

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



**IN THE MATTER OF THE  
PETITION FOR THE  
APPROVAL OF THE  
AVAILMENT FROM THE  
UNIVERSAL CHARGE FOR  
MISSIONARY  
ELECTIFICATION (UCME)  
FOR CY 2021 WITH PRAYER  
FOR THE ISSUANCE OF  
PROVISIONAL AUTHORITY**

**ERC CASE NO. 2020-011 RC**

**NATIONAL POWER  
CORPORATION,  
Petitioner.**  
X ----- X

**Promulgated:**  
July 10, 2020

**NOTICE OF PUBLIC HEARING**

**TO ALL INTERESTED PARTIES:**

Notice is hereby given that on 13 March 2020, the National Power Corporation (NPC) filed a *Petition* dated 11 March 2020 for the approval of the availment from the Universal Charge for Missionary Electrification (UCME) for Calendar Year (CY )2021 with prayer for the issuance of provisional authority.

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

1. Petitioner NPC is a government owned and controlled corporation created and existing under Republic Act No. 6395 as amended (“NPC Charter”), with principal address at NPC Office Building Complex, corner Quezon Avenue and BIR Road, Diliman, Quezon City, where it may be served summons and other processes of the Honorable Commission.
2. Pursuant to Section 70 of Republic Act No. 9136 (Electric Power Industry Reform Act or “EPIRA”), NPC shall remain as a National-Government Owned and Controlled Corporation to perform the Missionary Electrification function through its Small Power Utilities Group (hereafter, “NPC-SPUG”) and

shall be responsible for providing power generation and its associated power delivery systems in areas that are not connected to the transmission system.

3. On 22 August 2011, the Honorable Commission approved and issued Resolution No. 21 Series of 2011 entitled “Amended Guidelines for the Setting and Approval of Electricity Generation Rates and Subsidies for Missionary Electrification Areas” providing for the guidelines for the setting and approval of electricity generation rates and subsidies for missionary electrification areas, for the fixing and availment of subsidies for missionary electrification areas, as well as the Cash Incentives for the Renewable Energy (“RE”) Developers in the missionary areas from the Universal Charge for Missionary Electrification (“UCME”). The said resolution is in accordance with Chapter VII Section 15 (b) of the Republic Act No. 9153,<sup>1</sup> which provides for the basis in the calculation of the Cash Incentive of the Renewable Energy Developers for Missionary Electrification, and ERC Resolution 7, series of 2014.<sup>2</sup>
4. Pursuant to Section 4 of Republic Act No. 6395, as amended, and Executive Order No. 86,<sup>3</sup> issued by virtue of the authority granted to the President of the Republic of the Philippines under R.A. 7648,<sup>4</sup> Petitioner NPC is duly authorized to include twelve percent (12%) return on its rate base composed of the sum of its net assets in operation plus two (2) months operating capital in the Revenue Requirement.
5. As the implementing agency for Missionary Electrification (“ME”), NPC is duty-bound to ensure the provision of the estimated ME subsidy requirements needed in the missionary areas from the Universal Charge (“UC”) to be collected from all electricity end-users as determined by the Energy Regulatory Commission (ERC) and as provided under Section 2(a) of the EPIRA Implementing Rules and Regulations.
6. Given the apparent energy shortage especially in small island grids in the country, and with the connection of the households in these areas to the main grid not being financially feasible due to low levels of demand, low population density and geographical constraints, it is admittedly a challenge for NPC to bring these areas to their viable level. The costs involved in the off-grid electrification are also often beyond the capacity of most of the household consumers to pay because of lack of resources and opportunity or option that the progressive or viable areas could provide or are providing. Hence, NPC has to endeavor to fully and efficiently meet its missionary electrification

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<sup>1</sup> Otherwise known as Renewable Act of 2008 or RE Act of 2008

<sup>2</sup> A Resolution adopting the Rules to Govern the Availment and Disbursement of Cash Incentive to Renewable Energy (RE) Developers operating in Missionary Areas

<sup>3</sup> Fixing the Rate of Return on Rate Base of the National Power Corporation at twelve percent (12%) of the Rate Base as Defined in Section 4 of Republic Act No. 6395, as Amended

<sup>4</sup> Electric Power Crises Act of 1993

function in order to bring these areas to a viable and competitive level for private sector participation. NPC believes that through the mandated UCME subsidy, the provision of electricity becomes affordable and, at the same time, spurs economic activity, in addition to the fact that it facilitates the delivery of basic services to the off-grid consumers. Moreover, the UCME subsidy essentially helps NPC maintain its power plants/facilities and allow the same to remain in proper and working condition, which is beneficial to the electricity consumers in the off-grid areas.

