

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



**IN THE MATTER OF THE  
APPLICATION FOR  
APPROVAL OF THE  
ANCILLARY SERVICES  
PROCUREMENT  
AGREEMENT (ASPA)  
BETWEEN THE NATIONAL  
GRID CORPORATION OF  
THE PHILIPPINES AND SN  
ABOITIZ POWER - MAGAT,  
INC., WITH PRAYER FOR  
THE ISSUANCE OF  
PROVISIONAL AUTHORITY,**

**ERC CASE NO. 2016-164 RC**

**NATIONAL GRID  
CORPORATION OF THE  
PHILIPPINES (NGCP) AND  
SN ABOITIZ POWER-  
MAGAT, INC. (SNAP-MI),  
Applicants.**

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**D O C K E T E D**  
Date: OCT 20 2017  
By: W

**ORDER**

For the Commission's consideration is the prayer for issuance of provisional authority included in the Application dated 11 August 2016 filed by National Grid Corporation of the Philippines (NGCP) and SN Aboitiz Power - Magat, Inc. (SNAP-MI) on 24 August 2016, seeking the Commission's approval of the Ancillary Services Procurement Agreement (ASPA) dated 08 August 2016 entered into by both parties.

**THE FACTUAL AND PROCEDURAL ANTECEDENTS**

Relative to their prayer for issuance of provisional authority, Applicants alleged the following:

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

17. It is a declared policy of the State to ensure the quality, reliability, security and affordability of the supply of electric power (*Section 2b, EPIRA*). With this end in view, there is a need to comply with the system requirements for AS to ensure grid system reliability. As mentioned above, NGCP has the mandate to procure the required AS. However, the Honorable Commission must first approve the contract before the same could be implemented.
18. As mentioned above, the Honorable Commission has already declared that there is a necessity for NGCP to procure the contracted ancillary services capacity of SNAP MI to maintain the reliability of the operation of the transmission system and electricity supply in the Luzon Grid.
19. SNAP-MI must continue to provide the current contracted ancillary services beyond the 2013 ASPA to maintain the reliability of the power grid. Based on the current levels of available contracted AS in the Luzon Grid, the firm contracted AS have not yet met the required levels of the ASPP. The copies of the relevant actual data and its corresponding graphical presentations showing the required and available levels of AS in the Luzon Grid are attached as **Annex "D."**
20. NGCP must be guaranteed that there are available AS on a daily basis to assure reliability of the grid. There is no assurance that the non-firm capacities would be available when needed. NGCP cannot gamble on this chance. As the grid operator, the contracted capacity of SNAP, especially its firm capacities, are greatly needed.
21. Thus, NGCP and SNAP MI agreed to execute another ASPA for a period of another five years. With this ASPA, the Luzon Grid is assured of AS until 2021.
22. Also, as the demand for power in the Luzon increases, the requirements of the system to ensure stability, reliability and security likewise increases. Ensuring the integrity of the system is essential to protect the interests of the public. The absence of system reliability and stability will certainly discourage investments and growth.
23. Applicants respectfully submit that the immediate approval of the ASPA by this Honorable Commission is a necessity to maintain the present reliability and security of the Grid. In support of these allegations, NGCP submits a copy of the Judicial Affidavit of Engr. Lizaflor Bacani-Kater, which is attached as **Annex "E."**

## **THE ISSUE**

The issue for the Commission's resolution is whether NGCP and SNAP-MI have satisfied the requirements provided by law for the grant of provisional authority.

## **THE COMMISSION'S RULING**

The Commission grants provisional authority to Applicants.

On 03 November 2016, the Commission deliberated and granted Applicant's provisional authority. However, due to supervening events<sup>1</sup>, the Order could no longer be promulgated without undergoing reconfirmation by the Commission *En Banc*. Thus, the Commission resolved to reconfirm the same on 01 August 2017.

