



RESOLUTION NO. 11, Series of 2005

ADOPTING THE GUIDELINES FOR THE SETTING AND APPROVAL OF ELECTRICITY GENERATION RATES AND SUBSIDIES FOR MISSIONARY ELECTRIFICATION AREAS

WHEREAS, Section 43(t) of Republic Act No. 9136, otherwise known as the Electric Power Industry Reform Act of 2001 (EPIRA), authorizes the Energy Regulatory Commission (ERC) to perform such "regulatory functions as are appropriate and necessary in order to ensure the successful restructuring and modernization of the electric power industry, such as, but not limited to the rules and guidelines x x x";

WHEREAS, on December 6, 2004, the National Power Corporation-Small Power Utilities Group (NPC-SPUG) filed with the Commission an application, docketed as ERC Case No. 2004-450, for the adoption, pursuant to Sections 34, 43(t), and 70 of the EPIRA, of its proposed Guidelines for the Setting of Electric Generation Rates and Subsidies for Missionary Electrification Areas (Guidelines);

WHEREAS, after NPC-SPUG amended its proposed Guidelines and submitted the same to the ERC, on April 21, 2005, the ERC issued an Order and Notice of Public Consultation setting the public consultations on the proposed Guidelines on May 19, 26, and June 2, 2005 for Luzon, Visayas and Mindanao, respectively;

WHEREAS, the ERC conducted the public consultations on the dates specified in its Order dated April 21, 2005 and as requested, conducted a fourth public consultation in Zamboanga City on June 21, 2005;

WHEREAS, the ERC received a number of comments on the proposed Guidelines and considered the same in its deliberations on the adoption of the proposed Guidelines and the necessary revisions thereto;

WHEREAS, in accordance with its mandate under the EPIRA, after consideration of the various views and comments submitted by interested parties, and based on its own study and analysis, the ERC finds it appropriate to

adopt the Guidelines for the Setting and Approval of Electricity Generation Rates and Subsidies for Missionary Electrification Areas, which is hereto attached;

NOW, THEREFORE, the ERC hereby **RESOLVES**, as it is hereby **RESOLVED**, to **APPROVE** and **ADOPT** the **Guidelines for the Setting and Approval of Electricity Generation Rates and Subsidies for Missionary Electrification Areas**.


This Resolution shall take effect on the tenth (10th) day following its publication in a newspaper of general circulation in the country.

Pasig City, July 6, 2005


RODOLFO B. ALBANO, JR.
Chairman

(ON OFFICIAL TRAVEL)
OLIVER B. BUTALID
Commissioner


JESUS N. ALCORDO
Commissioner


RAUF A. TAN
Commissioner


ALEJANDRO Z. BARIN
Commissioner

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

**GUIDELINES FOR THE SETTING AND APPROVAL OF ELECTRICITY
GENERATION RATES AND SUBSIDIES FOR MISSIONARY
ELECTRIFICATION AREAS**

Pursuant to Sections 34, 43(t), and 70 of Republic Act No. 9136, otherwise known as the Electric Power Industry Reform Act of 2001 (EPIRA), and its Implementing Rules and Regulations (IRR), the Energy Regulatory Commission (ERC) hereby promulgates these Guidelines for the setting and approval of electricity generation rates and subsidies for Missionary Electrification areas.

ARTICLE I

General Provisions

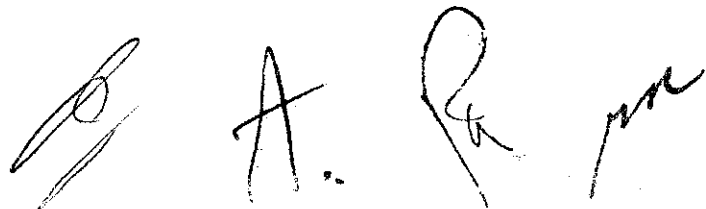
Section 1. Objectives. These Guidelines shall be used as the framework to set and approve electricity generation rates and subsidies for areas not connected to the national grid transmission system and where NPC-SPUG performs or will perform its Missionary Electrification function by providing power generation and its associated power delivery systems.

