

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

**IN THE MATTER OF THE PETITION
 FOR THE AVAILMENTS FROM THE
 UNIVERSAL CHARGE THE SHARE
 FOR MISSIONARY ELECTRIFICATION**

**NATIONAL POWER CORPORATION-
 SMALL POWER UTILITIES GROUP,**
Petitioner.

ERC Case No. 2002-165

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DOCKETED

Date: JUL 14 2003

By: *WJ*

DECISION

Before this Commission for resolution is the petition filed on April 5, 2002 by petitioner National Power Corporation (NPC) for the availment from the Universal Charge its share for missionary electrification.

Having found said petition sufficient in form and substance with the required fees having been paid, an Order and a Notice of Public Hearing both dated April 9, 2002 were issued setting the same for hearing on May 7, 2002.

In the same Order, NPC was directed to cause the publication of the Notice of Public Hearing, at its own expense, twice (2) for two (2) successive weeks in two (2) newspapers of general circulation in the country, the last date of publication to be made not later than two (2) weeks before the scheduled date of initial hearing.

The Office of the Solicitor General (OSG), the Commission on Audit (COA) and the Committees on Energy of both Houses of Congress were furnished with copies of the Order and the Notice of Public Hearing and were requested to have their respective duly authorized representatives present at the aforesaid initial hearing.

Several hearings were conducted wherein only NPC and intervenor, Engr. Robert Mallillin, appeared and only one (1) witness was presented in the person of Mr. Rafael Abergas, Officer-in-Charge of Corporate Planning Services of NPC's Small Power Utilities Group (NPC-SPUG).

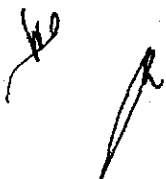
On October 4, 2002, NPC was directed to submit various documents as well as its formal offer of evidence.

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Subsequently, an Order was issued by the Commission dated December 20, 2002, the dispositive portion of which reads as follows:

"WHEREFORE, the foregoing premises considered, it is hereby decided as follows:

1. Provisional approval of the computed amount of **PhP0.0168 per kilowatt-hour** as the share from Universal Charge for Missionary Electrification;
2. Under Section 5(a) of Rule 18 of the IRR, TRANSCO and Distribution Utilities are hereby authorized to collect the **PhP0.0168 per kilowatt-hour** from its end-users on a monthly basis reflected as a separate item on the bill, as follows:
 - a) Any end-user or self-generation entity not connected to a Distribution Utility (DU) shall remit its corresponding UC directly to TRANSCO, effective on the billing cycle January 26 to February 25, 2003, which shall be remitted to PSALM on or before the 15th day of the succeeding month.
 - b) However, in case of a self-generation facility, it shall not be covered by the imposition of the UC within the period of four (4) years from its imposition, provided that such self generating facilities shall have first registered with the ERC and PSALM; and
 - c) Collections by the DUs shall be remitted to the PSALM on or before the 15th day of the succeeding month, that is, first billing cycle after February 1, 2003.
3. As administrator of the UC, the PSALM is directed to submit to this Commission by January 20, 2003 the procedures and guidelines that shall govern all remittances to and disbursements from the Special Trust Fund (STF) and a quarterly report on remittances and disbursements against the fund;
4. The first request by the NPC-SPUG from PSALM of the share in UC of Missionary Electrification shall not be earlier than May 1, 2003;
5. NPC-SPUG is hereby directed to submit the following:
 - a. Detailed criteria to determine potential future power projects; and



b. NPC Board approval of the revised Missionary Electrification Plan."

The computed amount of PhP0.0168 per kilowatt-hour pertaining to NPC's share from the Universal Charge for missionary electrification was based on the projected energy sales of 44,212 GWh and projected revenue of PhP2,223 Million.

NPC proposed a total levy of PhP0.0831/kWh consisting of operating expense (OPEX) and capital expense (CAPEX) in the amounts of PhP0.0256 and PhP0.0575, respectively, based on the projected energy sales of 47,917 GWh and projected revenue of PhP2,225.28 Million which, in turn, was based on the proposed unbundled rates of NPC-SPUG.

Table 1

Comparison of the NPC-SPUG Proposed and PA UC Charges		
	NPC Proposal (CY 2002)	ERC Approval [Per PA Granted] (CY 2002)
Phil. Energy Sales, GWh	47,917.00	44,212.50
Projected Revenue (in Million Pesos)	2,225.28	2,223.04
Total Budget	<u>6,208.09</u>	<u>2,966.59</u>
OPEX	3,451.32	2,966.59
CAPEX	2,756.81	0.00
Estimated Levy/Subsidy R/kWh	3,982.81 0.0831	743.55 0.0168

The CAPEX was not considered in the calculation of the UC due to NPC's failure to provide the criteria used to prioritize or select projects as requested by the Commission. In the determination of the final UC-ME rate for CY 2002, the Commission will decide whether to include NPC-SPUG's total annual capital expenditure or allow cost of debt and depreciation expense based on reasonable expected life of each project.