### **I. THE LAW EMPOWERS THE COMMISSION TO GRANT PROVISIONAL AUTHORITY IN THE INSTANT CASE.**

Section 4(e), Rule 3 of the Implementing Rules and Regulations of Republic Act No. 9136, otherwise known as the Electric Power Industry Reform Act of 2001 (EPIRA IRR) empowers the Commission to issue provisional authority, to wit:

#### **SECTION 4. Responsibilities of the ERC. —**

(e) Any application or petition for rate adjustment or for any relief affecting the consumers must be verified, and accompanied with an acknowledgment of receipt of a copy thereof by the LGU Legislative Body of the locality where the applicant or petitioner principally operates together with the certification of the notice of publication thereof in a newspaper of general circulation in the same locality.

The ERC may grant provisionally or deny the relief prayed for not later than seventy-five (75) calendar days from the filing of the application or petition, based on the same and the supporting documents attached thereto and such comments or pleadings the consumers or the LGU concerned may have filed within thirty (30)

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<sup>1</sup> The Chairman was placed on preventive suspension as per Order of the Office of the President (OP-DC Case No. 17-D-094) dated 02 May 2017 and received on 04 May 2017.

calendar days from receipt of a copy of the application or petition or from the publication thereof as the case may be.

Thereafter, the ERC shall conduct a formal hearing on the application or petition, giving proper notices to all parties concerned, with at least one public hearing in the affected locality, and shall decide the matter on the merits not later than twelve (12) months from the issuance of the aforementioned provisional order.

This Section 4(e) shall not apply to those applications or petitions already filed as of 26 December 2001 in compliance with Section 36 of the Act.

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The above provision was upheld by the Supreme Court in the landmark case of *Freedom from Debt Coalition (FDC) vs. Energy Regulatory Commission (ERC)*<sup>2</sup> (FDC Case). The Court, speaking through Justice Tinga, traced the origin and development of the Commission's authority to grant provisional rates, to wit:

Historically, therefore, in this jurisdiction, at least beginning with the Public Service Act in 1936, the regulatory bodies concerned have exercised the power to grant provisional rate adjustments only because there was a statutory grant of such power.

The foregoing recital establishes the following salient points: (1) Section 16(c) of the Public Service Act authorizing the approval of provisional rate increases has never been repealed and as such continues to be in full force and effect up to the present; (2) The BOPW had the power to grant provisional rate increases on the basis of the provision of the Integrated Reorganization Plan that the pertinent powers of the PSC were transferred to it; (3) The applicability clause found in Section 44 of the EPIRA is the same as or similar to the applicability clauses contained in Sections 11 and 21 of P.D. No. 1206 and Section 14 of E.O. No. 172; and, (4) The applicability clause or transfer of power provision is sufficient to effect the transfer of powers from a regulatory agency to its successor.

**All told, the provisions of the Public Service Act and E.O. No. 172 which relate to the power of the regulatory body to approve provisional rates continue to have full force and effect, and the power was transferred to the ERC by virtue of Section 80 in relation to Section 44 of the EPIRA.** Said provisions are not inconsistent with the EPIRA except the directives therein dispensing with the need for prior hearing. They are deemed modified to the extent that the EPIRA imposes a publication requirement and, through the IRR, assures the customers affected the opportunity to oppose or comment on the

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<sup>2</sup> G.R. No. 161113, 15 June 2004.

application for provisional rate adjustment before it is acted upon by the ERC.

**Indeed, both the letter and spirit of the law require that the authority of the ERC to grant provisional power rate adjustments should be upheld. The law is so clear that it cannot be misread.**

[Emphasis supplied.]

The instant Application seeks the Commission's approval of the Ancillary Services Procurement Agreement (ASPA) entered into between NGCP and SNAP-MI. The costs associated with Applicants' ASPA will ultimately be charged to the consuming public. As such, the Commission has the legal duty to determine the propriety of granting provisional approval consistent with prevailing laws and jurisprudence.

