Republic of the Philippines
Energy Regulatory Commission
San Miguel Avenue, Pasig City

RULES FOR RECOVERY OF NPC STRANDED CONTRACT COSTS and STRANDED DEBTS PORTION OF THE UNIVERSAL CHARGE

WHEREAS, Sections 32 and 34 of Republic Act No. 9136 otherwise known as the "Electric Power Industry Reform Act of 2001" (the "Act" or "EPIRA"), its Implementing Rules and Regulations (IRR), provide that a Universal Charge (UC) to be determined, fixed and approved by the Energy Regulatory Commission (ERC) shall be imposed on all End-Users for purposes that include, among others, recovery of Stranded Contract Costs and Stranded Debts of the National Power Corporation (NPC);

WHEREAS, pursuant to Section 32 of the Act, the Stranded Contract Cost of NPC shall refer to the excess of the contracted cost of electricity under eligible contracts of NPC with the Independent Power Producers (IPP) over the actual selling price of the contracted energy output of such contracts in the market and these contracts shall have been approved by the Energy Regulatory Board (ERB) as of December 31, 2000;

WHEREAS, pursuant to Sections 4 (vv) and 32 of the Act, the Stranded Debts of NPC shall refer to any unpaid financial obligations of NPC, which have not been liquidated by the proceeds from the sales and privatization of NPC assets;

WHEREAS, Section 4 (b)(ii) Rule 17 of the IRR mandates the ERC to verify the reasonable amounts of claims petitioned by PSALM and determine the manner and duration by which full recovery of Stranded Contract Cost and Stranded Debt of NPC is attained, provided that the duration for such recovery shall not be shorter than fifteen (15) years nor longer than twenty-five (25) years;

WHEREAS, Section 5 Rule 18 of the IRR mandates that the UC shall be a non-by passable charge, which shall be collected from all End-Users pursuant to the provisions of the Rules Governing the Collection of the Universal Charge;

WHEREAS, Section 34 mandates PSALM to create a Special Trust Fund, which shall be disbursed only for the purposes specified herein in an open and transparent manner pursuant to the provisions of the Revised Guidelines and Procedures Governing Remittances and Disbursements of the Universal Charge promulgated by the ERC on January 05, 2006;

WHEREAS, Section 7 Rule 18 of the IRR provides that Self-Generating Facilities, which have registered with the ERC and PSALM shall not be covered by the imposition of the UC for a period of four (4) years from its imposition.

NOW, THEREFORE, in consideration of the foregoing, ERC hereby adopts and promulgates this set of Rules, which shall govern the petitions to be filed by the Power Sector Assets and Liabilities Management Corporation (PSALM) for the recovery of the NPC Stranded Contract Costs and Stranded Debts portion of the UC.

ARTICLE I

GENERAL PROVISIONS

Section 1: Objectives

This set of rules is prescribed to attain the following objectives:

i) To lay down the general framework that the ERC will use in making decisions on applications by PSALM with respect to the recovery of the Stranded Contract Cost and Stranded Debts of NPC through the UC;

ii) To clearly define an orderly procedure and the manner in which PSALM should file for petitions with respect to Stranded Contract Cost and Stranded Debts recovery through the UC;

iii) To define the parameters required to calculate the amount of Stranded Contract Cost and Stranded Debts of NPC for each year which are eligible for cost recovery through the UC;

iv) To outline reportorial requirements relevant to filing for availment of the UC;

v) To develop a true-up mechanism to determine discrepancy between actual disbursements and approved share from the UC.

