24.1125	12.5339	16.1734
Difference - PhP/kWh	(10.1844)	(14.7608)	(4.5088)	(7.7369)

The Commission took into considerations the following factors in calculating the TCGR for the Province of Siquijor:

- a. The Fuel Cost was based on the heat rate cap of 0.26 liter/kWh;
- b. The Personal Services account was based on the actual amount as reflected in the submitted schedules;
- c. The exclusion of NPC's Head Office allocation as well as the following expenses from the MOOE due to the absence of any justification:
 1. Maintenance – Building;
 2. Per Diem – Board;
 3. Rental;
 4. Incentive Awards;
 5. Maintenance – Plts.; and
 6. Operation - Plts.
- d. The adoption of the proposed Depreciation Expenses; and
- e. The Adjusted Rate Base.

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For Power Barge 113 and Siquijor DPP, the Commission adopted the Net Plant in Service as reflected in NPC-SPUG's Certified Results of Operation for CY 2009 based on internal valuation which is lower than the historical cost.

On the other hand, for Power Barge 116, the Commission used the historical cost since it is lower than the internal valuation. Shown below is the NPC-SPUG's adjusted Rate Base:

Particulars	Power Barge 113	Power Barge 116	Siquijor DPP	Total Siquijor
Electric Plant in Service		34,835,518		34,835,518
Less: Accumulated Depreciation		(25,623,407)		(25,623,407)
Net Plant in Service - PhP	9,965,930	9,012,109	50,070,890	69,048,929
Add: Cash Working Capital (CWC) (2 mos. of O&M) - PhP	342,462	407,167	1,022,034	1,771,662
Rate Base - PhP	10,308,392	9,419,276	51,092,924	70,820,592
Return on Rate Base (8%) - PhP	824,671	753,542	4,087,434	5,665,647

The TCGR shall be used as basis in determining the level of UCME Subsidy by deducting the current Subsidized-Approved -Generation Rate (SAGR) of PhP6.2553/kWh as approved by the Commission in ERC Case No. 2004-449.

Best New Entrant (BNE) Rate

In its letter dated April 30, 2010, the IFC, which is the duly appointed Transaction Advisor of the government, and the Province of Siquijor Electric Cooperative, Inc. (PROSIELCO), notified the Commission of the launching of the Competitive Selection Process (CSP) of an NPP for PROSIELCO.

NPC-SPUG proposes to adopt Siquijor DPP's TCGR as the ceiling price for the NPP's tariff during the transition period and prior to the commissioning date of

the NPP's power plant. It will serve as the basis for availment of UCME of the NPP in Siquijor.

It should be noted that the Commission has already adopted the Guidelines for the approval of the Best New Entrant (BNE) rate. Section 1, Article II of Resolution No. 11, Series of 2005 (*Guidelines for Setting and Approval of Electricity Generation Rates and Subsidies for Missionary Electrification Areas*) provides the following:

"Section 1. Launch of the Competitive Selection Process (CSP)

- (a) Notice of CSP Launch. Thirty (30) days before the issuance of the invitation to bid for the supply of electricity for a particular Delegated NPC-SPUG Area, the EC shall notify ERC of the date of the CSP launch.
- (b) Setting of Best New Entrant Rate. After receiving the Notice of CSP launch, the ERC shall determine the BNE rate for that NPC-SPUG Delegated Area. The ERC shall transmit the BNE Rate in a sealed envelope to the EC on or before the bid opening date for it to unseal after it shall have declared a winning bidder or during contract negotiations, as the case may be. The ERC shall also use the BNE Rate for purposes of its evaluation of the reasonableness of the proposed NPP TCGR."

In the said Guidelines, the concerned electric cooperative shall file with the Commission an application for approval of its Power Supply Agreement (PSA) with an NPP. (*Section 3, Article II*)

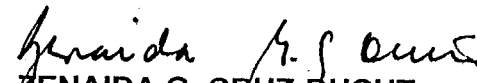
The Commission believes that the BNE rate for Siquijor should still be determined following the aforesaid procedures of Resolution No. 11, Series of 2005.

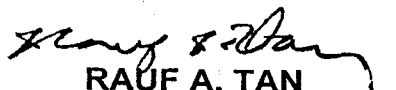
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WHEREFORE, the foregoing premises considered, the Commission hereby PROVISSIONALLY APPROVES the True Cost Generation Rate (TCGR) for the Province of Siquijor equivalent to Php8.4362/kWh. Said TCGR should not be used as the ceiling rate of an NPP in the Province of Siquijor.

SO ORDERED.

Pasig City, September 6, 2010.

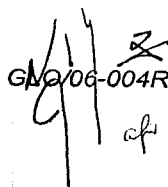

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