Section 2. Definition of Terms.

(a) **"Best New Entrant Rate" or "BNE Rate"** shall refer to the generation rate, expressed in Peso per Kilowatt-hour, which an efficient entrant needs to charge its customers for it to recover its costs and earn a reasonable return on capital. The ERC shall determine this BNE rate for each NPC-SPUG Area for which a Competitive Selection Process (CSP) is launched in accordance with Article II, Section 1 of these Guidelines.

(b) **"Bidding Documents"** shall refer to the complete set of documents given to interested bidders, including the terms of reference for technical and financial requirements, sufficient to allow such bidders to submit qualified bids.

(c) **"Competitive Selection Process" or "CSP"** shall refer to the process wherein a New Power Provider (NPP) is selected through transparent and competitive bidding undertaken by an Electric Cooperative (EC) to secure, among others, the lowest long-term cost of power and services, a transparent procurement process for the fuel used in the generation of power, environmental compatibility with the local area, and the most advantageous implementation schedule.



(d) **"Delegated NPC-SPUG Area"** shall refer to an area that is not connected to the national grid transmission system where an NPP or NPPs on behalf of NPC-SPUG are providing electric generation services and its associated power delivery systems.

(e) **"Department of Energy"** or **"DOE"** shall refer to the government agency created pursuant to Republic Act No. 7638.

(f) **"Distribution Utility"** or **"DU"** shall refer to any EC, private corporation, government-owned utility or existing local government unit which has an exclusive franchise to operate a distribution system in accordance with the EPIRA.

(g) **"DOE Circular for NPC-SPUG"** shall refer to DOE Department Circular No. 2004-001-0001 entitled "Prescribing the Rules and Procedures for Private Sector Participation in Existing NPC-SPUG Areas Pursuant to Rule 13 of the Implementing Rules and Regulations of the Electric Power Industry Reform Act of 2001 (EPIRA-IRR)."

(h) **"Electric Cooperative"** or **"EC"** shall refer to a DU organized pursuant to Presidential Decree No. 269, as amended, or as otherwise provided in the EPIRA.

(i) **"Electric Power Industry Reform Act"** or **"EPIRA"** shall refer to Republic Act No. 9136.

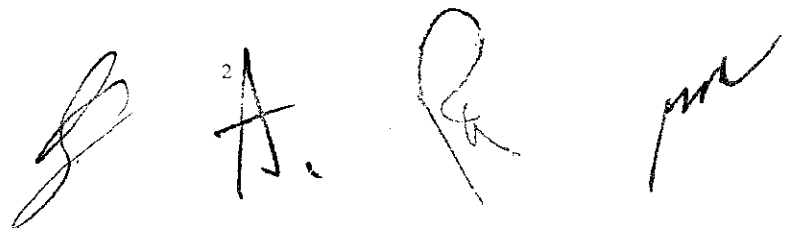
(j) **"Energy Regulatory Commission"** or **"ERC"** shall refer to the regulatory agency created in the EPIRA.

(k) **"Generation Rate Adjustment Mechanism"** or **"GRAM"** shall refer to the mechanism for the adjustment of fuel and purchase power costs, which the ERC approved in ERC Case No. 2003-44 entitled "In the Matter of the Adoption of the Generation Rate Adjustment Mechanism (GRAM) and Incremental Currency Exchange Recovery Adjustment Mechanism."

(l) **"Incremental Currency Exchange Rate Adjustment"** or **"ICERA"** shall refer to the mechanism for the adjustments in the currency exchange rate, which the ERC approved in ERC Case No. 2003-44 entitled "In the Matter of the Adoption of the Generation Rate Adjustment Mechanism (GRAM) and Incremental Currency Exchange Recovery Adjustment Mechanism."

(m) **"IRR"** shall refer to the Implementing Rules and Regulations of the EPIRA.

