

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 BETWEEN THE  
NATIONAL GRID  
CORPORATION OF THE  
PHILIPPINES AND PANAY  
ENERGY DEVELOPMENT  
CORPORATION, WITH  
PRAYER FOR THE ISSUANCE  
OF PROVISIONAL  
AUTHORITY**

**ERC CASE NO. 2017-088 RC**

**NATIONAL GRID  
CORPORATION OF THE  
PHILIPPINES AND PANAY  
ENERGY DEVELOPMENT  
CORPORATION,**

**Applicants.**

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**DOCKETED**  
Date: APR 03 2018  
By: W

**ORDER**

On 12 October 2017, the National Grid Corporation of the Philippines (NGCP) and Panay Energy Development Corporation (PEDC) filed an Application seeking the Commission's approval of their Ancillary Services Procurement Agreement (ASPA), with prayer for the issuance of a provisional authority.

Relative to their prayer for the issuance of a provisional authority, NGCP and PEDC alleged the following:

1. This Application is for the approval of the Ancillary Services Procurement Agreement (ASPA) between the NGCP and

PEDC, pursuant to the Decision dated 3 October 2007 in ERC Case No. 2006-049RC, entitled: *"In the Matter of the Application for the Approval of Ancillary Services – Cost Recovery Mechanism (AS-CRM) of the Ancillary Services Procurement Plan, with Prayer for Provisional Authority."*

#### **THE PARTIES**

2. Applicant NGCP is a corporation created and existing under the laws of the Philippines, with office address at NGCP Building, Quezon Avenue corner BIR Road, Diliman, Quezon City. It holds a franchise under Republic Act No. 9511<sup>1</sup> to engage in the business of conveying or transmitting electricity through high-voltage back-bone systems of interconnected transmission lines, substations and related facilities, and for other purposes. The franchise also includes the conduct of activities necessary to support the safe and reliable operation of the transmission system.
3. Applicant PEDC is a corporation organized and existing under and by virtue of the Philippine laws with principal office address Barangay Ingore, La Paz, Iloilo City. It may be served with orders, notices, and other legal processes through its undersigned counsel. It is the owner and operator of the 2x82MW CFB Coal-Fired Power Plant (Power Plant) in Barangay Ingore, La Paz, Iloilo City, which was certified and accredited by NGCP as capable of providing Contingency Reserve (CR).

#### **ANTECEDENT FACTS**

4. Republic Act No. 9136 provides that it is the responsibility of NGCP to ensure and maintain the reliability, adequacy, security, stability and integrity of the nationwide electrical grid in accordance with the performance standards for its operations and maintenance, as set forth in the Philippine Grid Code (PGC), adopted and promulgated by the Honorable Commission; and to adequately serve generation companies, distribution utilities and suppliers requiring transmission service and/or ancillary services through the transmission system<sup>2</sup>.
5. Similarly, the PGC provides that NGCP is responsible for determining, acquiring, and dispatching the capacity needed to supply the required Grid Ancillary Services and for developing and proposing Wheeling Charges and Ancillary Service tariffs to the ERC<sup>3</sup>.

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<sup>1</sup> An Act Granting the National Grid Corporation of the Philippines a Franchise To Engage in the Business of Conveying or Transmitting Electricity Through High Voltage Back-Bone System of Interconnected Transmission Lines, Substations and Related Facilities, and for other Purposes.

<sup>2</sup> Section 9 (c) and (d).

<sup>3</sup> 2007 PGC, Section 6.3.1.2.

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16. 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.
17. Based on the current levels of available contracted AS in the Visayas Grid, the contracted AS have not yet met the required levels of the ASPP. A copy of the relevant actual data and its corresponding graphical presentations showing the available CR and the contribution of PEDC in the Visayas Grid, entitled: *Visayas CR Availability* is attached as **Annex "J"**
18. 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 PEDC, especially its firm capacities, are greatly needed.
19. Also, as the demand for power in the Visayas 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.
20. 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 "K"**.

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### **ISSUE**

The issue for the Commission's resolution is whether or not the Applicants have satisfied the requirements provided by law for the grant of provisional authority.