**II. APPLICANTS HAVE SATISFIED THE DUE PROCESS REQUIREMENTS FOR THE GRANT OF PROVISIONAL AUTHORITY.**

In the case of *National Association of Electricity Consumers for Reforms vs. ERC*<sup>3</sup> (NASECORE Case), the Supreme Court reiterated the procedural requisites before the Commission may grant provisional authority under Section 4(e), Rule 3, EPIRA IRR, *to wit*:

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- (1) The applicant must file with the ERC a verified application/petition for rate adjustment. It must indicate that a copy thereof was received by the legislative body of the LGU concerned. It must also include a certification of the notice of publication thereof in a newspaper of general circulation in the same locality.
- (2) Within 30 days from receipt of the application/petition or the publication thereof, any consumer affected by the proposed rate adjustment or the LGU concerned may file its comment on the application/petition, as well as on the motion for provisional rate adjustment.

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<sup>3</sup> G.R. No. 163935, 02 February 2006.

- (3) If such comment is filed, the ERC must consider it in its action on the motion for provisional rate adjustment, together with the documents submitted by the applicant in support of its application/petition. If no such comment is filed within the 30-day period, then and only then may the ERC resolve the provisional rate adjustment on the basis of the documents submitted by the applicant.
- (4) However, the ERC need not conduct a hearing on the motion for provisional rate adjustment. It is sufficient that it consider the written comment, if there is any.
- (5) The ERC must resolve the motion for provisional rate adjustment within 75 days from the filing of the application/petition.
- (6) Thereafter, the ERC must conduct a full-blown hearing on the application/petition not later than 30 days from the date of issuance of the provisional order. Effectively, this provision limits the lifetime of the provisional order to only 12 months.

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NGCP and SNAP-MI attached the following documents to their Application:

- a) Verification and Certification of Non-Forum Shopping dated 11 August 2016 executed by Ma. Cynthia Y. Manrique of NGCP;
- b) Verification and Certification of Non-Forum Shopping dated 12 August 2016 executed by Joseph Yu of SNAP-MI;
- c) Affidavit of Service dated 16 August 2016 executed by Alberto I. Mapa attesting to his service of a copy of the Application to the Office of *Sangguniang Panlungsod* of Quezon City on even date;
- d) Affidavit of Service dated 16 August 2016 executed by Jennifer G. Pardiñez attesting to her service of a copy of the Application to the Offices of *Sangguniang Panlungsod* of San Fernando City and *Sangguniang Panlalawigan* of La Union on even date;
- e) Affidavit of Service dated 15 August 2016 executed by Veronica K. Adsuaara attesting to his service of a

copy of the Application to the Office of *Sangguniang Bayan* of the Municipality of Ramon, Isabela and *Sangguniang Panlalawigan* of Isabela on even date;

- f) Affidavit of Publication dated 24 August 2016 executed by Evelyn S. Arevalo of *The Manila Times* attesting to the publication of the Application on the 24 August 2016 issue of the newspaper.

No Comment was received by the Commission within the thirty (30) day period within which the same may be filed, or until 23 September 2016. Thus, the prayer for provisional authority is being resolved on the basis of the documents submitted by Applicants. Likewise, the instant Order granting provisional authority is being issued within the seventy-five (75) day reglementary period which is set to end on 07 November 2016.

In light of these circumstances, the Commission has determined that the procedural requirements for the issuance of a provisional authority as outlined by the Supreme Court in the NASECORE Case have been complied with.

**III. APPLICANTS HAVE  
SATISFACTORILY  
PROVEN THE  
NECESSITY FOR THE  
GRANT OF  
PROVISIONAL  
AUTHORITY.**

In its Application, NGCP and SNAP-MI prayed for the issuance of a provisional authority on the ground that the current levels of available ancillary services in the Luzon Grid are significantly insufficient to meet the required levels to ensure grid system reliability.

In connection therewith, Applicants further allege that as the demand for power in Luzon increases, the requirements of the system to ensure stability, reliability and security likewise increase. Therefore, as alleged by Applicants, there is a need to ensure the integrity of the system since it is essential to protect the interests of the public.

NGCP and SNAP-MI likewise stressed that absence of system reliability and stability discourages investments and growth, thus, necessitates the immediate issuance of Provisional Approval of the subject ASPA to maintain the reliability and security of the Grid.