(n) **"Missionary Electrification"** shall refer to the provision of basic electricity service in Unviable Areas with the ultimate aim of bringing the operations in these areas to viability levels, including the provision of power generation and its associated power delivery systems in areas that are not connected to the national grid transmission system.



(o) **“Missionary Electrification Universal Charge”** or **“UC-ME”** shall refer 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.

(p) **“Missionary Electrification Subsidy”** or **“ME Subsidy”** shall refer to the subsidy funded from the UC-ME, expressed in Peso per Kilowatt-hour, whose ultimate beneficiaries are end-users in missionary electrification areas. It shall be calculated as the difference between an NPP-TCGR or NPC-SPUG TCGR, and the applicable Subsidized/Approved Generation Rate. NPC-SPUG shall petition the ERC for the setting and approval of the ME Subsidy in accordance with Article IV of these Guidelines.

(q) **“NPC-SPUG”** shall refer to the functional unit of the NPC created to pursue the Missionary Electrification function as provided in Section 70 of the EPIRA.

(r) **“NPC-SPUG Area”** shall refer to an area not connected to the national grid transmission system wherein NPC-SPUG directly provides or will provide electric generation services and its associated power delivery systems.

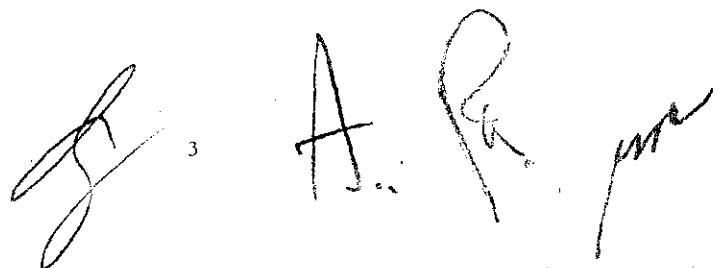
(s) **“NPC-SPUG True Cost Generation Rate”** or **“NPC-SPUG TCGR”** shall refer to the cost, expressed in Peso per Kilowatt-hour, determined through a Return on Rate Base (RORB) methodology that includes all NPC-SPUG allowable expenses incurred from providing electric generation services.

(t) **“New Power Provider”** or **“NPP”** shall refer to an entity that is technically and financially capable to serve or take over existing NPC-SPUG areas. It shall be selected after the conduct of a CSP as provided in these Guidelines.

(u) **“NPP True Cost Generation Rate”** or **“NPP TCGR”** shall refer to the rate, expressed in Peso per Kilowatt-hour, which will allow recovery of 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.

(v) **“Power Supply Agreement”** or **“PSA”** shall refer to the agreement between an EC and an NPP for the supply of electricity. It shall be submitted to the ERC for its approval.

(w) **“Power Sector Assets and Liabilities Management Corporation,”** **“PSALM”** or **“PSALM Corp.”** shall refer to the corporation created pursuant to Section 49 of the EPIRA.

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(x) **“Related Group”** shall refer to a person and any business entity controlled by that person, along with the affiliates of such business entity, and the directors and officers of the business entity or its affiliates, and relatives by consanguinity or affinity, legitimate or common law, within the fourth civil degree of the person or any of the foregoing directors or officers.

(y) **“Subsidized/Approved Generation Rate”** or **“SAGR”** shall refer to the generation rate, expressed in Peso per Kilowatt-hour, which the ERC has approved for an EC to charge its consumers for electricity generation services.

(z) **“Subsidy Agreement”** or **“SA”** shall refer to the agreement among the EC, NPP, and NPC-SPUG for a particular Delegated NPC-SPUG Area, pursuant to the DOE Circular for NPC-SPUG, Section 5(a)(1)(3).

(aa) **“Qualified Bids”** shall refer to proposals submitted by prospective NPPs made in accordance with the Bidding Documents issued for a CSP.

(bb) **“Transition Period”** shall refer to the period of time over which the SAGR will increase from its current value to the NPP TCGR or the NPC-SPUG TCGR, as the case may be, applying the Transition Index that the ERC may approve.