Section 2: Definition of Terms

Act – unless otherwise stated, refers to, Republic Act No. 9136, otherwise known as the "Electric Power Industry Reform Act of 2001";

Build-Operate-Transfer or BOT– shall have the meaning specified by Republic Act No. 6957, as amended, otherwise known as "BOT Law" and its implementing Articles and regulations;

Contestable Market – refers to the electricity End-Users who have a choice of Supplier of electricity, as may be determined by the ERC in accordance with the Act;

Department of Finance or DOF – refers to the government agency created pursuant to Executive Order No. 127, as amended;

Distribution Utility – refers to any Electric Cooperative, private corporation, government-owned utility or existing local government unit, which has an exclusive franchise to operate a Distribution System in accordance with its franchise and the Act;

Embedded Generators – refer to generating units that are indirectly connected to the Grid through the Distribution Utilities' lines or industrial generating facilities that are synchronized with the Grid;

End User – refers to any person or entity requiring the supply and delivery of electricity for its own use;

Energy Regulatory Commission or ERC – refers to the regulatory agency created by Section 38 of the Act;

Implementing Rules and Regulations or IRR – refer to the rules and regulations to be followed in implementing the major structural reforms for the electric power industry and the privatization of the state-owned NPC.

Independent Power Producer or IPP – refers to an existing power generating entity which is not owned by NPC as of the effectivity of the Act;

National Power Corporation or NPC – refers to the government corporation created under Republic Act No. 6395, as amended;

National Transmission Corporation or TRANSCO – refers to the corporation organized pursuant to the Act to acquire all the transmission assets of the NPC;

Power Sector Assets and Liabilities Management Corporation or PSALM – refers to the corporation created pursuant to Section 49 of the Act;

Privatization – refers to the sale, disposition, change and transfer of ownership and control of all assets and IPP contracts from the Government or a government corporation to a private Person or entity;

Self-Generation Facility – refers to a power generation facility owned and constructed by an End-User for such End-User's own consumption or internal use excluding Generation Facilities for use by households, clinics, hospitals and other medical facilities;

Small Power Utilities Group or SPUG – refers to the functional unit of NPC created to pursue Missionary Electrification function;

Special Trust Fund or STF– refers to an account created by PSALM and established in the Bureau of Treasury or in a Government Financing Institution that is acceptable to the DOF for purposes of managing and administrating the Universal Charge. A separate STF shall be set up for each of the intended purposes of the Universal Charge.

Stranded Contract Cost of NPC – refers to the excess of the contracted cost of electricity under eligible contracts of NPC over the actual selling price of the contracted energy output of such contracts in the market. Such contracts shall have been approved by the ERB as of December 31, 2000.

Stranded Debts of NPC *or* Stranded Debts - refers to any unpaid financial obligations of NPC which have not been liquidated by the proceeds from the operations, sales and Privatization of NPC assets: *Provided, However*, That such obligations include any of such obligations refinanced by PSALM: *Provided, Further,* That such refinancing of such unpaid obligations shall not result in increasing the Universal Charge burden, and other claims validated by NPC.

Supplier – refers to any Person licensed by the ERC to sell, broker, market or aggregate electricity to End-users;

True Up – refers to the process of adjusting for over – or under recovery for all of, or portions of the Universal Charge.

Universal Charge or UC – refers to the charge, if any, imposed for the recovery of the Stranded Debts, Stranded Contract Costs of NPC, and Stranded Contract Costs of Eligible Contracts of Distribution Utilities and other purposes pursuant to Section 34 of the Act;

Variance – is the difference between an estimated figure and the actual figure, as reported and verified by the appropriate entity or entities. For purposes of these guidelines, variances may further be classified into:

(i) **Cost Variance** is the difference in the estimated effective cost of an input and the actual effective cost of that input after a period of reckoning or time datum. Cost variances may either be positive or negative. A positive cost variance occurs when the actual effective cost of the input is higher than the estimated effective cost. A negative cost variance happens when the actual cost is lower or cheaper than that assumed in the estimate.

For example, a negative cost variance exists when the actual revenues from IPP energy sales for the current year is lower than what was assumed or projected in the annual NPC stranded contract cost for the year because the actual market price was lower than the projected market price. This results in a higher cost differential to be covered by the UC.

(ii) **Quantity Variance** is the difference between the estimated cumulative quantity of an input and the actual cumulative quantity or amount of the input after a period of reckoning or time datum. Quantity variances may either be positive or negative. A positive quantity variance occurs when the actual quantity or amount of the input is greater than the estimated quantity or amount. A negative quantity variance occurs when the actual cumulative quantity or amount is lower or less than that assumed in the estimate.