### **THE COMMISSION'S RULING**

The Commission hereby grants a provisional authority.

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

The authority of the Commission to issue provisional authority is pursuant to Section 4(e), Rule 3 of the Implementing Rules and Regulations (IRR) of Republic Act No. 9136, otherwise known as the Electric Power Industry Reform Act of 2001 (EPIRA), 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) 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>4</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

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<sup>4</sup> G.R. No. 161113, 15 June 2004.

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 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 ASPA entered into between NGCP and PEDC. The said ASPA prescribes fees which will eventually form part of PEDC's ancillary services capacity cost. The ancillary capacity cost in turn forms part of NGCP's ancillary services cost. As such, the Commission is empowered to grant provisional approval in the instant Application.

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

Section 4(e), Rule 3 of the IRR of EPIRA provides the procedural requisites for the grant of provisional authority, to wit:

- (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.
- (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.

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Applicants have complied with the requirement of filing a verified application. Moreover, Applicants indicated and provided proof in said Application that the legislative bodies of the Local Government Units (LGUs) concerned (i.e. Cities of Iloilo and Quezon and the Province of Iloilo) have been furnished with copies of the Application. As proof of receipt by the said LGUs, Applicants attached the Certification and its Affidavit of Service to that effect altogether as Annex "A".

Applicants further provided proof of publication of the Application in a newspaper of national circulation. The affidavit of publication, including the copy of the newspaper and the relevant page thereof where the application appears, is attached to the Application (no markings).

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NGCP and PEDC filed their Application on 12 October 2017. No Comment on the said Application was received by the Commission within the thirty (30) day period within which the said Comment may be filed, or until 11 November 2017. 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 26 December 2017.

In light of these circumstances, the Commission has determined that the procedural requirements for the issuance of a provisional authority have been complied with.

**III. THE APPLICANTS  
HAVE SATISFIED  
THE SUBSTANTIAL  
REQUIREMENTS  
FOR THE GRANT  
OF PROVISIONAL  
AUTHORITY.**

More importantly, the Commission looked into the alleged necessity in the issuance of the provisional authority to implement Applicants' ASPA, as prayed for in their Application. After initial review thereof, the Commission determined the need for ASPA based on the following considerations:

**1. Ancillary Service Background**

Under the EPIRA, the National Transmission Corporation (TransCo) or the NGCP 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.

Ancillary services are services necessary to support the transmission of capacity and energy from resources to loads while maintaining reliable operation of the transmission system in accordance with good utility practice and the Grid Code (*Section 4b of the EPIRA*). Such services are essential in ensuring reliability in the operation of the transmission system and in the reliability of the electricity supply in the Luzon, Visayas, and Mindanao Grids.

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On 29 March 2006, the Commission approved TransCo's proposed Ancillary Services Procurement Plan (ASPP) and directed it to file a separate application for the approval of the Ancillary Services-Cost Recovery Mechanism (AS-CRM). In the Decision dated 03 October 2007 in ERC Case No. 2006-049RC, the Commission approved with finality the AS-CRM subject to certain conditions including the following:

- 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 ancillary services are essential in maintaining the power quality, reliability, and security of the national grid. NGCP invited and negotiated with all prospective generation companies (Gencos) capable of providing AS, one of which is PEDC. For this ASPA between NGCP and PEDC, the latter will supply Contingency Reserve (CR) for a period of five (5) years under a Firm and a Non-Firm arrangement.

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.

Thus, on the basis of Applicants' allegations on urgency and necessity, and eligibility of the power supplier, as supported by several documents, and without prejudice to further findings by the Commission as may be determined during the actual hearing in this case, it appears that, in so far as provisional approval is concerned, there is justifiable basis in granting the immediate relief prayed for.