7. Hence, by and pursuant to Article V Section 2 of ERC Resolution No. 21, Series of 2011, Petitioner NPC is filing this petition to seek approval from this Honorable Commission to set the UCME for Missionary Electrification subsidy that would sufficiently cover the estimated requirements for areas served by NPC SPUG, New Power Providers (NPP) and Qualified Third Parties (QTPs) that have taken over in full or part the generation function of NPC-SPUG in certain missionary areas, as well as the operating costs in mini-grids including the fixed cost of transmission/substations, and the cash incentive payment to RE Developers.

**AVAILMENT FROM THE UNIVERSAL CHARGE OF THE SHARE  
IN MISSIONARY ELECTRIFICATION (UCME) SUBSIDY FOR  
CY2021**

8. The calculation of the total Basic UCME Subsidy as herein proposed is based on the formula as specifically provided in Article V Section 2 of ERC Resolution No. 21, Series of 2011.
9. In view of the foregoing and in compliance with the above-cited provisions of law and ERC resolutions, particularly as regards the requirement prescribed in the determination of corresponding subsidy, NPC calculated the estimated UCME requirements for the following: A) NPC SPUG Subsidy; B) Delegated SPUG areas (NPP) Subsidy; C) Qualified Third Parties (QTP) Subsidy and D) Cash Incentive of RE Developers, to wit:

**ABSTRACT OF THE PROPOSED BASIC UCME SUBSIDY**

10. Consistent with the NPC Missionary Electrification Plan ("MEP"), its forecasts on the demand and sales growth, scheduled generation and transmission projects and improvement in service level as well as the expansion of coverage to other missionary areas, upgrading its services and facilities and optimizing divestment of power generation functions for private sector participation and taking into account the afore-mentioned guidelines and provisions, NPC considered the key parameters and assumptions used in the projections in the determination of proposed UCME subsidy for the calendar year 2021, as follows:

A. Basic UCME Subsidy for NPC SPUG

11. In the calculation of NPC revenue requirements, the following accounts and costs were considered:
  - a. Results of Operations for CY 2018
  - b. Fuel Cost for CY 2021 – calculated based on actual 2018 fuel cost in P/kWh (for existing Power Plants) multiplied by the NPC projected energy sales; For New Areas, based on CY 2021 Projected Fuel Cost;
  - c. Other Operating Expenses for CY 2021– other operating cost of existing Power Plants as of December 2018 in P/kWh multiplied by the NPC projected energy sales;
  - d. Cost of Personnel Services based on CY 2020 budget level;
  - e. Depreciation as of December 2018;
  - f. NPC-TCGR – based on the calculated Total Revenue requirements established in CY 2018 test period;
  - g. The calculated Revenue from sales based on the existing NPC-SPUG SAGR as of January 2020 multiplied by the projected energy sales;
  - h. NPC-SPUG Projected Energy Sales, kWh for CY 2021 based on the CY 2021 NPC MEP;
  - i. NPC-SPUG Projected Results of Operations for CY 2021 shows the calculated total NPC projected revenue requirement for CY 2021;
  - j. Philippine Electricity Sales Forecast based on the Department of Energy’s (“DOE”) Philippine Power Development Plan 2015-2030 (PDP).

The detailed breakdown of the Basic UCME Subsidy for NPC SPUG is shown in the NPC SPUG Projected Results of Operation for CY 2021, the summary of which is attached in the Application, which shall form an integral part of this instant petition.

12. Petitioner NPC has utilized the authorized RORB methodology using the year 2018 base rate being the most recent financial statement available during the calculation stage.