For example, a negative quantity variance exists when the actual level of system electricity sales is less than what was estimated as the sales level. This results in a higher UC per kWh, *ceteris paribus*, to be borne by all end-users. Conversely, a positive quantity variance on the level of system electricity sales will result to a lower level, *ceteris paribus*, of UC per kWh.

(iii) **Remittance Variance** is a case where the discrepancy in the funds in the STF for the NPC Stranded Contract Cost portion is due to errors in the remittance to PSALM of those entities mandated to collect the UC as specified in Sections 2 (b) and 3 (b), Article VIII herein.

(iv) **Disbursement Variance** is a case where the discrepancy in the funds in the STF for the NPC Stranded Contract Cost share of the UC is due to errors in the disbursements of PSALM.

Variance Analysis Report or VAR is a report, to be submitted by PSALM to the ERC, detailing Cost and Quantity Variances for each of the items in Sections 2 (a) and 3 (a), Article VIII, for purposes of documenting and determining if there is an over- or under recovery of the collections into and disbursements out of the NPC Stranded Contract Cost allocation of the UC. The VAR will be the basis for the ERC in ruling on the true-up adjustments for the UC.

ARTICLE II

APPLICATION PERIOD

In the first year of implementation of the UC, the PSALM shall file with the ERC the petition for the NPC Stranded Contract Cost and Stranded Debt recovery share of the Universal Charge on or before the 15th of March 2007 for amounts for the year ending December 31, 2006. PSALM shall submit all pertinent documents to support the application for availment of the UC. These documents and other relevant information shall be the basis of the evaluation by ERC in determining its share from the UC.

Petitions for availment of the UC for NPC Stranded Contract Cost and Stranded Debt for subsequent years shall be filed with the ERC on or before the 15th of March of every year. Failure by PSALM to file its petition within the prescribed date shall result to an automatic forfeiture of such petition for the current year.

ARTICLE III

IPP CONTRACTS OF NPC ELIGIBLE FOR FUNDING THROUGH THE UNIVERSAL CHARGE

IPP contracts of NPC shall refer to generation capacities developed under the Build-Operate-Transfer scheme and any such generation asset whose construction was not financed by NPC but whose contribution is bought by NPC under Purchase Power Agreements (PPAs), Energy Conversion Agreements (ECAs) or any other similar contractual relationship. It also includes costs as defined under the Rehabilitate Operate Lease (ROL) and Rehabilitate Operate Maintain (ROM) types of IPP contracts. In accordance with Section 32 of the Act, only contracts duly approved by the ERB as of December 31, 2000 shall be entitled for cost recovery through the UC.

ARTICLE IV

METHODOLOGY FOR THE CALCULATION OF NPC STRANDED CONTRACT COSTS ALLOCATION OF THE UC

Pursuant to Section 5, Rule III of the IRR of the Act, PSALM shall calculate the amount of the Stranded Contract Costs of NPC, which shall become the basis of ERC in determining the allowable share of NPC Stranded Contract Cost in the UC.

Section 1: Recovery by Major Grid

PSALM shall recover the Stranded Contract Costs on a major grid basis i.e. Luzon, Visayas and Mindanao. As such, Stranded Contract Costs incurred in Luzon grid shall only be recovered through the end-users in such grid.

Section 2: Inventory of IPP Contracts

PSALM shall submit to the ERC no later than sixty (60) days upon effectivity of these rules a complete list of all currently effective eligible IPP contracts as of January 01, 2006 in a detailed format attached as Annex A herein.

Section 3: Gross Annual Contract Cost

PSALM shall calculate the actual aggregate eligible contract cost obligations of NPC as per the terms and conditions of its live and enforceable contracts with all IPPS and/or other private producers for the applicable year for each major grid. The aggregate contract cost shall include the following components:

a. Total unavoidable fixed fees and the variable fees the amount of which varies depending on the total kWh actually generated excluding the cost of eligible IPP contracts that have been approved by the ERC for refinancing, if any;

b. Equivalent cost of fuel oil obligations of NPC under its existing Energy Conversion Agreements (ECAs);

c. Amortization payments including principal and interest payments of eligible IPP contracts incurred by NPC to finance the buy-out and/or buy-down of eligible IPP contracts as approved by the ERC pursuant to Section 4 of Rule 17 of the IRR;

d. Other costs and expenses related to the buy-out and/or buy-down of IPP contracts under Section 3c herein; if applicable.