## **2. Procurement Process**

In view of the urgency and necessity for ancillary services for the Visayas Grid, NGCP invited and negotiated with generation companies, the details of which are as follows:

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8. Pursuant to its mandate, NGCP on different dates published in newspapers of general circulation a Notice of Invitation for Prospective Ancillary Services Providers, inviting all grid-connected merchant plants and independent power producers to participate in the provision of ancillary services. NGCP received several positive responses from generation companies. Upon receipt of the intention from PEDC to provide ancillary services, NGCP commenced negotiation for the execution of an ASPA.
9. NGCP agreed to procure and PEDC agreed to provide Ancillary Services in the form of CR for a period of five (5) years under firm and non-firm arrangements. A copy of the *Ancillary Services Procurement Agreement between NGCP and PEDC* dated 14 September 2017 is attached as **Annex "A"**.

PEDC entered into an ASPA with NGCP on 14 September 2017 for a period of five (5) years. The salient features of the said ASPA are as follows:<sup>5</sup>

1. The term of the ASPA shall be for a period of five (5) years subject to Annual Performance Evaluation of the provider;
2. The daily declaration of the available capacity; and
3. With the following Firm and Non-Firm CR capacities and rates under Schedule 1:

Type of AS	Contracted Capacity (MW)	Applicable Rates (Maximum Hourly Rate)
Contingency Reserve (Firm)	26 MW  <u>Schedule hours:</u>  a. 1700H to 2200H, while the transmission line limitation/congestion exists along the 138kV Cebu-Negros-Panay, or upon the determination of the System Operations, on a day-ahead basis, on the	PhP1.50/kW/Hr

<sup>5</sup> Judicial Affidavit (p.5) of NGCP's Engr. LisaFlor Bacani-Kater.

	<p>need for Firm Capacity to ensure grid security and stability;</p> <p>b. 0700H to 2200H, once the 230kV Cebu-Negros-Panay transmission line is completed and energized.</p>	
<p>Contingency Reserve  (Non-Firm)</p>	<p>up to 13MW per unit (2300-0600H)</p>	<p>PhP2.25/kW/Hr</p>

The capacities listed above are the maximum offer and the basis for PEDC's nomination and scheduling shall be the capacities listed in its valid AS Certificates.

### **3. Justification for the Provisional Authority**

In the Application, NGCP and PEDC prayed for the issuance of a provisional authority to implement the subject ASPA to maintain the present reliability and security of the grid. Based on the current levels of available contracted AS in the Visayas Grid, the non-firm contracted AS has not yet met the required levels of the ASPP. The entry of PEDC as an additional AS service provider ensures competition between and among AS service providers which will ultimately initiate a downward pressure to current prices.

Furthermore, NGCP's Engr. Lisaflor Bacani-Kater, Division Head of the Special Accounts Portfolio, Network Access and Customer Account Division, Revenue and Regulatory Affairs, alleged in her Judicial Affidavit that the current levels of available contracted firm AS in the Visayas Grid and firm contracted AS have not yet met the required levels of the ASPP. NGCP guaranteed that there are available AS on a daily basis to ensure reliability of the grid. The immediate approval of the ASPA between NGCP and PEDC will improve the availability of AS in the Visayas Grid and significantly lower the AS cost to the benefit of the consumers.

Applicants manifested that as the demand for power in the Visayas increases, the requirements of the system to ensure stability, reliability and security likewise increases. Thus, ensuring the integrity of the system is essential to protect the interest of the public.

They likewise stressed that absence of system reliability and stability will certainly discourage investments and growth, thus, there is a need for the immediate issuance of a provisional approval of the subject ASPA to maintain the reliability and security of the Grid.

NGCP provided an illustration of the available level of CR in the Visayas Grid for the period July 2016 to June 2017, thus:

Month	Contingency Reserve			
	Average Scheduled (MW)	Average Required (MW)	Availability (%)	Deficiency (%)
July 2016	3	106	3.20	96.80
August 2016	3	100	2.60	97.40
September 2016	2	102	2.36	97.64
October 2016	2	93	1.66	98.34
November 2016	2	103	1.56	98.44
December 2016	2	93	1.66	98.34
January 2017	2	92	2.54	97.46
February 2017	3	114	2.95	97.05
March 2017	2	81	2.05	97.95
April 2017	1	96	0.73	99.27
May 2017	1	105	0.82	99.18
June 2017	2	109	1.44	98.56