(cc) **“Transition Index”** shall refer to the index that the ERC may approve to effect the gradual phase-out of the ME Subsidy requirements for the Delegated NPC-SPUG Areas and NPC-SPUG Areas.

(dd) **“Universal Charge”** shall refer to the charge imposable on all electricity end-users pursuant to Section 34 of the EPIRA.

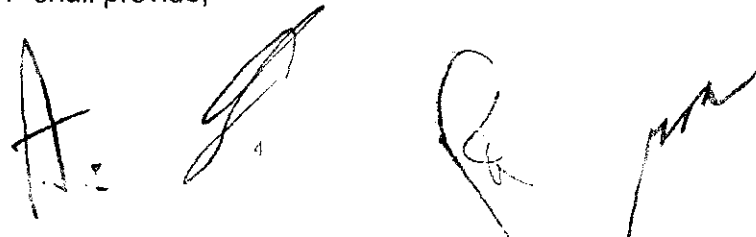
ARTICLE II

Delegated NPC-SPUG Areas

Section 1. Launch of the Competitive Selection Process.

(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, which notification will include:

- i. A copy of the Bidding Documents that will be used for the CSP;
- ii. A copy of the proposed PSA, if available, that the EC intends to sign with the winning NPP, specifying the expected output that such NPP shall provide;



- iii. A copy, if available, of a due diligence report on the EC and the NPC-SPUG generation plants; and
- iv. Such other information that the ERC may require.

If a group of ECs decides to conduct a joint CSP to select a single NPP to supply electricity in their respective Delegated NPC-SPUG Areas, the ECs in the "package" will jointly notify the ERC of the date of the CSP launch and provide the information specified above.

(b) Setting of Best New Entrant Rate. After receiving the Notice of CSP launch, the ERC shall determine the Best New Entrant 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 TCGR.




If the CSP was launched before the issuance of these Guidelines but no PSA was yet awarded or is launched within thirty (30) days thereafter, the EC shall be exempt from the notification requirement above. In such case, the ERC shall determine the BNE Rate upon the filing by the EC of its application for approval of the PSA and the NPP TCGR and use the same as benchmark in determining the reasonableness of such NPP TCGR.

Section 2. Award of PSA to NPP. The EC shall award the PSA to the winning NPP following a successful CSP. A CSP is successful if the EC receives at least two (2) Qualified Bids from entities, which do not fall within the definition of Related Groups and with which the EC is not prohibited from entering into a contract for power supply in accordance with Rule 11, Section 5 (b) of the EPIRA IRR.

If the CSP fails, the EC may conduct another CSP or, after at least two failed CSPs, the EC may enter into negotiations with any interested party for the supply of energy, until a PSA shall have been awarded to an NPP.

In accordance with the DOE Circular for SPUG, the EC shall secure the certification from the DOE that it underwent a CSP prior to the award of its PSA with an NPP.

If the EC had already executed a PSA with an NPP prior to the issuance of these Guidelines, the ERC shall apply its general rules and policies prevailing as of that time on the execution of supply agreements between DUs and Independent Power Producers. If there had been no compliance therewith, the ERC shall direct the EC to forthwith comply before its application for approval of its PSA and NPP TCGR can be decided.

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Section 3. Filing and Approval of the PSA and the NPP TCGR. The EC shall file with the ERC an application for the approval of its PSA with an NPP and the NPP TCGR.

Following the award of the PSA to the winning NPP, the EC shall file an application with the ERC for the approval of the PSA and the NPP TCGR as stipulated therein. Together with the application, the EC shall submit the following:

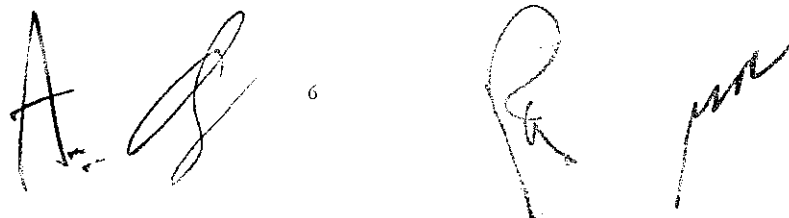
- i. A sworn certification that the PSA was awarded in accordance with Article II Section 2 of these Guidelines;
- ii. DOE certification on the conduct of the CSP;
- iii. A copy of the signed PSA and other supporting contracts and agreements; and
- iv. Such other documents that the ERC may require.