Section 4: Revenues from the Sale of Contracted Energy of Eligible IPPs

PSALM shall submit to the ERC total revenues collected from the sales of contracted energy of eligible IPP contracts. Revenue sales shall refer to the following:

a. Sales of the contracted energy of eligible IPP contracts in the Wholesale Spot Market;

b. Sales of the contracted energy of eligible IPP contracts under the terms and conditions of the Transition Supply Contracts duly approved by the ERC including corresponding revenues generated from all adjustments and indexation formulae;

c. Sales of the contracted energy of eligible IPP contracts from the One Day Power Sales (ODPS) scheme and the Wholesale Default Supplier (DWS) arrangement.

Section 5: Privatization of IPP Contracts

In line with Section 4, Rule 23 of the IRR, PSALM shall submit to ERC records detailing proceeds from the disposition of IPP contracts when applicable. In consonance with Section 47 of the Act, the privatization of IPP contracts shall conform to all parameters defined in the Privatization Plan endorsed by the Joint Congressional Power Committee (JCPC) and duly approved by the President of the Philippines.

Proceeds from the privatization or disposition of eligible IPP contracts shall refer to the following:

a. Up-front proceeds from the sale of the IPP contract; and

b. Cash inflow arising from an Assumption of Obligation scheme of the IPP contract, if applicable.

Section 6: NPC Stranded Contract Cost

The annual NPC Stranded Contract Cost shall be computed as the difference between the amount as determined in Section 3, Article IV and the combined amounts derived from Sections 4 and 5, Article IV and Sections 3 and 4, Article VII herein.

The amount recoverable by PSALM from the Universal Charge Fund shall not exceed the estimated Stranded Contract Costs of eligible IPP contracts assuming a buy-out and/or a buy-down never occurred in accordance with Section 4 of Rule 17 of the IRR.

Section 7: Allocation of kWh Sales between Output Covered by Transition Supply Contracts and Output Sold in the Wholesale Electricity Spot Market (WESM)

PSALM shall submit to the ERC no later than sixty (60) days upon effectivity of these rules the allocation by NPC of generation output that service obligations under its Transition Supply Contracts and output sold in the WESM hourly. Such allocation should be available for each power plant including NPC-owned and IPP contracted generating units.

Section 8: NPC Stranded Contract Cost Allocation in the Universal Charge in P/kWh

The NPC Stranded Contract Cost allowable portion of the UC in P/kWh for the applicable year for each major grid shall be calculated as equivalent to the amount calculated in Section 6, Article IV of these rules divided by the actual system end-users sales in the previous year for the major grid expressed in kilowatthours (kWh).

Actual system end-users sales shall include the following:

i) Net sales of electricity passing through the transmission grid in the relevant major grid of the National Transmission Corporation (TRANSCO);

ii) Net sales of Distribution Utilities such as residential, commercial, and industrial including government and/or public buildings, irrigation systems and special lightings;

iii) Net sales of entities authorized to provide distribution service within the economic zones;

iv) Net sales by NPC-SPUG or Build-Operate-Transfer (BOT) type projects under the administration of NPC-SPUG in the relevant major grid; and

v) Net sales of other entities identified by the ERC pursuant to the intent of the Act.

Section 9: NPC Stranded Contract Cost Allocation in the Universal Charge in Pesos per kW a Month for Self-Generating Facilities

The NPC Stranded Contract Cost allowable portion of the UC for the applicable year for each major grid for Self-Generation facilities shall be allocated based on the proportionate share of the total installed capacity of such generating units to the respective grid's aggregate installed capacity. When applicable, the installed capacity of the Self-Generating units as registered with the ERC shall be used in calculating the appropriate amounts for the Stranded Contract Cost recovery through the UC.

The applicable UC shall be determined as a fixed amount on a per kW a month basis.

