



National Power Corporation

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CIRCULAR NO. 2008 - 001

SUBJECT : PAYMENT PROTOCOL FOR MISSIONARY ELECTRIFICATION SUBSIDY TO NEW POWER PROVIDERS (NPPs)

1.0 PURPOSE. This Circular is issued to provide guidelines in the payment of missionary electrification subsidy from the universal charge to the New Power Providers (NPPs) which generate and provide power and associated power delivery systems to the Missionary Electrification areas of the National Power Corporation - Small Power Utilities Group (NPC-SPUG).

2.0 COVERAGE. This Circular covers all NPPs which entered into a Power Supply Agreement (PSA) with the Electric Cooperatives (ECs). Also covered are NPPs which have an Interim Supply Agreement (ISA) with NPC.

3.0 APPROVALS. The following approvals shall be obtained prior to claiming the NPP's Missionary Electrification Subsidy from NPC:

- a. Subsidy Agreement among NPC, NPP and EC
- b. ERC's approval of Universal Charge-Missionary Electrification (UC-ME) to ensure availability and allocation of funds for payment of Subsidy Fee
- c. ERC's Order to pay the NPP. This is not required for NPPs under ISA with NPC
- d. UC-ME Disbursement from Power Sector Assets and Liabilities Management Corporation (PSALM)
- e. Clearance to pay from the ME Subsidy Account Administrator

4.0 DEFINITION OF TERMS

Electric Cooperative or "EC" refers to a Distribution Utility (DU) organized pursuant to Presidential Decree No. 269, as amended or as otherwise provided in Republic Act No. 9136 or Electric Power Industry Reform Act of 2001 (EPIRA).

Energy Regulatory Commission or "ERC" refers to the regulatory agency created in the EPIRA.

Interim Supply Agreement or "ISA" refers to the agreement entered into among EC, NPC and the NPP and intended to be used in the absence of an ERC approved Power Supply Agreement between the concerned NPP and its off-taker EC (in the ISA, expiring at Commercial Operation Date).

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Missionary Electrification or "ME" refers to the provision of basic electricity service in Unviable Areas with the ultimate aim of bringing the operations in these areas to viable levels.

Missionary Electrification Universal Charge or "UC-ME" refers to the Missionary Electrification component of the Universal Charge, expressed in Peso per kilowatt-hour, determined, fixed and approved by the ERC and applied to all electricity end-users, as provided for in Section 34 of the EPIRA.

Missionary Electrification Subsidy or "ME Subsidy" refers to the subsidy funded out of the UC-ME, expressed in Peso per Kilowatt-hour, benefit the end-users in missionary electrification areas. It shall be calculated as the difference between the True Cost Generation Rate (TCGR) of the NPP or NPC, and the applicable Subsidized/Approved Generation Rate (SAGR). NPC-SPUG shall apply for the ME Subsidy in accordance with Article IV of ERC Resolution No. 11 series of 2005, Guidelines for the Setting and Approval of Electricity Generation Rates and Subsidies for Missionary Electrification Areas.

ME Subsidy Account Administrator refers to the NPC Senior Department Manager for Finance designated specifically through NPC Special Office Order No. 01-2006 to manage and administer the ME Subsidy Account, or his replacement, successor or such other person designated in accordance with the said Special Office Order.

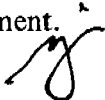
National Power Corporation-Small Power Utilities Group or "NPC-SPUG" refers to the functional unit of the NPC created to pursue the Missionary Electrification function as provided in Section 70 of the EPIRA.

NPC-SPUG Area refers to an area not connected to the national grid transmission system and to which NPC-SPUG directly supplies electricity service and the associated power delivery systems.

NPC-SPUG True Cost Generation Rate or "NPC-SPUG TCGR" refers to the cost, expressed in Peso per Kilowatt-hour, as determined through a Return on Rate Base (RORB) methodology which includes all NPC-SPUG allowable expenses incurred in providing electric generation services.