In support of the allegation, an illustration of the available level of Ancillary Services (AS) in the Luzon Grid for the period January 2016 to July 2016 was provided by NGCP, *to wit*:

Month	Regulating Reserve (RR)		Contingency Reserve (CR)		Dispatchable Reserve (DR)	
	Required (ΣMW)	Availability	Required (ΣMW)	Availability	Required (ΣMW)	Availability
January	181,246	97.00%	385,626	58.69%	316,434	95.31%
February	192,358	99.37%	434,706	55.68%	379,830	93.25%
March	188,571	98.02%	407,582	43.49%	380,694	94.98%
April	219,095	96.12%	444,670	23.01%	400,546	91.35%
May	224,181	97.49%	431,012	27.58%	391,418	91.71%
June	226,688	97.98%	457,764	40.59%	415,779	78.52%
July	213,069	98.33%	433,070	37.51%	390,287	46.21%

As can be seen from the tables above, significant deficiencies remain in the available levels of RR, CR, and DR in the Luzon Grid for the period January 2016 to July 2016.

Thus, the Commission finds merit in Applicants' allegations. The factual milieu surrounding the Application satisfies the substantial requirements for the grant of provisional authority.

**IV. THE PROVISIONAL AUTHORITY FOR THE IMPLEMENTATION OF APPLICANTS' ASPA, PENDING FINAL EVALUATION OF THE APPLICATION, WILL REDOUND TO THE BENEFIT OF CONSUMERS.**

Under Republic Act No. 9136, otherwise known as the *Electric Power Industry Reform Act of 2001* (2001 EPIRA), Applicant NGCP, as the National Transmission Corporation's (TransCo) winning concessionaire, is mandated to ensure and maintain the reliability, adequacy, security, stability and integrity of the nationwide electrical



grid and to adequately serve generation companies, distribution utilities and suppliers requiring transmission service and/or ancillary services through the transmission system.

Section 4 (b) of the 2001 EPIRA defines Ancillary Services as services that are necessary to support the transmission of capacity and energy from resources to loads while maintaining reliable operation of the transmission system. Such services are essential in ensuring not only the reliability in the operation of the transmission system as a whole, but also in the supply of electricity throughout the Luzon, Visayas, and Mindanao Grids.

On 9 March 2006, the Commission issued an Order in ERC Case No. 2002-253<sup>4</sup>, approving TransCo's proposed Ancillary Services Procurement Plan (ASPP). In the same Order, the Commission directed TransCo to file a separate application for the approval of the Ancillary Services-Cost Recovery Mechanism (AS-CRM).

In consonance with this directive, on 11 September 2006, Transco filed an Application under ERC Case No. 2006-049 RC<sup>5</sup> seeking the Commission's approval of its proposed mechanism to recover costs accruing from procurement of Ancillary Services. On 3 October 2007, the Commission issued a Decision in the said case approving the AS-CRM to be used by TransCo to recover the cost of its Ancillary Services. In the same Decision, the Commission provided the following conditions for TransCo's recovery of Ancillary Services charges:

- a) The cost of procuring the Ancillary Services under the ASPP shall be recovered 100% from load customers but only until such time that such ancillary services are already traded in the Wholesale Electricity Spot Market; and
- b) All contracts for the procurement of ancillary services shall be submitted to the Commission for approval.

The instant Application seeks the approval of the ASPA entered into by NGCP, as TransCo's winning concessionaire, and SNAP-MI last 08 August 2016.

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<sup>4</sup> Entitled "Application for the Approval of the Proposed Rules, Terms and Conditions for Open Access Transmission Service (OATS) and Proposed Rates, Terms and Conditions of Ancillary Services."

<sup>5</sup> Entitled "In The Matter Of The Application For The Approval Of The Ancillary Services-Cost Recovery Mechanism (AS-CRM) Of The Ancillary Services Procurement Plan (ASPP) With Prayer For Provisional Authority."