Section 10: Approval of NPC Stranded Contract Cost Allocation in the Universal Charge

PSALM shall file the petition for availment of the NPC Stranded Contract Cost portion of the UC in accordance with Section 4(e), Rule 3 of the IRR. PSALM shall present to the ERC the results of the calculations and all supporting data relevant to the proposed NPC Stranded Contract Cost recovery. However, the ERC can and may ask PSALM to furnish additional data or clarification that may change the results of the calculation.

In evaluating the petition of PSALM for the NPC Stranded Contract Cost share in the Universal Charge, the ERC may consider the performance of the IPP Administrator in maximizing the value of the IPP contracts with the end view of minimizing the effective Stranded Contract Cost, when applicable.

Upon approval by ERC of the NPC Stranded Contract Cost component of the Universal Charge for the current year, the ERC shall issue a directive to TRANSCO, all Distribution Utilities, NPC-SPUG and all entities authorized to provide distribution service within the economic zones to commence the collection of the NPC Stranded Contract Cost share in the UC from all end-users.

ARTICLE V

METHODOLOGY FOR THE CALCULATION OF NPC STRANDED DEBTS ALLOCATION OF THE UNIVERSAL CHARGE

It shall be the responsibility of PSALM to calculate the amount of the Stranded Debts of NPC which shall form part of the basis of the ERC in the determination of the UC.

Section 1: Uniform Recovery of Stranded Debt Portion of the UC

PSALM shall recover the NPC Stranded Debts through the UC as a uniform rate to all the end-users regardless of which grid they may be connected to.

Section 2: Inventory of Financial Obligations

PSALM shall submit to the ERC no later than sixty (60) days upon receipt of these rules a complete inventory of all of NPC's outstanding obligations including a detailed account of all financial instruments and associated financing costs and other relevant information in a format provided by the ERC attached as Annex B.

For purposes of the Stranded Debt filing, financial obligations shall include:

(i) NPC's outstanding financial obligations as of the effectivity of the EPIRA;

(ii) New loans contracted by NPC after the effectivity of the EPIRA;

(iii) Loans incurred by PSALM in behalf of the NPC.

For purposes of the Stranded Debt filing, financial obligations shall exclude:

(iv) Loans contracted by TRANSCO or its concessionaire;

(v) Loans incurred by PSALM in behalf of TRANSCO or its concessionaire;

(vi) All other loans incurred by PSALM; and

(vii) All financial obligations assumed by the National Government

Section 3: Gross Annual Debt Service (GADS)

Every year, PSALM shall project the gross annual debt service payable for each year arising from the financial obligations of NPC as defined in Section 2 above. Such amount shall be net of any financial obligations assumed by the National Government (NG). PSALM may include the current portion of maturing obligations arising from the refinancing of NPC's liabilities pursuant to Rule ___ of the Implementing Rules and Regulations (IRR) of RA 9136.

Section 4: Projected Cash Inflows

For purposes of these rules, projected cash inflows shall include the following revenue components:

(i) Projected proceeds from the sale of assets or equity in the privatized entities.

(ii) Projected Net Operating Income (NOI) of NPC and TRANSCO assets until these are privatized;

(iii) Projected Depreciation Allowance (DA) of NPC and TRANSCO assets until these are privatized;

In order to stabilize and mitigate possible increases in the level of the NPC Stranded Debt Cost Recovery portion of the Universal Charge (UC), PSALM may be allowed to manage the revenue inflows enumerated in Section 4 using a Special Trust Fund or any interest-bearing instrument that shall levelize, smoothen out and create a steady stream of income that would off-set the GADS determined in Article V Section 3.

Section 5: Allowance for Projected Capital Expenditures

The ERC may deduct from the DA as defined under Sections 4 (iii) of Article V herein an allowance representing the utilization of internally generated funds for approved capital expenditures.

Section 6: National Government Absorption

PSALM shall submit to the ERC no later than sixty (60) days upon effectivity of these rules a complete detailed list of financial instruments assumed by the NG in a format attached as Annex C herein.