Pursuant to the NPC-SPUG compliance dated January 15, 2003 and the Department of Energy (DOE) submission through a letter dated January 2, 2003, the criteria to determine future power projects are as follows:

- 1.) Criteria for prioritizing projects in unviable areas:

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Table 2

Criteria	Indicator	Score	Weight
Low level of Energization	Access to Electricity by Families by Province	90 pts. for lowest, 10 pts. for highest	20%
Eradication of Poverty	Poverty Incidence of Families by Province	90 pts. for highest, 10 pts. for lowest	15%
Economic Efficiency	Connection Cost per Household	90 pts. for lowest, 10 pts. for highest	50%
Equity in Regional Development	GRD ¹ per Capita per Household	90 pts. for lowest, 10 pts. for highest	10%
Environment Friendly Technologies	90 points if NRE ²		5%

SPUG has proposed to energize 140 barangays located in unviable areas for electrification in year 2002 as follows:

Table 3

Electric Cooperatives	Number of Barangays
ANTECO	8
BASELCO	26
CAGELCO II	4
CEBECO II	1
ESAMELCO	7
GUIMELCO	3
MASELCO	23
PALECO	19
SAMELCO I	24
SAMELCO II	4
NORSAMELCO	1
SIASELCO	20
TOTAL	140

2.) Criteria for prioritizing projects in existing service areas:

¹ Gross Regional Domestic Product
² New and Renewable Energy

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Table 4

Criteria	Indicator	Score	Weight
Level of Energization	Electricity Access	90 pts. for highest, 10 pts. for lowest	20%
Eradication of Poverty	Poverty Incidence	10 pts. for highest, 90 pts. for lowest	15%
Equity on Regional Development	GRDP per Capita	90 pts. for highest, 10 pts. for lowest	10%
No arrears	Collection Efficiency	90 pts. for highest, 10 pts. for lowest	20%
Significant Demand	Peak Demand	90 pts. for highest, 10 pts. for lowest	10%
Service hours	Operating time	90 pts. for highest, 10 pts. for lowest	5%
Reliability of service	Ratio of reserve capacity and loss of largest unit	10 pts. for highest, 90 pts. for lowest	20%

Table 4 shows that more emphasis was given to high electricity access, absence of arrearages and inadequacy of reserve capacities while high points were allocated to areas that are economically prosperous since they can afford to pay and are likely to have significant demand for electricity.

In determining the UC for ME, NPC used the projected nationwide sales of 47,917 GWh. However, due to different energy projections made by NPC and PSALM, the Commission opted to use the mean computed at 44,212.5 GWh adopted in the Order dated December 20, 2002.

However, considering that the availments from the UC will be utilized in FY 2003, the Commission used the most recent submission of projected sales of 52,093 GWh as reflected in the DOE's 2003 Missionary Electrification Development Plan (MEDP) submitted last March 7, 2003. On the other hand, the projected nationwide sales for the period July to December 2003 determined to be 26,046.5 GWh was used in the calculation of the CAPEX portion of the UC-ME.

Pending the approval of the NPC-SPUG's Purchased Power Agreements with two (2) Independent Power Producers (IPPs) delivering power in Palawan and Mindoro, the OPEX portion of the UC-ME rate was recalculated to incorporate the updated sales projection of 26,046.5 GWh for the period July to December 2003, resulting in a rate of PhP 0.0143/kWh.

NPC-SPUG's OPEX is covered not only through this portion of the UC-ME but also through the service rates charged directly by NPC-SPUG. NPC-SPUG's provisionally approved unbundled rates in the Order dated December 20, 2002 in ERC Case No. 2002-01 are as follows:

No

	P/kWh
Luzon	3.7064
Visayas	5.6404
Mindanao	4.8024

On March 28, 2003, NPC-SPUG submitted the list of priority projects and the corresponding projected capital expenditure which will be used as basis in calculating the UC. NPC-SPUG pointed out that the acquisition of new generating units is necessary to provide reliable and stable electric service and ensure that the power plant meets the demand at any given time. There are also power plants which need new capacities to replace aging/retireable generating units to meet the increasing demand of electricity in the island grids.

NPC-SPUG's proposal to use the UC-ME as the sole source of capital runs counter to the established utility ratemaking and accounting principles that call for the capitalization of such expenditures and the inclusion of the annual depreciation and cost of capital in the rates, not the entire annual capital expenditure. NPC-SPUG needs to seek out alternative financing (for example, loans) for most of their projects to allow a more rapid missionary electrification and a much lower universal charge. Thus, the computation of the UC should not include total capital expenditures.