In their ASPA, SNAP-MI agreed to provide NGCP with Ancillary Services (AS). As alleged by Applicants, these AS are essential in maintaining the power quality, reliability, and security of the national grid. For this 2016 ASPA between NGCP and SNAP-MI, the following are the AS to be provided under the agreement:

- a) **Regulating Reserve (RR)**, also called load following and frequency regulating reserve, refers to generating capacity that is allocated exclusively to cover inter and intra-hour variations in demand (load behaviors), variations from generation schedules and hourly forecasts. During normal system conditions, loads and generator outputs vary from time to time; this behavior results in imbalance between supply and demand characterized by small deviations in system frequency. The Philippine Grid Code (PGC) requires that under normal conditions, the frequency should remain within +/- 0.6 Hz of the standard 60.0 Hz in order to ensure quality of supply and security of the Grid.
- b) **Contingency Reserve (CR)** refers to the synchronized generation capacity from Qualified Generating Units and Qualified Interruptible Loads allocated to cover the loss or failure of a synchronized generating unit or a transmission line or the power import from a single circuit interconnection in order to maintain the balance between generation and load on a real time basis.
- c) **Dispatchable Reserve (DR)** refers to the generating capacity that is not scheduled for Regular Energy Supply, Regulating Reserve or Contingency Reserve, or interruptible loads not scheduled for Contingency Reserve, and that are readily available for dispatch in order to replenish the Contingency Reserve Service whenever a generating unit trips or a loss of a single transmission interconnection occurs. This type of Ancillary Service can be provided by Qualified Generators that are not connected to the Grid but have fast start capabilities and can ramp up their output up the offered Dispatchable Reserve within thirty minutes.
- d) **Black Start Capability** refers to the ability of a generating unit, without assistance from the Grid or other external power supply, to recover from a shutdown

condition to an operating condition in order to energize the Grid and assist other generating units to start.

Ancillary Service	Firm		Non-firm	
	PhP/kW/hr	MW	PhP/kW/hr	MW
Regulating Reserve	PhP2.50	95 (24/7)	PhP3.00	Remaining available MW not scheduled as Firm
Contingency Reserve	PhP1.50	60 (peak hrs.)	PhP2.25	
Dispatchable Reserve			PhP1.25	95
Blackstart Capability			PhP2.14	100

Further examination of the ASPA subject of the instant Application reveals that the contract is on a firm and non-firm basis. The firm contracted capacity is 95 MW for Regulating Reserve and 60 MW for Contingency Reserve (off peak only) and shall be made available at all times for NGCP's instruction and dispatch, except upon the existence of any of the circumstances specified in the ASPA. Pursuant to the ASPA, NGCP shall pay SNAP-MI at the proposed rate for the said firm capacities whether or not such capacity is dispatched.

In justifying their agreed rate for Firm Contracted Capacity, Applicants provided the following tariffs for its 2016 ASPA:

Ancillary Service	Applicable rate
Regulating Reserve	PhP2.50/kW/Hr
Contingency Reserve	PhP1.50/kW/Hr

On the other hand, the non-firm contracted capacity is the remaining capacity of the plant. Under the non-firm basis, SNAP-MI has the right or option not to nominate any capacity for ancillary service even if it is available while NGCP may or may not schedule the capacity nominated without any corresponding penalty or payment. This allows NGCP the flexibility to evaluate or decide for optimum ancillary service considering the prevailing economic and technical circumstances.

In justifying their agreed rate for Non-firm Contracted Capacity, Applicants provided the following tariffs for its 2016 ASPA:

Ancillary Service	Applicable rate
Regulating Reserve	PhP3.00/kW/Hr
Contingency Reserve	PhP2.25/kW/Hr
Dispatchable Reserve	PhP1.25/kW/Hr
Blackstart Capability	PhP2.14/kWh

As to the other costs included in the proposed tariff for its 2016 ASPA, Applicants provided the following derivation:

Incidental Energy Cost:

Cost of Incidental Energy (IE) shall be computed using the formula below:

$$IE = Gx(AR+1.5) - REV_{WESM}$$

Where, IE shall be paid if it is greater than zero;

- G = Summation of energy generated or dispatched due to Firm and Non-Firm Contracted Capacity, in kWh  
AR = Applicable Rate per AS type  
REV<sub>WESM</sub> = Summation of WESM revenue based on Final Ex-post market clearing price of the AS Provider's trading Node arising from G above

NGCP alleged that its end goal in deriving the ASPA Rate is to lower cost to its consumers. Ancillary Services are pass-through costs and are revenue neutral for NGCP. However, NGCP believed that the procurement of the Ancillary Services should be at the lowest possible cost for the benefit of its consumers.