Section 7: NPC Stranded Debt Cost

The annual NPC Stranded Debt Cost shall be equivalent to the GADS as determined from Section 3 net of the amounts calculated from Sections 4 and 5 of Article V and Sections 3 and 4 of Article VII herein.

Section 8: NPC Stranded Debt Cost Recovery Portion of the UC in PhP/kWh.

The NPC Stranded Debt Cost Recovery portion of the UC in PhP/kWhs shall be equivalent to the amount as calculated in Article V Section 7 divided by the total forecasted system electricity sales for a period not shorter than fifteen (15) years nor longer than twenty-five (25) years expressed in kWhs. Total system electricity sales shall include the following:

i) Net sales of electricity passing through the transmission grid;

ii) Net sales of Distribution Utilities such as residential, commercial, and industrial including government and/or public buildings, irrigation systems and special lightings;

iii) Net sales of entities authorized to provide distribution service within the economic zones;

iv) Net sales by NPC-SPUG or Build-Operate-Transfer (BOT) type projects under the administration of NPC-SPUG; and

v) Net sales of other entities identified by the ERC pursuant to the intent of the Act.

Section 9: NPC Stranded Debt Allocation in the Universal Charge in Pesos per kW a Month for Self-Generating Facilities

The NPC Stranded Debt allowable portion of the UC for the applicable year for Self-Generation facilities shall be allocated based on the proportionate share of the total installed capacity of such generating units to the aggregate installed capacity. When applicable, the installed capacity of the Self-

Generating units as registered with the ERC shall be used in calculating the appropriate amounts for the Stranded Debt recovery through the UC.

The applicable UC shall be determined as a fixed amount on a per kW a month basis.

Section 10: Approval of the NPC Stranded Debt Cost Recovery.

PSALM shall file the petition for availment of the NPC Stranded Debt portion of the UC in accordance with Section 4(e), Rule 3 of the IRR. PSALM shall present to the ERC the results of the calculations and all supporting data relevant to the proposed NPC Stranded Debt recovery. However, the ERC can and may ask PSALM to furnish additional data or clarification that may change the results of the calculation.

In evaluating the petition of PSALM for the NPC Stranded Debts share in the Universal Charge, the ERC may consider whether or not PSALM has exercised best efforts in minimizing the effective Stranded Debts. In accordance with Rule 4 (hhhh), PSALM may include as obligations the cost of refinancing, provided that such refinancing of unpaid obligations shall not result in increasing the UC burden.

Upon approval by the ERC of the amount that represents the NPC Stranded Debt Cost Recovery, said amount shall be collected as part of the UC from all end-users. Towards this end, the ERC shall issue an order to Transco, all distribution utilities, NPC-SPUG and all entities authorized to provide distribution service within the economic zones to implement the collection of the NPC Stranded Debt Cost Recovery as part of the UC.

ARTICLE VI

COLLECTION OF THE NPC STRANDED CONTRACT COST AND NPC STRANDED DEBT SHARE OF THE UNIVERSAL CHARGE

Section 1: Entities Mandated to Collect the NPC Stranded Contract Cost and NPC Stranded Debt Allocation in the Universal Charge

As stipulated under Section 5 of Rule 18 of the IRR, the following entities are empowered to collect the NPC Stranded Contract Cost and NPC Stranded Debt portion of the universal charge from all end-users or respective customers:

a. All Distribution Utilities and Suppliers in case of Contestable Markets including entities authorized to provide distribution service within the economic zones;

b. Except as otherwise provided for in Article VI, Section 1c, TRANSCO shall collect this specific charge from self-generators after four (4) years from the imposition of the Universal Charge provided such self-generators have registered their self-generation facilities with the ERC and PSALM pursuant to Section 7, Rule 18 of the IRR;

c. NPC-SPUG shall collect the UC from self-generators in areas where there are no Distribution Utilities located within its area of service after four (4) years from the imposition of the Universal Charge provided such self-generators have registered their self-generation facilities with the ERC and PSALM pursuant to Section 7, Rule 18 of the IRR;

Section 2: Remittance to PSALM of the NPC Stranded Contract Cost and NPC Stranded Debt Share of the Universal Charge

TRANSCO, NPC-SPUG, all Distribution Utilities, Suppliers and all entities authorized to provide distribution service within the economic zones shall remit collections of the NPC Stranded Contracted Cost share of the UC to PSALM not later than the 15th day of the succeeding month pursuant to the Revised Guidelines and Procedures Governing Remittances and Disbursements of the Universal Charge.

