

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



**IN THE MATTER OF THE 18<sup>th</sup>  
APPLICATION FOR THE  
RECOVERY OF THE  
INCREMENTAL COSTS ON  
FOREIGN CURRENCY  
EXCHANGE RATE  
FLUCTUATIONS UNDER THE  
INCREMENTAL CURRENCY  
EXCHANGE RATE  
ADJUSTMENT (ICERA) WITH  
PRAYER FOR PROVISIONAL  
AUTHORITY (PA)**

**ERC CASE NO. 2019-026 RC**

**NATIONAL POWER  
CORPORATION,**  
**Applicant.**

Promulgated:  
JUL 16 2019

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**NOTICE OF PUBLIC HEARING**

**TO ALL INTERESTED PARTIES:**

Notice is hereby given that on 5 April 2019, the National Power Corporation (NPC) filed an *Application* dated 01 April 2019, for the Commission's approval of its recovery of the incremental costs on foreign currency exchange rate fluctuations under the Incremental Currency Exchange Rate Adjustment (ICERA), with prayer for provisional authority.

In its *Application*, NPC alleged, among others, the following:

1. NPC is a government-owned and controlled corporation, created and existing under and by virtue of Republic Act No. 6395, as amended, (otherwise known as the NPC Charter), with principal office address at NPC-Office Building Complex (NPC-OBC), corner Quezon Avenue and BIR Road, East Triangle, Diliman, Quezon City.

**ERC CASE NO. 2019-026 RC**  
**NOTICE OF PUBLIC HEARING/ 28 JUNE 2019**  
**PAGE 2 OF 7**

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2. Pursuant to Section 70 of R.A. 9136, otherwise known as the Electric Power Industry Reform Act (EPIRA) of 2001, NPC through its Small Power Utilities Group (NPC-SPUG), with the same principal office address stated above, is responsible for providing power generation and its associated power delivery systems in areas that are not connected to the transmission system.
3. In the performance of its missionary electrification function, NPC-SPUG incurs additional operating costs/savings as a result of the fluctuation of foreign exchange which affects the costs of servicing foreign currency debts (excluding interest) and/or foreign exchange-related expenses such as insurance and imported power plant/transmission parts.
4. In the Order dated 24 February 2003, this Honorable Commission issued and adopted the Implementing Rules for the Incremental Currency Exchange Rate Adjustment (ICERA) providing for, among others, the mechanisms for the recovery/(refund) of the deferred incremental costs/(savings) on foreign currency exchange rate fluctuations and carrying charges.
5. This Application is being filed consistent with Section 4(e) Rule 3 of the Implementing Rules and Regulations (IRR), as amended, of EPIRA dated June 8, 2001.
6. The Application covers the billing period from January 2017 to December 2017. Further, Applicant has fully complied with the ICERA's monthly reportorial requirements in support of the calculated allowable costs covering the billing period, as evidenced by the submitted reports/compliances duly received by this Honorable Commission and attached in the said Application.
7. Applicant proposes to recover the Deferred Accounting Adjustments (DAAs) corresponding to additional costs from foreign exchange fluctuations in the settlement of Debt Service (principal repayment portion) and Operating Expenses (OPEX), as well as the corresponding carrying charges for the billing period January 2017 to December 2017 for Luzon, Visayas and Mindanao.
8. Considering the foregoing, and pursuant to all the relevant Decisions and Orders issued by the Honorable Commission, the Applicant has calculated the total deferred costs for recovery under this instant Application comprising of the deferred debt service, OPEX and the corresponding carrying charges for Luzon, Visayas and Mindanao covering the billing period from January 2017 to December 2017, as shown below:

**Table 1. Total Deferred FOREX Costs, in PhP**

	<b>Principal</b>	<b>Carrying Charges</b>	<b>Total DAA</b>
<b>TOTAL</b>	<b>23,150,323</b>	<b>375,341</b>	<b>23,525,664</b>

9. This application seeks the Honorable Commission's approval for the recovery of the above-stated total deferred FOREX costs for the billing period January 2017 to December 2017 through the imposition of the following proposed DAA charges:

**Table 2. Total Deferred FOREX Costs, in PhP/kWh**

<b>Deferred Cost (PhP)</b>	<b>Recovery Period</b>	<b>Projected Energy Sales (MWh)</b>	<b>ICERA DAA Rate (PhP/kWh)</b>
23,525,664	12 months	538,462	0.0437

10. Applicant NPC proposes a recovery period of twelve (12) months as approved by its Board of Directors. If this application is approved as filed, the proposed rate above shall be billed to island grid customers for twelve months.
11. As authorized under the Implementing Rules of the ICERA, Applicant utilized the carrying charge interest rates, as shown in Table 3:

**Table 3. Allowable Carrying Charge Interest Rates**

<b>Test/Billing Months</b>	<b>Prevailing 91-day T-Bill Rate <sup>1/</sup></b>	<b>Authorized Allowance <sup>2/</sup></b>	<b>Allowable Rate</b>
JAN 2017	1.178	3.00	4.178
FEB	2.104	3.00	5.104
MAR	2.367	3.00	5.367
APR	2.347	3.00	5.347
MAY	2.177	3.00	5.177
JUN	2.094	3.00	5.094
JUL	2.152	3.00	5.152
AUG	2.160	3.00	5.160
SEP	2.060	3.00	5.060
OCT	1.958	3.00	4.958
NOV	2.148	3.00	5.148
DEC <sup>3/</sup>	2.034	3.00	5.034

1- Source: Bangko Sentral ng Pilipinas

([www.bsp.gov.ph/statistics/sdds/tbillsdds.htm](http://www.bsp.gov.ph/statistics/sdds/tbillsdds.htm))

2- As authorized in the ICERA Implementing Rules

3- There was no T-bill rates for December hence, the data used was based on 4<sup>th</sup> quarter

12. The proposed ICERA DAA is fair and reasonable as it is computed in line with the ICERA Guidelines.
13. In support of the proposed 18th ICERA DAA, Applicant respectfully submits the following documents annexed herewith to form part of this Application:
- |   |                             |
|---|-----------------------------|
| Calculation of Deferred Cost and Proposed Charges                                       | <b>Annex "B"</b>            |
| Calculation of Deferred Debt Service/OPEX and corresponding carrying charges            | <b>Annex "C" and series</b> |
| The Projected Energy Sales (in MWh) used to calculate the proposed DAA charges in P/kWh | <b>Annex "D"</b>            |
| 91-day Treasury Bill Rates  | <b>Annex "E"</b>            |
14. The proposed ICERA was approved for filing by the Board of Directors of Applicant on 28 March 2019, a certified true copy of Secretary's Certificate is hereto attached as Annex "F and series" and made an integral part hereof.

**ALLEGATIONS IN SUPPORT OF THE PRAYER FOR  
PROVISIONAL AUTHORITY**

15. Consistent with the principle of structural and functional unbundling of the electric power industry participants, the proposed ICERA is based on foreign exchange-related adjustments attributable only to NPC-SPUG operations, i.e. excluding those associated with NPC's operation in the main grids.
16. The existing approved based foreign exchange rates used in the calculation are based on the 1993 levels of P27.40 to US1.00 and P0.2329 to Japanese Y1.
17. Since these expenses were incurred in the year 2017 immediate recovery of this adjustment through a provisional authority would help alleviate the operational funding of applicant, without prejudice to the authority of the Honorable Commission to approve the recovery of this adjustment as part of the applicant's True Cost Generation Rate (TCGR).
18. Moreover, pursuant to Rule 15, Section 3 of the Commission's Rules of Practice and Procedure, the Honorable Commission has the authority to grant a provisional authority pending final approval of the instant petition, it states, as follows:

*"Section 3. Action and Motion. – Motions for provisional authority or interim relief may be acted upon with or without hearing. The Commission shall act on the motion on the basis of the allegations of the*

*application or petition and supporting documents and other evidences that applicant or petitioner has submitted and the comments or oppositions filed by any interested person, if any there be any.”*  
(Emphasis supplied)

19. Based on the foregoing justifications, NPC finds it proper to respectfully request the Honorable Commission for a provisional authority pending the hearing on the merits of the subject Application and the final approval of the proposed ICERA DAA and the corresponding rate for CY 2017.
20. With due respect, the proposed 18th ICERA DAA adjustment, once approved, should be implemented or applied on top of the SAGR in both NPC-SPUG and delegated NPC-SPUG areas, or upon entry of NPPs thereof to level the rates in the said areas and consistent with Resolution 21 and with the clarification letter of ERC dated 05 March 2012 issued to NPC during the implementation of the 4th to 6th GRAM and ICERA DAA, copy of which is hereto attached as Annex “G and series” hereof.