If a group of ECs decides to conduct a joint CSP to select a single NPP to supply electricity in their respective NPC-SPUG Areas, the ECs in the "package" shall jointly file an application with the ERC for the approval of their respective PSAs and NPP TCGR resulting from the joint CSP.

ERC's Decision on the approval of the PSA and the NPP TCGR will be based on its satisfaction:

- i. That the NPP TCGR (including any adjustment mechanism for variable costs and inflation) set in the PSA, with reference to the BNE Rate, is fair and reasonable;
- ii. That the NPP supplies electricity in accordance with the applicable technical, financial and environmental standards, as well as with the outputs defined in the Bidding Documents, and that it undertakes to put in place a transparent process for the procurement of its fuel requirements in order to ensure at all times the lowest cost therefore;
- iii. That the NPP's compliance with the applicable standards is guaranteed by a reasonably-valued performance bond or other forms of financial guarantee; and
- iv. That the risks associated with the supply of electricity such as those pertaining to the economic conditions of the country, foreign exchange fluctuations, changes in world crude prices, and the like are efficiently allocated between the EC and the NPP and the same are sufficiently addressed in the PSA and that the parties are given some latitude under the PSA to renegotiate the terms thereof, subject to the ERC's approval, to reflect the prevailing conditions.

The ERC will render a Decision on the PSA and the NPP TCGR within ninety (90) days from the date of the filing of the application, unless it extends the 90-day decision period for a maximum of ninety (90) days on account of extraordinary circumstances attending the application. If no decision is rendered within the original or the extended decision period, the PSA and the NPP TCGR will be deemed approved.

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If the ERC finds that the NPP TCGR is not fair and reasonable with reference to the BNE Rate or that it is unreasonably higher than such benchmark, the ERC shall determine the reasonable or allowable NPP TCGR that may be recovered by the NPP. The ERC may also allow the EC to present its justification for the applied NPP TCGR and/or propose the appropriate adjustments to the NPP TCGR that will make it acceptable to the ERC.

Section 4. Recovery of the NPP TCGR. The NPP shall be allowed to recover the NPP TCGR as approved by the ERC. In cases where the NPP TCGR is higher than the SAGR, then the NPP shall be allowed to recover the difference between the NPP TCGR and the SAGR from the ME Subsidy. In case the ME Subsidy disbursed by PSALM is insufficient to cover the ME Subsidy obligations with NPPs and the other ME activities of NPC-SPUG, the ME Subsidy payments to NPPs will be paid first out of the total amounts remitted by PSALM.

ARTICLE III

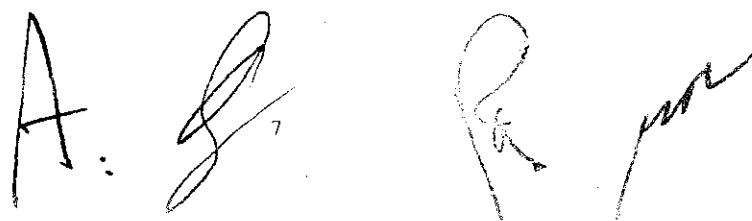
NPC-SPUG Areas

Section 1. Rules for Setting and Adjusting NPC-SPUG TCGR. In each of the NPC-SPUG Areas, NPC-SPUG shall be allowed to recover the NPC-SPUG TCGR. In cases where the NPC-SPUG TCGR is higher than the SAGR, NPC-SPUG may recover the difference between the NPC-SPUG TCGR and the SAGR from the ME Subsidy.

(a) **Determination of the NPC-SPUG TCGR and its adjustments.** NPC-SPUG will file an application with the ERC for the setting and approval of the NPC-SPUG TCGR, within one hundred eighty days (180) days from the issuance of these Guidelines. This NPC-SPUG TCGR shall be used to determine the appropriate level of ME Subsidy to be allowed for NPC-SPUG for the applicable period.