ARTICLE VII

ADMINISTRATION OF THE NPC STRANDED CONTRACT COST and NPC STRANDED DEBT SPECIAL TRUST FUND

Section 1: PSALM as Administrator of the NPC Stranded Contract Cost and Stranded Debt Allocation of the UC

Pursuant to Section 34 of R.A. 9136 and in accordance with the Revised Guidelines and Procedures Governing Remittances and Disbursements of the Universal Charge, PSALM shall be the administrator of the funds generated from the collection of the Universal Charge. For this purpose, the PSALM shall create a separate Special Trust Fund (STF) for each the NPC Stranded Contract Cost and the NPC Stranded Debt to be established in the Bureau of Treasury or in a Government Financing Institution that is acceptable to the Department of Finance (DOF). Therefore, pursuant to this, the Revised Guidelines and Procedures Governing Remittances and Disbursements of the Universal Charge is hereby amended.

Upon expiration of the term of PSALM, the administration of the STF shall be transferred to the DOF or to any of the attached agencies as designated by the DOF Secretary.

Section 2: Exclusive Use of Funds for Different Components of the UC STFs

Pursuant to the Revised Guidelines and Procedures Governing Remittances and Disbursements of the UC, the funds from the respective STFs shall be disbursed in an open and transparent manner and shall be used specifically for the intended purposes. PSALM shall not allow funds from the STF earmarked for the NPC Stranded Contract Cost use under the UC to finance a shortfall in the STF of Stranded Debt and vice-versa.

Section 3: Surplus Funds in the STF from the Universal Charge

In the event that the total amount collected for the NPC Stranded Contract Cost and Stranded Debt recovery is greater than actual disbursements from the proceeds of the corresponding share in the UC, the PSALM shall retain the balance within the specific STF to pay for periods where a shortfall occurs. However, in cases wherein over-recovery occurs, PSALM shall use the previous year's surplus amount to reduce the required NPC Stranded Contract Cost and Stranded Debt share in the UC for the current year.

Section 4: Shortfall in the STF from the Universal Charge

In the event that the total amount collected for the NPC Stranded Contract Cost and Stranded Debt recovery falls short of the approved appropriated share of PSALM in the UC, the shortfall shall be programmed for the ensuing year's petition.

ARTICLE VIII

TRUE UP OR END YEAR ADJUSTMENTS FOR STRANDED CONTRACT COSTS AND STRANDED DEBTS

True-up adjustments shall be done on an annual basis and the responsibility for calculating and collating the supporting documents shall lie with the petitioner for that specific portion or use of the UC in coordination with PSALM as administrator of the UC STF.

Section 1: Variance Analysis Report

Together with the petition for the second (2nd) year of collection for the NPC Stranded Contract Cost and Stranded Debts share of the UC and all succeeding petitions thereafter, PSALM shall submit to the ERC a detailed Variance Analysis Report (VAR) covering collections into and disbursements out of the STF certified by an ERC accredited auditor. PSALM shall submit the relevant documents to support true-up adjustments as part of the VAR on or before the 15th March of every year.

The VAR shall be the basis by which the ERC will approve inclusion of any under-recovery in the current year's level of NPC Stranded Contract Cost and Stranded Debt availment of the UC or mandate a reimbursement due to over-recovery by way of a reduction in the current year's level of NPC Stranded Contract Cost appropriate share of the UC.