NPC-SPUG's original proposal for CY 2002 included total projected capital expenditures of over ₱2.75 Billion and more recently, it submitted a revised and prioritized list of 88 projects with total projected capital expenditures of over ₱1.17 Billion. An analysis of this list disclosed some discrepancies between the earlier projected expenditures and the projected expenditures contained in the revised list. If these discrepancies are removed, a total projected capital expenditure of about ₱1.05 Billion will result. These amounts are reflected as follows:

1783.76 - 59
 1175.72 - 55

Table 5

Particulars	CAPEX (Million Pesos)
NPC Proposal for CY 2002	2,756.81
Revised Proposal (Exhibit I) - Prioritizing Projects In Existing SPUG Areas	1,175.72
Adjusted (Annex 1)	1,049.29
Recommended amount for the remaining months of CY 2003	599.76

126.43

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The CAPEX was adjusted to reflect the difference reported in the MEDP submitted by the DOE. The CAPEX in the revised proposal submitted by NPC-SPUG did not include a justification or explanation on the discrepancies. Thus, CAPEX as reflected in the MEDP was adopted.

Table 5 also included the CAPEX to cover the first 44 of the 88 prioritized projects proposed by NPC-SPUG.

The Commission is inclined to approve a UC-ME sufficient to cover only 44 projects of the 88 projects. NPC-SPUG may choose to adjust its proposed projects for its UC-ME for CY 2004 to include the remaining 44 projects.

Table 6 provides the computed UC-ME for the 44 prioritized projects:

Table 6
Computation of Universal Charge for
Missionary Electrification
(For 44 Prioritized Projects)

			OPEX CY 2003	CAPEX Jul-Dec 2003
Phil. Projected Energy Sales			52,093,000,000	26,046,500,000
Energy Sales-SPUG	kWh	PhP/kWh		
Luzon	429,379,000	3.7064	1,591,450,326	
Visayas	34,734,000	5.6404	195,913,654	
Mindanao	90,720,000	4.8024	435,673,728	
			2,223,037,707	
¹ Allowable Cash Expenses (OPEX only)			2,966,590,000	
² Estimated Levy/Subsidy Requirement			743,552,293	599,760,000
³ Estimated Levy/Subsidy Requirement (P/kWh)			0.0143	0.0230
Total Levy/Subsidy Requirement (P/kWh)				0.0373

¹ ERC Approval of PA granted

² Difference between Projected Revenue vs the approved budget

³ Calculated by Dividing the Estimated Levy by the Phil Projected Energy Sales

Table 6 shows that the operating expenses were adjusted to account for a) the updated sales for CY2003 and b) the capital expenditures for the proposed projects for existing areas of missionary electrification for the period July to December, 2003. This resulted to a total UC-ME in the amount of P0.0373 per kilowatt-hour.

Given the nature of rate based on projections and the proposal at this time to rely on the UC-ME as the sole source of capital, the importance of monitoring the performance of NPC-SPUG in its utilization of the amounts availed of for the purpose cannot be over-emphasized.

Relative thereto, a detailed report should be filed by NPC-SPUG not later than April 30, 2004, to include Audited Financial Statements and physical status of all projects indicated in the list. This information can be used as a guide in assessing and evaluating future petitions of similar nature.

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DISPOSITION

WHEREFORE, the foregoing premises considered, the provisional authority granted to petitioner National Power Corporation-Small Power Utilities Group (NPC-SPUG) in the Order dated December 20, 2002 is hereby modified to the effect that an additional amount of ₱0.0205 per kilowatt-hour should be added to the ₱0.0168 per kilowatt-hour provisionally authorized by the Commission in the said Order. Accordingly, a total amount of ₱0.0373 per kilowatt-hour is hereby APPROVED for withdrawal from the Special Trust Fund managed by PSALM as its share from the Universal Charge for Missionary Electrification (UC-ME) effective on the following billing cycles:

- (a) June 26-July 25, 2003 for National Transmission Corporation (TRANSCO); and
- (b) July 2003 for Distribution Utilities (DUs).


Relative thereto, TRANSCO and DUs are directed to collect the UC-ME in the amount of ₱0.0373 per kilowatt-hour and remit the same to PSALM on or before the 15th day of the succeeding month.


In the meantime, NPC-SPUG is directed to submit, not later than April 30, 2004, a detailed report to include Audited Financial Statements and physical status (percentage of completion) of the projects using the prescribed format.

Let copies of this Order be furnished petitioner NPC-SPUG and all distribution utilities (DUs).

SO ORDERED.

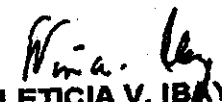
Pasig City, June 26, 2003.


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