The NPC-SPUG TCGR will represent the revenue requirement of NPC-SPUG in accordance with the RORB methodology used to determine the National Power Corporation's generation charges. To support the computation of this revenue requirement, NPC-SPUG will submit the following information:

- i. Current NPC-SPUG operating and maintenance costs, including the details of fuel purchases and deliveries, payroll, power purchase, depreciation and other costs;
- ii. Current value of NPC-SPUG's assets;
- iii. Current energy sales; and
- iv. Such other information as the ERC may require.

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The ERC will render a Decision on the application within 180 days from the date of the filing. If no decision is rendered within said period, the NPC-SPUG TCGR will be deemed approved, unless the ERC extends the said decision period on justifiable grounds.

(b) **GRAM and ICERA Adjustments.** The NPC SPUG TCGR shall include GRAM and ICERA adjustments as approved by ERC prior to the promulgation of these Guidelines. Subsequent adjustments due to GRAM and ICERA and such other adjustment mechanism that the ERC may hereafter adopt shall be applied to the SAGR or the NPC SPUG TCGR, at the discretion of the ERC.

(c) **Resetting of NPC-SPUG TCGR.** NPC-SPUG shall file an application with the ERC for the resetting of the NPC-SPUG TCGR as may be necessary for it to recover fluctuations in its costs not recovered through the GRAM and ICERA adjustments. This application may be included in NPC-SPUG's application for UC ME Subsidy to be filed pursuant to Article IV of these Guidelines.

ARTICLE IV

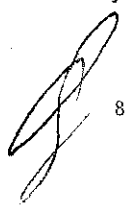


Provisions Applicable to Delegated NPC-SPUG Areas and NPC-SPUG Areas

Section 1. Determination of the SAGR and its adjustments.

(a) Upon the issuance of these Guidelines, all existing generation rates approved by the ERC to be charged by NPC-SPUG to the ECs shall be the Subsidized/Approved Generation Rate for those areas. For NPC SPUG Areas covered by NPC-SPUG's application for a rate increase filed prior to the issuance of these Guidelines, the rate, which the ERC shall approve in such application, shall be the SAGR for the affected NPC-SPUG Areas.

(b) NPC-SPUG may subsequently apply with the ERC for the adjustment of the SAGR and for the adoption of a Transition Index for certain NPC-SPUG Areas consistent with the Guidelines that the ERC may promulgate on the matter.

(c) For Delegated NPC-SPUG Areas, the adjustments in the NPP TCGR pursuant to the approved PSA shall necessarily require a higher ME subsidy requirement if the SAGR were to be maintained at its current level. For this reason, at the next UC-ME filing or at the next quarterly true up petition to be filed by NPC-SPUG for this purpose as provided in Section 2 hereof, the ERC shall determine if there is a need to adjust the SAGR in the Delegated NPC-SPUG Areas affected by the NPP TCGR adjustments. Accordingly, the ERC shall direct the concerned ECs to file their applications for adjustment of their SAGR within the period that the ERC may set in its Order.

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Section 2. UC-ME Filing Requirements and Procedures. The following requirements and procedures shall be followed in the submission, evaluation and approval of the UC-ME for Delegated NPC-SPUG Areas and NPC-SPUG Areas ("All NPC-SPUG Areas").