B. UCME Subsidy for Delegated NPC SPUG areas (NPP/QTP)

13. The amounts corresponding the NPPs and QTP subsidies considered were based on the following:

- a. Forecasted Energy Sales based on their submission of Forecasted generation and/or minimum off-take as provided in their respective ERC approved Power Supply Agreement (PSA);
- b. NPP TCGR/QTP FCRR and SAGR/SARR – TCGR/FCRR calculated based on the most recent subsidy invoice paid to each NPP and QTP claims at the time of calculation. On the other hand, the SAGR considered is based on the NPC SPUG existing effective rate as of January 2020 and the SARR is based on the ERC approved SARR of the QTPs;

The detailed breakdown of the NPP and QTP Subsidy requirement for CY 2021 and its supporting documents are attached in the Application, which shall form an integral part of this instant petition.

- C. UCME Subsidy for the Cash Generation-Based Incentive for Renewable Energy (RE) Developer in the Off-grid
14. The renewable energy cash incentive (RE-CI), on the other hand, is based on the following:
- a. Total Projected Off-grid Energy Sales – sum of the NPC SPUG and NPP/QTP Projected Energy Sales;
  - b. Blended TCGR – calculated based on the average of the NPC SPUG cost of generation and NPP true cost of generation;
  - c. SAGR/SARR – based on the NPC SPUG SAGR as of January 2020 and ERC approved SARR per QTP;
  - d. Cash Incentive Rate – equivalent to 50% of the calculated UCME Subsidy Rate;

The calculation of the proposed amount required for RED-CI is attached in the Application. Likewise, attached are the submitted CI claims of RE Developers and their corresponding certificates of registration and/or commerciality and compliance, as well as service contracts which shall likewise form an integral part of this instant petition.

#### PROPOSED BASIC UCME SUBSIDY PER COMPONENT

15. Based on the results of the calculation made, the total proposed UCME Subsidy requirement for the missionary electrification will amount to PhP20,730,183,569.03 for CY 2021 inclusive of the Cash Incentive for Renewable Energy as shown in Table 1 below.

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Table 1. Proposed UCME Requirement and Proposed UCME Subsidy rate for CY 2021

Item	Particulars	Proposed UCME for CY 2021	Impact to UCME P/kWh	% Share in UCME
1	TOTAL ME Subsidy NPC-SPUG	9,284,320,785.93	0.0920	44.79%
2	TOTAL ME Subsidy for New Power Providers (NPPs)	10,791,086,664.41	0.1070	52.05%
3	TOTAL ME Subsidy for Qualified Third Parties (QTPs)	244,649,965.30	0.0024	1.18%
	<b>TOTAL UCME Subsidy for NPC, NPPs/QTPs</b>	<b>20,320,057,415.64</b>	<b>0.2014</b>	
4	Renewable Energy Developer Cash Incentive	410,126,153.39	0.0041	1.98%
5	<b>TOTAL UCME, PhP</b>	<b>20,730,183,569.03</b>		<b>100.00%</b>
6	Philippine Forecasted Energy Sales, GWh	100,896		
7	<b>Rate Impact on UCME, P/kWh</b>		<b>0.2055</b>	

16. The Philippine Electricity Sales Forecast under DOE's Power Development Plan (PDP) for CY 2021 was utilized to determine the proposed UCME charges of PhPo.2055/kWh.

**IMPLICATIONS OF UCME SUBSIDY AND THE PROPOSED RATES**

17. The proposed basic UCME for CY 2021 of PhPo.2055/kWh (inclusive of Cash Incentive to RE Developer of PhPo.0041/kWh), purposely to finance the operation for the year will result to an increase of PhPo.0875/kWh in UCME from provisionally approved basic UCME rate of PhPo.1163/kWh for NPC-SPUG and NPPs/QTPs and for RED-CI of PhPo.0017/kWh. Table 2 below shows the rate calculation of the Proposed Subsidy amount and the corresponding rates in P/kWh:

TABLE 2. Proposed CY 2021 UCME & Rates

PARTICULARS	NPC	NPPs	QTPs	TOTAL	REDCI	GRAND TOTAL
Revenue Requirements, PhP	12,307,719,010.22	19,959,174,856.63	509,852,428.42	32,776,746,295.27		32,776,746,295.27
Less:						
Revenue from Sales	3,023,398,224.29	9,168,088,192.22	265,202,463.12	12,456,688,879.63		12,456,688,879.63
<b>UCME (NPC, NPP, QTP)</b>	<b>9,284,320,785.93</b>	<b>10,791,086,664.41</b>	<b>244,649,965.30</b>	<b>20,320,057,415.64</b>		<b>20,320,057,415.64</b>
Add: Renewable Energy Developers Cash Incentive (REDCI)					410,126,153.39	410,126,153.39
<b>TOTAL UCME SUBSIDY CY 2021</b>	<b>9,284,320,785.93</b>	<b>10,791,086,664.41</b>	<b>244,649,965.30</b>	<b>20,320,057,415.64</b>	<b>410,126,153.39</b>	<b>20,730,183,569.03</b>
<b>Rate Impact on UCME, P/kWh</b>	<b>0.0920</b>	<b>0.1070</b>	<b>0.0024</b>	<b>0.2014</b>	<b>0.0041</b>	<b>0.2055</b>
Philippine Energy Sales Forecast, GW	100,896					
<b>% Share</b>	<b>44.79%</b>	<b>52.05%</b>	<b>1.18%</b>	<b>98%</b>	<b>1.98%</b>	<b>100%</b>

18. The UCME Subsidy for the Cash Incentive will be remitted to Power Assets Sector Assets and Liabilities Management Corporation (“PSALM”) since it is mandated to directly disburse the same to eligible RE Developer under Article IV, Section 2 of Resolution 21, series of 2011. Hence, the Proposed UCME Subsidy Requirement that will be managed by NPC is Net of Cash Incentive.
19. The proposed UCME rate considered the commitment of NPC in ensuring that:
  - a. the required volume of fuel will be timely paid to NPC suppliers to avoid non-delivery of fuel supply;
  - b. the payment of NPPs & QTPs subsidy are timely made; and
  - c. the missionary electrification functions in SPUG areas are fulfilled through continues operation of existing generating units and implement power development plans for each islands/grid by providing 24/7 power service.
  - d. The provision of CI amount for payment to RE Developers, as mandated.
20. The National Power Board approved the filling of this instant petition as evidenced by the Secretary Certificate dated 2 March 2020, is attached in the Application.
21. The proposed UCME for CY 2021 is based on the following pertinent documents attached herewith and correspondingly marked, as follows:

Annex “E”	Results of Operations for CY 2018
Annex “F”	Condensed Statement of Financial Position as of December 31, 2018 and Condensed Statement of Financial Performance, 31 December 2018
Annex “G”	Projected Philippines Electricity Sales Forecast(PDP 2015-2030)
Annex “H”	NPC-SPUG Projected Gross Generation and Energy Sales for CY 2021 with Projected Fuel Volume and Increase in Operating hours
Annex “I”	NPC SPUG Projected Results of Operations for CY 2021
Annex “J”	Electric Plant in Service as of December 2018

Annex “K” NPC-SPUG Effective Rate as of January 2020

Annex “L” Return on Rate Base (RORB) calculation

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

22. The issuance of a provisional authority under the instant petition is appropriate based on the following justifications:
- a. The recovery of the proposed Basic UCME rate of Php0.2055/kWh inclusive of RE Cash Incentive for CY 2021 is vital to NPC’s subsidy requirements to maintain a reliable and stable funding source for its operating costs requirements and to ensure sufficient subsidy for payment to NPPs/QTPs and RE Developers.
  - b. The aim to further improve and guarantee sustainable development in the off-grid areas.
  - c. The opinion of the Department of Justice (“DOJ”) which suspended NPC’s authority to borrow funds or enter into a loan agreement, affecting NPC’s fiscal flexibility in funding and operations.
  - d. The proposal, when approved, will allow NPC to deliver its commitment to provide efficient operation of its plants consistent with the specific programs in the missionary areas that NPC is currently serving. NPC operates numerous small power plants, and it is widely known that electricity in Small Islands and Isolated Grids (SIIGs) is relatively very expensive.
23. The issuance of a provisional authority is authorized under Section 3 Rule 14 of the Rules of Practice and Procedure. Likewise, the authority of the Honorable Commission to issue a provisional authority is confirmed by the Supreme Court in the case of Freedom from Debt Coalition, et. al. vs. ERC, et. al.,<sup>5</sup> when it held that “the power to approve provisional rate increases is included among the powers transferred to the ERC by virtue of Section 44 since the grant of that authority is not inconsistent with the EPIRA; rather, it is in full harmony with the thrust of the law which is to strengthen the ERC as the new regulatory body.”
24. Petitioner NPC is thus imploring the kind consideration of this Honorable Commission and respectfully prays for the issuance of a provisional authority under the foregoing premises.