NGCP further alleged that in deriving the appropriate ASPA Rate, it considered a number of methodologies such as the New Build Methodology, the Opportunity Cost Methodology, and the Comparative Revenue Methodology. Ultimately, NGCP needed to entice the generators to sign and commit their capacity, for as long as the rate fell within NGCP's benchmark range.

NGCP emphasized that under its 2013 Application<sup>6</sup> for approval of the ASPA it entered into with San Roque Power Corporation (SRPC), its proposed rates were based on the New Build Methodology. The said Methodology takes into consideration the cost to NGCP of building a new hydroelectric plant dam type that could provide all Ancillary Services.

A hydroelectric plant was chosen because of its capability to provide all three types of Ancillary Services: Regulating Reserve, Contingency Reserve, and Dispatchable Reserve. It is also the desirable type of technology in view of its minimal fuel costs. Under its 2013 Application, NGCP further used the cost of San Roque Power Plant as benchmark based on the following assumptions: a) it was built fairly recently (2003) compared to Magat (1983) or CBK (1950-1982); b) it has a large capacity at 411 MW; and c) the plant is certified for all three Ancillary Services.

The following assumptions were thus used by NGCP to project the cost of building a similar power plant, pursuant to the New Build Methodology:

San Roque Build Cost: US\$ 1.17 bn<sup>7</sup>  
Installed Capacity: 411 MW  
Actual Build Cost: US\$2.89/MW  
Range: +/- 15%  
New Build Cost Range: US\$ 2.17-3.33mn per MW  
WACC: 15%  
Plant Life: 25 years  
Estimated Capital Cost: PhP 1.57 – PhP 2.41/kWh

Based on the actual build cost to construct a hydroelectric power plant, and applying a range of plus or minus 15%, a return on capital of 15%, and with a projected plant life of 25 years, Applicant NGCP thus arrived at its estimated cost range of PhP1.57/kWh to PhP2.41/kWh. These same assumptions were used by NGCP in determining the ASPA Rate it offered to SNAP-MI.

Effect to the consumer was the primary concern. The rates NGCP is proposing are much cheaper than the current structure. NGCP's analysis indicates that for the same amount of reserves (same quantity), the new rates can be 30% to 40% less.

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<sup>6</sup> Filed under ERC Case No. 2013-009 RC, entitled "*In the Matter of the Application for Approval of the Ancillary Services Procurement Agreement Between the National Grid Corporation of the Philippines and San Roque Power Corporation, with Prayer for the Issuance of Provisional Authority.*"

<sup>7</sup> [http://www.eca-watch.org/problems/asia\\_pacific/philippines/sanroqueproject.html](http://www.eca-watch.org/problems/asia_pacific/philippines/sanroqueproject.html).

Reserve	Old Rate (2011 Actual)		Proposed 2013 ASPA Rate		
	Quantity (GWh)	Cost (PhPMn)	Quantity (GWh)	New Rate	Cost (PhPMn)
Regulating	1,459	2,428	1,459	2.50	3,647
Contingency	1,396	5,734	1,396	2.25	3,141
Dispatchable	1,502	6,046	1,502	1.25	1,877
Total Cost		14,208			8,666
Billing Determinant	49,121 GWh		49,121 GWh		
Cost to Consumer	0.29 / kWh		0.18 / kWh		

The Commission also looked into the capability of SNAP-MI's Magat Hydroelectric Power Plant (HEPP). More specifically, its 4 generating units, with a maximum capacity (Pmax) of 95 MW/unit, for a total plant capacity of 360 MW. In addition to SNAP-MI's 4 generating units, it also has a 600 kW diesel blackstart unit.