(a) **Periodic Filing.** On or before September 30 of every calendar year, NPC-SPUG will file a petition with the ERC to set the UC-ME sufficient to cover the ME Subsidy estimated requirements for All NPC-SPUG Areas in the forthcoming calendar year. These estimates will be computed as follows:

	Estimated ME Subsidy Requirements	Formula
1	ME Subsidy for Delegated NPC-SPUG Areas (PhP)	Sum for all Delegated NPC-SPUG Areas of (NPP TCGR – SAGR) x forecasted sales (kWh)
2	ME Subsidy for NPC-SPUG Areas (PhP)	(NPC-SPUG TCGR – SAGR) x forecasted sales for NPC-SPUG Areas (kWh)
3	ME Subsidy for other Missionary Electrification uses (PhP)	<i>To be determined according to the Missionary Electrification Development Plan (MEDP)</i>
4	Total (PhP)	[1 + 2 + 3]
5	Forecasted National Electricity Sales (kWh)	<i>To be obtained from DOE's Philippine Development Plan</i>
6	UC-ME (PhP / kWh)	[4 / 5]

Notes:

- a) The NPP TCGR and SAGR will be obtained from the most recent subsidy invoice paid to each NPP. Forecasted sales will be obtained from the concerned EC.
- b) The NPC-SPUG TCGR and SAGR will be the latest ERC-approved NPC-SPUG TCGR and SAGR. Forecasted sales will be obtained from NPC-SPUG's own forecasts.
- c) Forecast national electricity sales will be obtained from DOE's Philippine Power Development Plan.
- d) "ME Subsidy for other Missionary Electrification uses" shall also include any transmission related and/or associated delivery service subsidies for the SPUG areas.

The ME Subsidy Requirements included in the above table shall be consistent with the ERC-approved Missionary Electrification Development Plan (MEDP).

The ERC will issue a Decision setting the UC-ME for the subsequent calendar year at a value, expressed in Peso per Kilowatt-hour, which when multiplied by the expected national electricity sales, will equal the estimated ME Subsidy requirements of all NPC-SPUG Areas. For clarity in implementation, the ERC shall identify the estimated amounts for subsidy payments to cover all ME Subsidy requirements. It shall identify how much of these amounts shall be allocated for the NPPs and for NPC-SPUG. The estimated amounts shall not be deemed an

absolute limit since the expenses incurred by NPC-SPUG and the NPPs are based on the actual kilowatt hours delivered. Consequently, all the funds collected by PSALM from the application of the UC-ME, regardless of the absolute Peso amount, will be transferred to NPC-SPUG. This Decision will indicate the share of the UC-ME that is approved for Delegated NPC-SPUG Areas, NPC-SPUG Areas and other Missionary Electrification uses.

(b) **Quarterly True-Up Adjustments.** NPC-SPUG shall file a quarterly petition, if necessary, with the ERC to recover any shortfall in the ME Subsidy caused by factors such as:

- a. Lower national electricity sales compared to forecast;
- b. Collection shortfall;
- c. Adjustments due to GRAM and ICERA;
- d. Adjustments in the NPP TCGR;
- e. Reasonable financing costs incurred by NPC-SPUG to cover any ME Subsidy shortfall; and
- f. Other analogous cases.

(c) **Administration of ME Subsidy.** NPC-SPUG will establish a trust account wherein all UC-ME transfers from the PSALM-administered Special Trust Fund will be deposited. This bank account will be governed by a set of predefined guidelines. The administrator of the account will make disbursements to NPC-SPUG or the NPPs according to such guidelines. In the case of the NPPs, transfer rules from the account administrator will also be defined in the Subsidy Agreement to be signed among NPC-SPUG, NPP and the EC in accordance with the DOE Circular for NPC-SPUG.

(d) **Reconciliation of Actual UC-ME.** On or before the first quarter of the calendar year, NPC-SPUG shall reconcile all amounts received against all disbursements made for the previous year. If the reconciliation results in NPC having surplus funds, the amount of the ME Subsidy for the year shall be adjusted accordingly. Conversely, if the reconciliation results in the NPC-SPUG experiencing a deficiency, NPC-SPUG shall be entitled to petition for an increase in the ME Subsidy to cover the shortfall.