New Power Provider or "NPP" refers to an entity which has been selected through a competitive selection process to be technically and financially capable to serve or take over the power generation supply business in existing NPC-SPUG areas for a specific period.

NPP True Cost Generation Rate or "NPP TCGR" refers to the rate, expressed in Peso per Kilowatt-hour, which will allow recovery by the NPP's efficient costs of generation for the relevant period. To enable the NPP to operate viably, the NPP TCGR shall be sufficient to allow the recovery of just and reasonable costs and a reasonable return on investment.



Power Sector Assets and Liabilities Management Corporation or “**PSALM**” refers to the corporation created pursuant to Section 49 of the EPIRA.

Power Supply Agreement or “**PSA**” refers to the agreement between an EC and an NPP for the supply of electricity which shall be submitted to the ERC for approval.

Subsidized/Approved Generation Rate or “**SAGR**” refers to the ERC approved rate, expressed in Peso per Kilowatt-hour, which the EC will charge its consumers for electricity generation services.

Subsidy Agreement or “**SA**” refers to the agreement among the EC, NPP, and NPC-SPUG for a particular delegated NPC-SPUG Area, pursuant to Section 5.a.i.3 of DOE Circular No. 2004-01-001 and Section 4 of Article II of ERC Resolution No. 11, Series of 2005.

- 5.0 PAYMENT SUBSIDY.** Payment shall be released to the NPPs provided the TCGR is greater than the SAGR in accordance with the SA. Payment shall commence from commercial operation until the termination of the Subsidy Agreement.

Payment shall be made within thirty (30) calendar days from date of receipt of invoice together with complete supporting documents. Please refer to Annex A and Annex B for the Process Flow in the Payment for ME Subsidy to NPPs and the list of Audit Requirements for the processing thereof.

- 6.0 SAVING CLAUSE.** Queries or concerns regarding this payment protocol shall be addressed to the Office of the Senior Department Manager Finance (SDM-Finance) for appropriate action.
- 7.0 EFFECTIVITY.** This Circular shall take effect immediately upon its issuance and shall likewise govern previous PSAs/ISAs executed prior to its issuance, insofar as it does not conflict with any material provision of the PSA/ISA.