Section 2: Coverage and Details of the VAR for NPC Stranded Contract Cost Recovery Portion of the UC

The VAR to be submitted by PSALM to the ERC for the Stranded Contract Cost recovery shall contain, at the minimum, the following:

a) Variance analysis that would show Cost and Quantity Variances, both positive and negative, whenever applicable, covering the following:

   i) Gross Annual Contract Cost;

   ii) Revenues from IPP Energy Sales;

   iii) Proceeds from Privatization of IPP Contracts;

   iv) Total NPC Stranded Contract Cost Amount;

   v) Surplus/Shortfall in the STF;

   vi) Actual System End-Users Sales;

   vii) Net Variance of NPC Stranded Contract Cost Share of the UC;

b) Remittance Variances from those authorized by law to collect the UC and as remitted to PSALM;

c) Disbursement Variances due to errors by PSALM in the remittance of funds from the STF;

d) Any and all such documents that would verify the above calculations as accurate including, additional documentation or proof, as may be required by the ERC.

Section 3: Coverage and Details of the VAR for NPC Stranded Debt Recovery Portion of the UC.

The VAR to be submitted by PSALM to the ERC shall contain, at the minimum, the following:

a) Variance analysis that would show Cost and Quantity Variances, both positive and negative, whenever applicable, covering the following accounts:

(i) GADS;

(ii) Proceeds from the sale of assets or equity;

(iii) Net Operating Income;

(iv) NPC and Transco Depreciation Allowance, net of current year's approved capital expenditures as described in Section 5 of Article V herein;

(v) Surplus/Shortfall in the STF;

(vi) Total NPC Stranded Debt Amount;

(vii) Actual systems electricity sales;

(viii) Net Variance of NPC Stranded Debt Recovery portion of the UC;

b) Remittance Variances from those authorized by law to collect the UC and remit the same to PSALM;

c) Disbursement Variances due to errors by PSALM in the disbursements of funds from the STF;

d) Any and all such documents that would verify the above calculations as accurate including, additional documentation or proof, as may be required by the ERC.

Section 4: Procedures for the Treatment of Over- and Under-Recovery in the NPC Stranded Contract Cost and Stranded Debt STF

a) In cases where the VAR would show that an over-recovery has accrued to the STF earmarked for NPC Stranded Contract Cost and Stranded Debt for that year, the provisions of Section 3, Article VII shall apply.

b) In cases where the VAR would show that an under-recovery has occurred, thus affecting the NPC Stranded Contract Cost and Stranded Debt STF for that year, the provisions of Section 4, Article VII shall apply.

ARTICLE IX

Reportorial Requirements

Pursuant to Section 6 Rule 18 of the IRR, PSALM shall maintain separate books of accounts that should be made available to the ERC for purposes of monitoring and accounting for sums collected from the UC. For such purpose, the ERC hereby directs PSALM to submit the following reports:

a. In addition to the reportorial requirements stipulated in Section 8 of the revised Guidelines and Procedures Governing Remittances and Disbursements of the UC as herein amended, PSALM shall submit quarterly results of operations for the first three (3) quarters of each year, which shall be submitted within thirty (30) days from the end of each quarter. Quarterly shall mean the calendar quarters of January 01 to March 31 (first quarter), April 01 to June 30 (second quarter), July 01 to September 30 (third quarter). For the initial year, the first quarterly report should cover the period January 01 to march 31, 2007.

   The quarterly report shall highlight the following:

i) Progress on efforts to attract privatization or disposition of IPP contracts;

ii) Progress on efforts to revisit terms and conditions of the IPP contracts as these impact actual allocation of UC for NPC Stranded Contract Cost;

b. A year-end report, certified by an ERC accredited auditor shall be submitted on or before the 15th of March of the ensuing year. The year-end report should contain the following:

i) The Variance Analysis Report as explained in Section 1 of Article VIII of these Rules;

ii) A written explanation on the rationale for discrepancies observed;

iii) Request for allocation in the ensuing year.

c. All reports shall be submitted in both electronic and written form.

ARTICLE X

SEPARABILITY

If for any reason, any section of this set of Rules 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 XI

EFFECTIVITY

This set of Rules shall take effect on the fifteenth (15^{th}) day following its publication in two (2) newspapers of general circulation.

Pasig City, October ____ 2006

RODOLFO B. ALBANO, JR.
Chairman

RAUF A. TAN
Commissioner

ALEJANDRO Z. BARIN
Commissioner

MARIA TERESA A.R. CASTANEDA
Commissioner

JOSE C. REYES
Commissioner