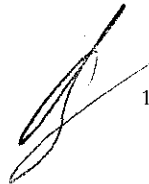


(e) **Automatic Adjustment to UC-ME.** If, as a result of factors beyond its control, NPC-SPUG shall be unable to file an acceptable UC-ME application before September 30, or the ERC is unable to issue a UC-ME Decision before the end of the calendar year, the UC-ME approved by the ERC for the previous calendar year will be automatically adjusted based on the following formula and events:

$$UCME_t = UCME_{t-1} \times AF_t$$

Where:

t = Forthcoming year

t-1 = Current year

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$UCME_{t-1}$ = UC-ME (PhP/kWh) approved for the current year

AF_t = 0.7, if NPC-SPUG fails to file an acceptable UC-ME application with the ERC before September 30 of the current year.

Provided that, NPC-SPUG shall not be allowed to recover financing costs resulting from its failure to make a timely application; or

= 1.0, if ERC is unable to issue a UC-ME Decision before December 31 of the current year on the assumption that NPC-SPUG filed the UC-ME application before September 30.

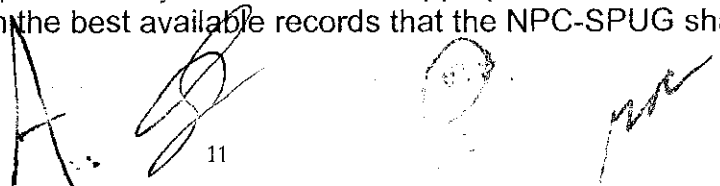
The foregoing is without prejudice to ERC's final determination of a higher UC-ME as may be warranted by the application.

The UC-ME amount shall be adjusted or reconciled in accordance with Article IV, Section 2 (b) and (d) of these Guidelines.

Section 3. Setting of Subtransmission Rate. Prior or in parallel to the filing for the approval of the PSA and NPP TCGR, the EC, NPP (in case of dedicated subtransmission lines) or NPC SPUG will file, as appropriate, an application with the ERC petitioning for the setting of a subtransmission rate that covers the additional cost of leasing, acquiring, operating and/or maintaining the assets.

Section 4. Transitory Provisions. Considering that, at the time of issuance of these Guidelines NPC-SPUG has a pending application with the ERC (ERC Case 2004-449) for the approval of the UC-ME for 2005 for 14 NPC-SPUG Areas belonging to the so-called "First Wave Areas," the following special provisions will apply for the UC-ME petition for All NPC-SPUG Areas for 2005:

- i. The resulting rate from ERC's Decision in ERC Case No. 2004-449 shall be the SAGR for these 14 areas. The ERC shall consider such rate in its Decision on the 2005 UC-ME Subsidy;
- ii. The amount approved for the 14 First Wave Areas will be allocated from the ERC-approved UC-ME for all NPC-SPUG Areas;
- iii. NPC-SPUG shall file within thirty (30) days from the issuance of these Guidelines an application with the ERC to set the UC-ME for 2005, as expressed in Peso per Kilowatt-hour;
- iv. The UC-ME Subsidy in (i) and (ii) above shall be included in the total UC-ME Subsidy requirements for 2005;
- v. Considering that the NPC-SPUG TCGR, as provided in Article III, Section 1 of these Guidelines, will still be applied with and resolved by the ERC, for purposes of computing the 2005 UC-ME Subsidy, the ERC shall provisionally determine the appropriate NPC-SPUG TCGR based on the best available records that the NPC-SPUG shall

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submit in connection with its application under (iii) above and on the BNE Rates determined for the 14 First Wave Areas, if any; and
vi. All GRAM and ICERA adjustments approved for NPC-SPUG prior to the promulgation of these Guidelines shall continue to be collected by NPC-SPUG until such time that they are fully recovered.

Article V

Separability

If for any reason, any section of these Guidelines is declared unconstitutional or invalid, the other parts or sections hereof which are not affected thereby shall continue to be in full force and effect.

ARTICLE VI

Effectivity

These Guidelines shall take effect on the tenth (10th) day following its publication in a newspaper of general circulation in the country.

Pasig City, July 6, 2005



RODOLFO B. ALBANO JR.
Chairman

(ON OFFICIAL TRAVEL)
OLIVER B. BUTALID
Commissioner



JESUS N. ALCORDO
Commissioner



RAUF A. TAN
Commissioner



ALEJANDRO Z. BARIN
Commissioner