#### PRAAYER

WHEREFORE, PREMISES CONSIDERED, it is most respectfully prayed that this Honorable Commission issue an Order, as follows:

- 1) Approving the deferred cost of PhP23,525,664 and the corresponding proposed ICERA DAA of Po.0437/kWh for NPC-SPUG areas;
- 2) Imposing/charging the ICERA directly to consumers in NPC-SPUG areas as per the ICERA rules, subject to the discretion of the Honorable Commission in line with ERC Resolution No. 21.
- 3) Allowing the continued collection of the ICERA even with the entry of private sector players in a specific NPC-SPUG area;
- 4) Approving the implementation of the proposed rates on top of the existing Subsidized Approved Generation Rates (SAGR) of NPC-SPUG and SAGR of Delegated NPC-SPUG Areas where NPPs operate for the purpose of determining the level of subsidy; and
- 5) Granting NPC a Provisional Authority for the implementation of the proposed rates and DAAs for the immediate recovery of deferred FOREX adjustments within the above proposed twelve (12) months recovery period.

Other just and equitable reliefs are likewise prayed for from the Honorable Commission.

The Commission has set the *Application* for determination of compliance with the jurisdictional requirements, expository presentation, Pre-trial Conference, and presentation of evidence on the following dates:

<b>Date and Time</b>	<b>Venue</b>	<b>Hearing Coverage</b>
18 September 2019 (Wednesday), at ten o'clock in the morning (10:00 AM)	ERC Hearing Room 15 <sup>th</sup> Floor, Pacific Center Bldg. San Miguel Ave. Pasig City	Jurisdictional and Expository Presentation for Luzon Stakeholders
26 September 2019 (Thursday), at ten o'clock in the morning (10:00 AM)	ERC Visayas Field Office St. Mary's Drive Banilad, Cebu City	Expository Presentation for Visayas Stakeholders
03 October 2019 (Thursday), at ten o'clock in the morning (10:00 AM)	ERC Mindanao Field Office Mintrade Bldg. Monteverde Ave. cor. Sales St. Davao City	Expository Presentation for Mindanao Stakeholders
10 October 2019 (Thursday), at ten o'clock in the morning (10:00 AM)	ERC Hearing Room 15 <sup>th</sup> Floor, Pacific Center Bldg. San Miguel Ave. Pasig City	Pre-trial Conference and Presentation of Evidence

All persons who have an interest in the subject matter of the instant case may become a party by filing with the Commission a verified Petition to Intervene at least five (5) days prior to the initial hearing and subject to the requirements under Rule 9 of the 2006 ERC Rules of Practice and Procedure, indicating therein the docket number and title of the case and stating the following:

- 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

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 case may file their Opposition or Comment thereon at any stage of the proceeding before Applicant rests its case, subject to the requirements under Rule 9 of the 2006 ERC Rules of Practice and Procedure. No particular form of Opposition or Comment is required, but the document, letter, or writing should contain the following:

- 1) The name and address of such person;
- 2) A concise statement of the Opposition or Comment; and
- 3) The grounds relied upon.

All such persons who wish to have a copy of the *Application* may request from the Applicant that they be furnished with the same, prior to the date of the initial hearing. Applicant is hereby directed to furnish all those making such request with copies of the *Application* and its attachments, subject to the reimbursement of reasonable photocopying costs. Any such person may likewise examine the *Application* and other pertinent records filed with the Commission during the standard office hours.

**WITNESS**, the Honorable Chairperson and CEO, **AGNES VST DEVANADERA** and the Honorable Commissioners **ALEXIS M. LUMBATAN**, and **CATHERINE P. MACEDA**, Energy Regulatory Commission, this 28th day of June 2019 in Pasig City.

  
**JOSEFINA PATRICIA A. MAGPALE-ASIRIT**  
*Oversight Commissioner for Legal*