

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



IN THE MATTER OF THE APPLICATION FOR THE MAXIMUM ALLOWABLE REVENUE (MAR) FOR CALENDAR YEAR (CY) 2013 AND THE PERFORMANCE INCENTIVE SCHEME (PIS) UNDER THE RULES FOR SETTING THE TRANSMISSION WHEELING RATES, WITH PRAYER FOR PROVISIONAL AUTHORITY

ERC CASE NO. 2012-109 RC

NATIONAL GRID CORPORATION OF THE PHILIPPINES (NGCP),

Applicant.

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D O C K E T E D

Date: JAN 14 2013

By: M

ORDER

On October 17, 2012, the National Grid Corporation of the Philippines (NGCP) filed an application for the approval of the Maximum Allowable Revenue (MAR) for Calendar Year (CY) 2013 and the Performance Incentive Scheme (PIS) under the Rules for Setting the Transmission Wheeling Rates (RTWR), with prayer for provisional authority.

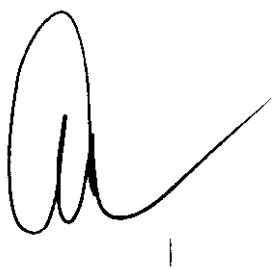
In support of its prayer for the issuance of a provisional authority, NGCP alleged, among others, the following:

1. The proposed rates were all computed in accordance with the provisions of the RTWR and Open Access Transmission Service (OATS) Rules. The issuance of a provisional authority will allow it to timely implement its Capital Expenditure (CAPEX) programs and cover its Operation and Maintenance (O&M) expenditures for CY 2013. Also, the timely implementation of the rate translation of the MAR will reduce, if not eliminate, the risk of under recovery which is substantial to it; and

2. It prays that:
 - a. the authority to collect the MAR₂₀₁₃ in the amount of PhP44,977.95 Million, the PIS₂₀₁₂ of PhP642.08 Million, the System Operator Charge (SOC) and the Metering Service Provider Charge (MSPC) be approved;
 - b. a provisional authority to implement the collection of the MAR₂₀₁₃ in the amount of PhP44,977.95 Million and the PIS₂₀₁₂ of PhP642.08 Million, the SOC and the MSPC beginning the billing period of December 26, 2012 - January 25, 2013 be granted;
 - c. the fifty percent (50%) of PhP13.532 Million or the equivalent of PhP6.766 Million as Related Business Revenue (RBR_t) from co-location and rental of equipment be approved; and
 - d. the setting of the Ancillary Service Availability Indicator (ASAI) parameters until the end of the Third Regulatory Period be deferred.

Having found said application sufficient in form and in substance with the required fees having been paid, an Order and a Notice of Public Hearing, both dated October 23, 2012, were issued setting the case for jurisdictional hearing and expository presentation on December 3, 2012 for the Luzon stakeholders, December 6, 2012 for expository presentation for the Mindanao stakeholders, December 7, 2012 for expository presentation for the Visayas stakeholders and December 10 and 11, 2012 for pre-trial conference and evidentiary hearing.

In the same Order, NGCP was directed to cause the publication of the Notice of Public Hearing, at its own expense, twice (2x) for two (2) successive weeks in two (2) newspapers of general circulation in the Philippines, the date of the last publication to be made not later than ten (10) days before the scheduled date of initial hearing. It was also directed to inform the consumers within its franchise area, by any other means available and appropriate, of the filing of the instant application, its reasons therefor and of the scheduled hearings thereon.



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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 Notice of Public Hearing and were requested to have their respective duly authorized representatives present at the initial hearing.

Likewise, the Offices of the Mayors of Quezon City, Cebu City, Davao City and Iligan City were furnished with copies of the Order and Notice of Public Hearing for the appropriate posting thereof on their respective bulletin boards.

On November 21, 2012, Manila Electric Company (MERALCO) filed its "Petition for Intervention with Entry of Appearance".

On November 28, 2012, NGCP filed its "Pre-trial Brief".

During the December 3, 2012 initial hearing for the Luzon stakeholders, NGCP, MERALCO and the National Transmission Corporation (TRANSCO) appeared.