SNAP-MI submitted the Certificate of Compliance (COC) No. 15-11-M2860L issued by the Commission on 11 November 2015 and valid until 28 November 2020. Further, SNAP-MI has a Power Supply Agreement with QUIRELCO (4 MW), IFELCO (2 MW), other customers (55 MW) and RES (26 MW), for a total of 87 MW contracted capacity.

In the latest Accreditation Certificate issued by NGCP dated 01 November 2015, the Magat HEPP has successfully proven its capability to provide the Regulating Reserve (RR) Service of 95 MW/unit, Contingency Reserve (CR) Service of 90 MW/unit, Dispatchable Reserve (DR) Service of 95 MW/unit and Blackstart Service. The said plant was further certified to have met and complied with the Standard Ancillary Services Technical Requirements of the System Operations during the actual testing of the said plant.

In the 2013 ASPA application of NGCP and SNAP-MI, the Commission used the comparison of the proposed maximum rate with that of the previously approved ASPA rate, to wit:

Ancillary Service	SNAP-MI Hydro Plant	San Roque Hydro Plant	PANASIA Limay Diesel	Ambuklao-Binga Hydro	Magat Hydro (Old Contract)
Regulating	PhP2.50/kW(Firm)	PhP2.25/kW(Firm)	-	-	-
	PhP3.00/kW (Non-Firm)	PhP3.00/kW (Non-Firm)	PhP3.00/kW		PhP6.69/kW
Contingency	PhP1.50/kW (Firm)	PhP1.50/kW(Firm)	-	-	-
	PhP2.25/kW	PhP2.25/kW	PhP2.00/	PhP6.36/	PhP6.08/

	<b>(Non-Firm)</b>	(Non-Firm)	kW	kW	kW
Dispatchable	<b>PhP1.25/kW (Non-Firm)</b>	PhP1.25/kW (Non-Firm)	PhP1.12/ kW	PhP6.36/ kW	PhP6.08/ kW
Blackstart	<b>PhP2.14/kWh</b>				

The above table shows that the proposed ASPA rates of SNAP-MI are significantly lower than the other existing AS providers and almost approximates the ASPA rates of San Roque Power Corporation (SRPC), except for the PhP2.50/kW/Hr proposed rate applicable for Firm Regulating Reserve AS which is higher than the PhP2.25/kW/Hr rate provisionally approved to SRPC for the same type of AS.

Thus, considering that both SNAP-MI and SRPC utilizes Hydroelectric Power Plant, the Commission provisionally approved on 03 June 2013 the ASPA application of SNAP-MI under ERC Case No. 2013-053 RC, consistent to the Commission's provisional approval on 04 March 2013 of SRPC's ASPA application under ERC Case No. 2013-009 RC. Subject to the final approval by the Commission of the 2013 ASPA between NGCP and SNAP-MI, its effectivity shall cease from the issuance of a provisional approval of this 2016 ASPA.

Based on the foregoing and considering that the 2016 ASPA between NGCP and SNAP-MI is identical with that of its 2013 ASPA, except for the contract period of five (5) years for the former, the Commission provisionally approves AS rates and conditions under ERC Case No. 2013-053 RC.

The table below shows the importance of the contribution of the Magat HEPP to the ancillary reserve capacity, thus the necessity for the approval of the provisional authority of the 2016 ASPA between NGCP and SNAP-MI to maintain the existing security and reliability of the grid and significantly lower the Ancillary Services cost to the benefit of the consumers.

Billing Period	Availability %					
	Regulating Reserve	Magat HEPP reserve	Contingency Reserve	Magat HEPP reserve	Dispatchable Reserve	Magat HEPP reserve
January	97.00%	47.6%	58.69%	16.28%	95.31%	11.51%
February	99.37%	39.46%	55.68%	12.42%	93.25%	14.18%
March	98.02%	27.83%	43.49%	4.20%	94.98%	1.33%
April	96.12%	8.18%	23.01%	0.00%	91.35%	0.00%

May	97.49%	7.29%	27.58%	0.36%	91.71%	0.00%
June	97.98%	50.01%	40.59%	8.41%	78.52%	2.96%
July	98.33%	32.73%	37.51%	7.75%	46.21%	4.42%

The EPIRA mandates the Commission to exercise regulatory oversight in NGCP's performance of its responsibility to construct, install, finance, improve, expand, rehabilitate, and repair the nationwide transmission system and the grid. The Commission's initial evaluation of the instant Application disclosed that the contracted ancillary service capacity is needed to augment the deficiency of ancillary reserve capacity to be able to maintain the reliability in the operation of the transmission system and in the reliability of the electricity supply in the Luzon Grid.