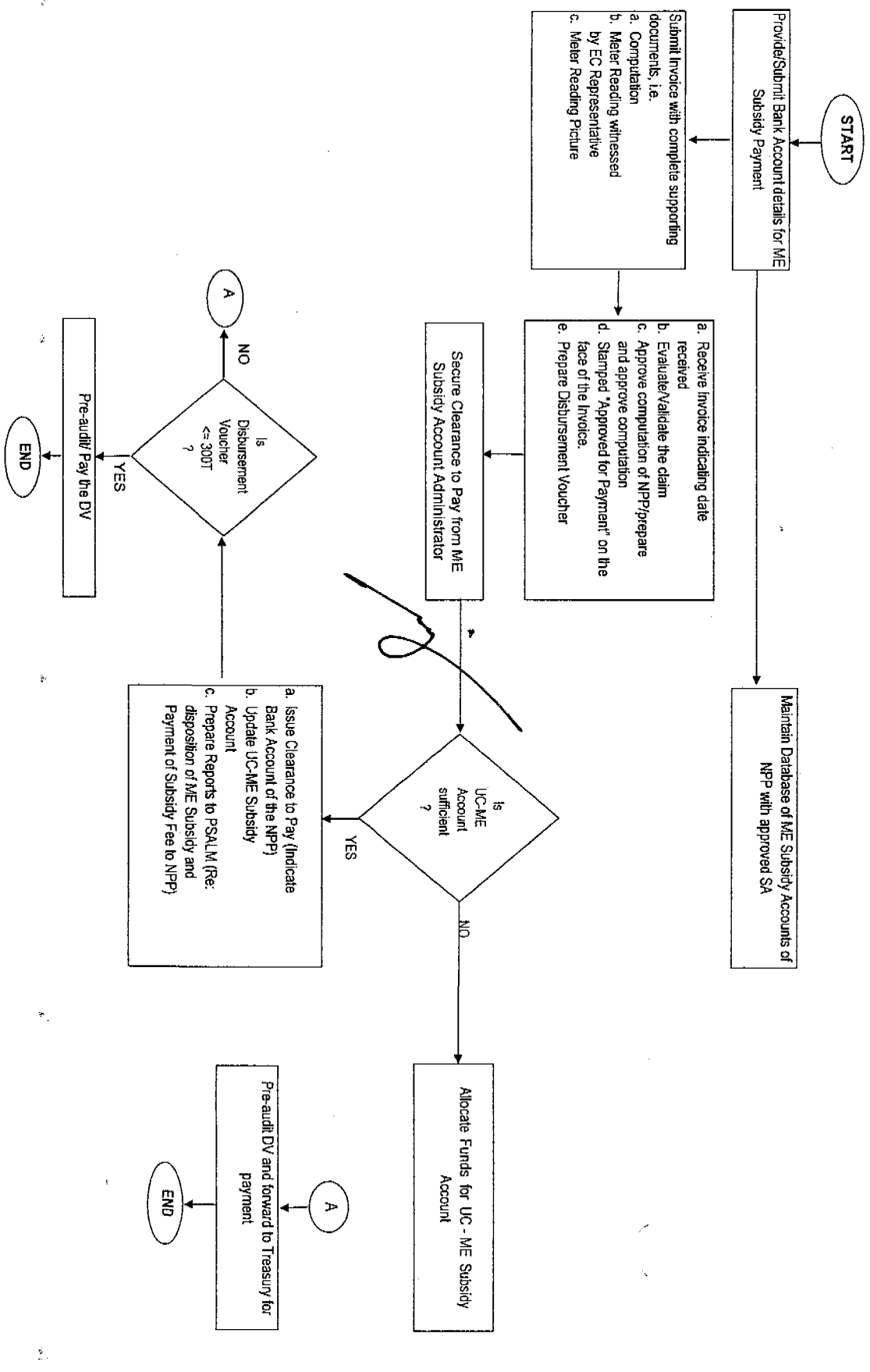

CYRIL C. DEL CALLAR

President

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PROCESS FLOW ON THE RELEASE OF ME SUBSIDY TO NPP

NEW POWER PROVIDER (NPP) NPC - SPUG (Reg'l. Office) ME Subsidy Acct. Administrator Head Office (HO) Controllers Dept.



**AUDIT REQUIREMENTS FOR RELEASE OF ME SUBSIDY
Payment Protocol for Missionary Electrification Subsidy to New Power Providers
(NPPs)**

First Claim:

1. Original duplicate copy of the Power Supply Agreement (PSA) with the Electric Cooperatives (EC) duly approved by Energy Regulation Commission (ERC)
2. Original duplicate copy of the Subsidy Agreement among the EC, NPP and NPC-SPUG
3. Certified copy of ERC approved Universal Charge-Missionary Electrification (UC-ME) to ensure availability of funds for payment of Subsidy Fee
4. ERC's Order to pay the NPP (this is not a requirement for NPP with Interim Supply Agreement only)
5. UC-ME Disbursement from Power Sector Assets and Liabilities Management Corporation (PSALM)
6. Certificate of Commercial Operation
7. NPP bank account details, including account name, number, branch and other relevant information.
8. NPP Invoice claim duly stamped Approved for Payment by NPC-SPUG Area Manager concerned
9. Clearance to pay issued by the ME Subsidy Account Administrator
10. Summary of Claims with corresponding supporting computations duly certified/verified correct by NPC-SPUG Area Manager concerned
11. Meter Reading witnessed by EC representative
12. Picture of the meter reading
13. Copy of Index Card duly certified by the Fiscal Examiner/Auditor of the respective NPC-SPUG Regional Offices, if any

Succeeding Claims:

Please provide Documentary Requirements Nos. 8 -13 above.