In the said hearing, NGCP presented its proofs of compliance with the Commission's publication and posting of notice requirements, which were duly marked as Exhibits "A" to "N-3", inclusive. Thereafter, it conducted an expository presentation of its application. MERALCO propounded clarificatory questions.

Subsequently, the Commission directed TRANSCO to file its formal petition to intervene and pre-trial brief, within five (5) days from said date of hearing, while MERALCO was given the same period within which to file its pre-trial brief.

On December 5, 2012, MERALCO filed its "Pre-trial Brief".

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During the December 6, 2012 hearing for the Mindanao stakeholders, NGCP and Davao Light and Power Company, Inc. (DLPC) appeared.

In the said hearing, NGCP conducted an expository presentation of its application. The Commission propounded clarificatory questions

DLPC manifested that it would file its formal petition to intervene on same date of hearing.

During the December 7, 2012 hearing for the Visayas stakeholders, NGCP and Visayan Electric Company, Inc. (VECO) appeared.

In the said hearing, NGCP conducted an expository presentation of its application. VECO propounded clarificatory questions.

The Commission, then, directed VECO to file its formal petition to intervene, within five (5) days from said date of hearing, while NGCP was given the same period from receipt thereof within which to file its comment thereon.

On the same date, TRANSCO, DLPC and VECO filed their respective "Petitions for Intervention" and "Pre-trial Briefs".

At the continuation of the hearing on December 10, 2012, NGCP, MERALCO, TRANSCO, VECO, DLPC, SN Aboitiz Power – Benguet, Inc. and SN Aboitiz Power – Magat, Inc. (SNAP) appeared.

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In the said hearing, a pre-trial conference was conducted among NGCP, MERALCO and TRANSCO, without prejudice to the resolution of the "Petitions for Intervention" filed by DLPC, VECO and SNAP.

The Commission, then, directed NGCP to file its comments on SNAP's "Petition for Intervention", within five (5) days from said date of hearing.

In the meantime, NGCP moved for a declaration of general default against those who failed to intervene in the instant application. Said motion was granted.

The Commission cancelled the hearing set on December 11, 2012 until the "Petitions for Intervention" filed by DLPC, VECO and SNAP have been resolved.

Relative to the prayer for the issuance of a provisional authority, the Commission initially reviewed the instant application.

In the Final Determination, the Commission approved the Smoothed MAR applicable for the Third Regulatory Period with the corresponding estimated rates, as follows:

	2010	2011	2012	2013	2014	2015
Final Determination						
Approved SMAR (PhP, Million)	-	44,079.13	44,872.55	45,680.26	46,456.82	47,246.59
Assumed Billing Determinant (MW/month)	-	120,848	123,811	126,700	129,274	131,830
Estimated Average Transmission Rate (PhP/kW/month)	-	364.75	362.43	360.54	359.37	358.39