**IN VIEW OF THE FOREGOING**, Applicants National Grid Corporation of the Philippines (NGCP) and SN Aboitiz Power - Magat, Inc. (SNAP-MI) are **GRANTED PROVISIONAL AUTHORITY** to implement their Ancillary Services Procurement Agreement (ASPA), subject to the following conditions:

1. Applicable Rates:

SNAP-MI shall nominate the corresponding price (in per kW capacity per hour) for each ancillary service capacity to NGCP. In the event that the said nominated capacity is scheduled for Ancillary Service (AS), the pricing shall be as follows:

***a. Scheduled capacity without energy dispatched***

NGCP shall pay SNAP-MI the corresponding nominated price of that scheduled capacity. Provided, however, that the nominated price shall in no case exceed the following Fixed Fee Rates, without any minimum cost:



Ancillary Service	Applicable Rate (Maximum Hourly Rate)	
	Firm	Non-Firm
Regulating Reserve	PhP2.25/kW/Hr	PhP3.00/kW/Hr
Contingency Reserve	PhP1.50/kW/Hr	PhP2.25/kW/Hr
Dispatchable Reserve		PhP1.25/kW/Hr
Blackstart Capability		PhP2.14/ kWh

***b. Scheduled capacity with energy dispatched***

The ASPA rate shall be recovered through settlement on the Wholesale Electricity Spot Market (WESM). Thus, in this case, the ancillary capacity is free of charges as the cost is recovered through the market.

Provided that SNAP-MI shall be entitled to a Monthly Minimum Incidental Energy Cost based on actual dispatch and the cost of generation computed using the formula provided under Schedule 4 of the ASPA.

Provided further that, in the event that the revenue from WESM exceeds the calculated Monthly Minimum Incidental Energy Cost, the excess shall be used to offset any positive amount determined within the relevant period or to the immediately succeeding billing month.

2. NGCP should be enjoined to optimize economic and technical dispatch of the available ancillary service capacity wherein it shall schedule a mix of hourly ancillary service capacity at least cost for a reserve needed to maintain power quality, security, reliability and integrity of the grid;
3. The rate to be paid by NGCP as ancillary services cost should be passed on to its customers in accordance with the approved "Ancillary Services-Cost Recovery Mechanism" (AS-CRM). Further, NGCP should be directed to submit its monthly computation of ancillary service rates that it passed on to its customers, with supporting documents on or before the 5<sup>th</sup> day of the month; and

4. The above recommended provisional rates shall be effective on the next billing cycle of NGCP from receipt of the Order. In the event that the final rates are higher than the provisionally granted, the resulting additional charges shall be collected by SNAP-MI from NGCP and the latter shall pass it on to its customers. On the other hand, if the final rate is lower than the provisionally granted, the amount corresponding to the reduction shall be refunded by SNAP-MI to NGCP and the latter shall pass it on to its customers.

**SO ORDERED.**

Pasig City, 01 August 2017.

**JOSE VICENTE B. SALAZAR\***  
*Chairman and CEO*



**ALFREDO J. NON**  
*Officer-in-Charge of the ERC*



**GLORIA VICTORIA C. YAP-TARUC**  
*Commissioner*



**JOSEFINA PATRICIA A. MAGPALE-ASIRIT**  
*Commissioner*



**GERONIMO D. STA. ANA**  
*Commissioner*

*mcc*  
LS: MCC/ARG/LS/APV

*X*  
ROS: NTP/AJMO/FBO

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\* On preventive suspension as per Order of the Office of the President (OP-DC Case No. 17-D-094) dated 2 May 2017 and received 4 May 2017.

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