COMPLIANCE

25. In support of this petition and in compliance with Rule 6 of the ERC Rules of Practice and Procedures under ERC Resolution No. 38, Series of 2006 as well as Section 4(e) Rule 3 of the EPIRA Implementing Rules and Regulations, Petitioner NPC attaches and submits the following:
- a. Proof of Publication of the Petition once in a newspaper of general circulation is attached in the Application.
  - b. Proof of service of this Petition to the Legislative Bodies of the Local Government Units where NPC principally operate, is attached in the Application.

PRAYER

WHEREFORE, premises considered, Petitioner National Power Corporation respectfully prays that:

- a. Pending the hearing on the merits, an Order be issued granting PROVISIONAL APPROVAL to the proposed Basic UCME for CY 2021 amounting to PhP20,730,183,569.03 or equivalent rate of PhPo.2055/kWh.
- b. The approval of the proposed Basic UCME for CY 2021 be on a per item basis as identified in Table 2, to wit:

	<b>ABSOLUTE AMOUNT</b>	<b>P/kWh</b>
NPC	9,284,320,785.93	0.0920
NPPs	10,791,086,664.41	0.1070
QTPs	244,649,965.30	0.0024
REDCI	410,126,153.39	0.0041
<b>TOTAL UCME</b>	<b>20,730,183,569.03</b>	<b>0.2055</b>

- c. After the hearing on the merits, the instant petition be GRANTED by the Honorable Commission.

Other reliefs, just and equitable, are likewise prayed for.

Finding the said *Petition* to be sufficient in form and substance with the required fees having been paid, the same is hereby set for determination of compliance with the jurisdictional requirements, expository presentation, Pre-trial Conference, and presentation of evidence on the following dates:

*(This space is intentionally left blank.)*

<b>Date and Time</b>	<b>Venue</b>	<b>Hearing Coverage</b>
<b>30 September 2020 (Wednesday), at two o'clock in the afternoon (2:00 PM)</b>	<b>ERC Hearing Room 15<sup>th</sup> Floor, Pacific Center Bldg. San Miguel Ave. Pasig City</b>	<b>Jurisdictional and Expository Presentation for Luzon Stakeholders</b>
<b>08 October 2020 (Thursday), at nine o'clock in the morning (9:00 AM)</b>	<b>ERC Visayas Area Operations Division (VAOD) St. Mary's Drive Banilad, Cebu City</b>	<b>Expository Presentation for Visayas Stakeholders</b>
<b>15 October 2020 (Thursday), at nine o'clock in the morning (9:00 AM)</b>	<b>ERC Mindanao Area Operations Division (MAOD) Mintrade Bldg. Monteverde Ave. cor. Sales St. Davao City</b>	<b>Expository Presentation for Mindanao Stakeholders</b>
<b>21 October 2020 (Wednesday), at ten o'clock in the morning (10:00 AM)</b>	<b>ERC Hearing Room 15<sup>th</sup> Floor, Pacific Center Bldg. San Miguel Ave. Pasig City</b>	<b>Pre-trial Conference and Presentation of Evidence</b>

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 *Petition* 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 *Petition* and its attachments, subject to the reimbursement of reasonable photocopying costs. Any such person may likewise examine the *Petition* and other pertinent records filed with the Commission during the standard office hours.

Finally, to contain the spread and transmission of the coronavirus disease 2019 (COVID-19), NPC is directed to implement the health protocols and community quarantine guidelines required to be observed. Moreover, NPC and all those who have signified their intention to appear as Oppositor or Intervenor, are highly encouraged to send only one (1) authorized representative each.

**WITNESS**, the Honorable Commissioners **ALEXIS M. LUMBATAN**, **CATHERINE P. MACEDA**, and **PAUL CHRISTIAN M. CERVANTES**, Energy Regulatory Commission, this 3<sup>rd</sup> day of July 2020 in Pasig City.

  
**AGNES VST DEVANADERA**  
*Chairperson and CEO*

  
CRC/LSP/MCCG nph.2020-011 RC NPC UCME CY2021