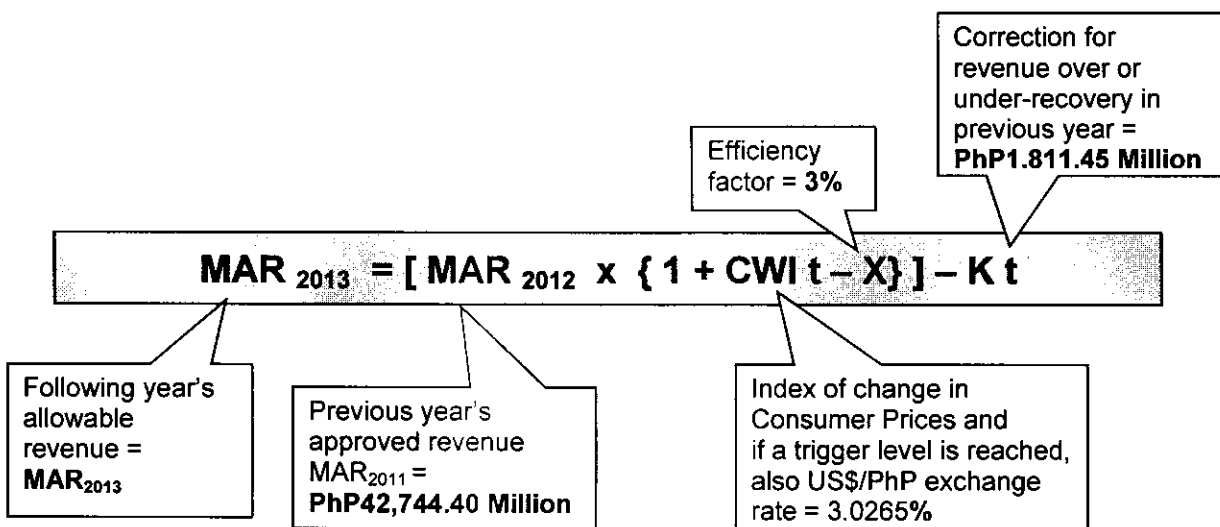
MAR 2013

As provided in the RTWR, the Commission shall continue to apply the price control formula upon NGCP's application of its effective MAR. In applying the said price

control formula, the Commission computed a MAR for 2013 amounting to PhP44,567.18 Million.

Determination of the MAR₂₀₁₃

In determining the MAR₂₀₁₃ cap, the Commission calculated the revenue cap for CY 2013 (excluding the benefits of the PIS) in accordance with the following formula:



The foregoing values were determined based on the following:

- a. MAR₂₀₁₂ cap for previous year
- b. Change in Weighted Index (CWI_t)
- c. Differential Amount (DA_t)
- d. Over / Under Recovery from the Previous Year (K_t)
- e. Revenue from Related Businesses (RBR_t)

Thus, the MAR₂₀₁₃ was computed as follows:

$$\begin{aligned}
 \text{MAR}_{2013} &= [\text{MAR}_{2012} \times \{1 + \text{CWI}_{t-1} - X\}] - K_t \\
 \text{MAR}_{2013} &= [42,744.40 \times \{1 + (-0.03265) - 0.03\}] - (1,811.45) \\
 \text{MAR}_{2013} &= [\text{PhP}42,755.72 \text{ Million}] - (1,811.45) \\
 \text{MAR}_{2013} &= \text{PhP}44,567.18 \text{ Million}
 \end{aligned}$$

Shown below is a comparison between the Commission and NGCP's proposed

MAR₂₀₁₃:

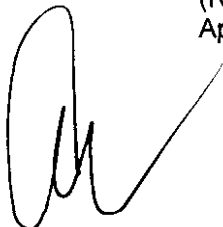
PARTICULARS	NGCP	COMMISSION
MAR ₂₀₁₂ (PhP in Million)	42,920.89	42,744.40
CW _t	3.1004%	3.0265%
X	3%	3%
K _t	(2,013.96)	(1,811.45)
MAR₂₀₁₃ (PhP in Million)	44,977.95	44,567.18

The discrepancy between the Commission and NGCP's proposed MAR was due to the calculation of the MAR_{t-1} and the CW_t. The Commission used the approved MAR₂₀₁₂ in the Decision dated September 24, 2012 in ERC Case No. 2011-140 RC¹ while NGCP used the approved MAR₂₀₁₁. In calculating the CW_t, NGCP used a FOREX rate of PhP42.737 to 1 USD for the third quarter of 2012 while the Commission used PhP42.2604.

Since all the expenses associated with the provision of the services that gave rise to RBR_t are included in the revenue requirement, the income generated must also be considered. In addition, since the assets (pole and transformer) that gave rise to these items of revenue (rentals) are allowed a return and depreciation allowance in the revenue requirement, a certain percentage must be deducted from the revenue requirement.

Only fifty percent (50%) of the earnings derived by NGCP from utilizing assets (earnings from co-location activities and rentals) which already form part of its rate shall be deducted from the MAR. This is consistent with Section 4.2.1 of the RTWR and Section 20 of the Electric Power Industry Reform Act of 2001 (EPIRA) which state that a portion of income from related business shall be used to reduce the transmission

¹ In the Matter of the Application for the Approval of the Maximum Allowable Revenue (MAR) for Calendar Year 2012 and Performance Incentive Scheme (PIS) in Accordance with the Alternative Form of Rate Setting Methodology Under the Rules for Setting Transmission Wheeling Rates (RTWR), with Prayer for Provisional Authority, National Grid Corporation of the Philippines (NGCP) - Applicant



wheeling rates but not to exceed fifty percent (50%) of the said income. The total revenue earned by NGCP from related business activities for 2012 is PhP13.53 Million.

It must be recalled that in Section 7.6.1 of the Final Determination, the Commission set the revenue smoothing of X factor at three percent (3%) in positive value for the entire Third Regulatory Period (2011 to 2015) which is estimated to reduce the MAR by the same percentage.

Revenue smoothing reduces the likelihood of price shocks and revenue shocks to the consumers and regulated entity, respectively.

Side Constraints for 2013 Using SC_t at 2%

Under Article 6.4 of the RTWR, the maximum transmission wheeling rates that may be charged by NGCP is subject to the Side Constraints, as defined by the following equation:

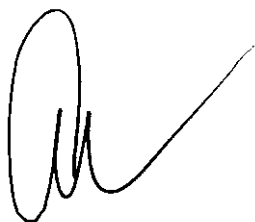
$$FCR_{k,t} / CR_{k,t-1} \leq (1 + CWI_t + SC_t) \times FQ_{k,t} / AQ_{k,t-1}$$

Where:

$FCR_{k,t}$ = The total amount forecast to be billed to all Customers in Customer Segment k for the provision by the Regulated Entity, during the Forecast Period, of Regulated Transmission Services, as provided under Section 6.3.3 (c)

$CR_{k,t-1}$ = The total amount billed to all Customers in Customer Segment k for the provision by the Regulated Entity, during the Historical Period, of Regulated Transmission Services, as provided under Section 6.3.2(a)

" \leq " = Less than or equal to



SC_t = The Side Constraint for Regulatory Year
 t, xxx

As part of the regulatory reset process for a subsequent regulatory period under Article VII thereof, the Commission may determine a method to regulate the changes in the maximum transmission wheeling rates that may be charged by the regulated entity during a regulatory period, which may be in the form of side constraint equation.

Side Constraint calculation is basically the limit of the increase in revenue from the previous regulatory period to the current regulatory period.

In the Final Determination, the Commission set the Side Constraint factor for the Second Regulatory Year of the Third Regulatory Period at two percent (2%). Notably, in applying the aforementioned formula, the forecast collection falls within the Side Constraint limitation computed as follows:

Customer Segment	Total Forecast to be Billed (PhP, Million)	Total Amount Billed for 2012 (PhP, Million)	Side Constraint Calculation	Side Constraint Limitation
Luzon	32,701.89	32,640.79	1.0019	1.1190
Visayas	5,372.41	5,254.28	1.0225	1.1421
Mindanao	5,938.17	5,938.64	0.9999	1.1169
Total	44,012.47	43,833.70	1.0410	1.1215

As shown in the foregoing table, the computed MAR did not breach the Side Constraint imposed under the RTWR.

NGCP RATES

On the basis of the new revenue cap including the PIS reward, the Commission estimated the indicative Power Delivery Service (PDS) Charges as shown in the

following table (where these charges are assumed to apply on the average for the entire duration of CY 2013 and the billing determinant as forecasted by NGCP):

PARTICULARS	Average Transmission Rate		
	MAR 2012	MAR 2013	Difference
PhP, Million	42,903.05	44,567.18	1,664.13
Indicative Average, PhP/kW/mo.	333.87	330.77	(3.1019)
Indicative Average, PhP/kWh	0.68450	0.67475	(0.00975)

The above computation of the PDS Rate is exclusive of the PIS and the Ancillary Service Charge. Notably, the effective MAR for CY 2013 increased by PhP1,664.13 Million. However, the rate impact to the customers decreased by approximately PhP0.00975/kWh due to the higher percentage of increase in the billing determinant than the percentage of increase in the MAR.

The Commission reviewed the calculation of NGCP pursuant to the methodology required by the Open Access Transmission Services (OATS) Rules under Clause F (All) 1, as follows:

System Operator Charge

PARTICULARS	Proposed 2013 SO Rates
FIRM (PhP/kW/mo.)	NON-FIRM (PhP/kW/day)
16.00	0.5260

Metering Service Provider Charge

PARTICULARS	Proposed 2013 MSP Rates, in PhP	
	Full	Meter Only
Per Voltage Level		
500/230 kV	40,092.00	18,024.00
138/115 kV	27,025.00	12,150.00

PARTICULARS	Proposed 2013 MSP Rates (in PhP)	
	Full	Meter Only
69 kV	17,557.00	7,893.00
34.5/23 kV	10,139.00	4,558.00
13.8 kV and below	5,297.00	2,381.00
Common Charge	2,366.00	

PIS Reward/Penalty

The PIS rewards or penalizes NGCP to the extent that the actual level of performance of the grid for the Regulatory Year (i.e. from September 2011 to August 2012) exceeds or falls below the target level of performance as defined in the Final Determination. NGCP claims a net performance incentive reward of **PhP642.08 Million** applicable for CY 2013.

The computed PIS is in accordance with the provisions of the RTWR and other relevant Decisions of the Commission except the allocation of ASAI. Pursuant to the Commission's Decision dated September 24, 2012, for purposes of the net incentives for 2012 and 2013 in the absence of the ASAI, the weighting assigned to it shall remain at five percent (5%) and the corresponding incentive/penalty is set at zero (0). Thus, the Commission recalculated the PIS for CY 2012, as follows:

NGCP (PhP Million)	Commission (PhP Million)	Difference (PhP Million)
642.08	609.05	33.03

WHEREFORE, the foregoing premises considered, the Commission hereby **PROVISIONALLY APPROVES** the application filed by the National Grid Corporation of the Philippines (NGCP) for approval of its Maximum Allowable Revenue (MAR) for


Calendar Year (CY) 2013 in the amount of **PhP44,567.18 Million** and the Performance Incentive Scheme (PIS) reward claim in the amount of **PhP609.05 Million** to be implemented effective its January 2013 billing.


The indicative rate impact of the provisionally approved MAR 2013 translates to a rate reduction estimated to be as follows:


	Average Transmission Rate		
	MAR 2012	MAR 2013	Difference
PhP, Million	42,903.05	44,567.18	1,664.13
Indicative Average, PhP/kW/mo.	333.87	330.77	(3.1019)
Indicative Average, PhP/kWh	0.68450	0.67475	(0.00975)

SO ORDERED.

Pasig City, December 17, 2012.



ZENAIDA G. CRUZ-DUCUT
 Chairperson


MARIA TERESA R. CASTAÑEDA
 Commissioner


JOSE C. REYES
 Commissioner


ALFREDO J. NON
 Commissioner


GLORIA VICTORIA C. YAP-TARUC
 Commissioner


 MVA/MAS/MS

Copy Furnished:

1. **National Grid Corporation of the Philippines (NGCP)**
NGCP Building, Quezon Avenue corner BIR Road,
Diliman, Quezon City
2. **Office of the Solicitor General (OSG)**
134 Amorsolo Street, Legaspi Village,
City of Makati 1229
3. **Commission on Audit (COA)**
Commonwealth Avenue,
Quezon City 1121
4. **Senate Committee on Energy**
GSIS Building, Roxas Boulevard,
Pasay City 1300
5. **House of Representatives Committee on Energy**
Batasan Hills, Quezon City 1126
6. **The Office of the City Mayor**
Quezon City
7. **The Office of the City Mayor**
Cebu City
8. **The Office of the City Mayor**
Davao City
9. **The Office of the City Mayor**
Iligan City
10. **President**
Philippine Chamber of Commerce and Industry (PCCI)
3rd Floor, ECC Building,
355 Gil Puyat Ave., Makati City
11. **Manila Electric Company (MERALCO)**
7th Floor, Lopez Building, Ortigas Avenue, Pasig City
12. **National Transmission Corporation (TRANSCO)**
TRANSCO Main Building, quezon Ave. cor. BIR Road, Quezon City
13. **Atty. David I.B. Ocampo**
Counsel for **SN Aboitiz Power – Benguet, Inc. and SN Aboitiz Power – Magat, Inc.**
2nd Floor, Herco Center, 114 Benavides St., Legaspi Village, Makati City
14. **Atty. Ma. Consolacion C. Mercado**
Counsel for Visayan Electric Company, Inc. (VECO) and Davao Light and Power Company, Inc. (DLPC)
110 Legazpi Street, Legaspi Village, Makati City