**4. ASPA Rate Proposal/Formula**

Based on Schedule 4 of the ASPA, the Applicants proposed the following tariffs for the CR Firm and Non-firm Contracted Capacity:

Ancillary Service	Applicable Rate (Maximum Hourly Rate)	
	Firm	Non-Firm
Contingency Reserve	PhP1.50/kW/Hr	PhP2.25/kW/Hr

### Incidental Energy Cost:

Cost of Incidental Energy (IE) shall be computed using the formula below:<sup>6</sup>

$$IE = G \times (AR + \text{Variable Costs}) - REV_{WESM}$$

Where:

G = Summation of energy generated or dispatched due to Firm and Non-Firm Contracted Capacity, in kWh

AR = Applicable Rate per AS type

Variable Costs = Actual fuel costs + Variable O&M costs

*Actual Fuel Cost = ((CFC + TC) / 1,000) x Consumption Rate x Current FOREX*

$$\text{Current Fuel Cost (CFC)} = \left( \text{Base Coal Price} \times \frac{\text{Newcastle}_c}{\text{Newcastle}_B} \right)$$

Base Coal Price = 53.22 USD per MT

Newcastle<sub>c</sub> = Preceding quarter's average coal price for 6,700cal/kg ADB per the Global Coal Newcastle Physical Trading Index

Newcastle<sub>s</sub> = 63.44 USD per MT

Transport Cost (TC) = Cost of freight, insurance, brokerage, taxes, and other costs in USD per MT

Consumption Rate = 0.76546 kg/kWh, escalated at a rate of 1.5% per year or actual, whichever is lower

O&M Cost = Peso O&M Charge + Dollar O&M Charge

Peso O&M Charge = Base Peso O&M Charge x PCPI<sub>c</sub>/PCPI<sub>b</sub>

Dollar O&M Charge = Base Dollar O&M Charge x USCPI<sub>c</sub>/USCPI<sub>b</sub> x Forex

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<sup>6</sup> The IE shall be paid if it is greater than zero, and REVWESM is positive. If REVWESM is negative due to negative bids in the market, then REVWESM shall be considered ZERO in the computation of IE.

Base Peso O&M Charge = PHP 0.5081/kWh

Base Dollar O&M Charge = USD 0.0109/kWh

PCPI<sub>c</sub> = Philippine Consumer Price Index (CPI) for all items for the Current month as published by the National Statistics Coordination Board

PCPI<sub>b</sub> = 158.8 (as of May 2009)

USCPI<sub>c</sub> = US Currency Price Index (CPI) for all items for the Current Month as published by the U.S. Bureau of Labor Statistics

USCPI<sub>b</sub> = 213.856 (as of May 2009)

Forex = Reference exchange rate (in PhP per US\$) on the meter reading date, as published by the Bangko Sentral ng Pilipinas (BSP)

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.

## **5. ASPA Rate Derivation**

NGCP's end goal in establishing the ASPA rates is to lower cost to consumers. Ancillary Services are pass-through costs and are revenue neutral for NGCP. Thus, it considered rates that it felt were appropriate, using a number of methodologies such as New Build, Opportunity Cost, and Comparative Revenue. Ultimately, NGCP needs to entice the generators to sign and commit their capacity, for as long as the rate fell within NGCP's benchmark range.

In the 2013 ASPA application of NGCP and San Roque Power Corporation (SRPC) in ERC Case No. 2013-009 RC, the proposed rates were based on the new build assumption wherein it considered the build cost of a new hydro-electric plant (dam type) that could provide all ancillary services. A hydro-electric plant was chosen because of its capability to provide all ancillary services (Regulating, Contingency, and Dispatchable Reserve), as well as its low fuel cost operations. For comparison, NGCP believed that the build cost of San Roque was the most appropriate benchmark because (a) it was built fairly recently (2003) compared to Magat (1983) or CBK (1950-1982),

(b) it has a fairly large size (411 MW), and (c) the plant is certified for all 3 aforementioned services.

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 significant hydro-power plant and applying a range of +/- 15%, with a return on capital of 15% with a project life of 25 years, NGCP estimates the cost range to be between PhP 1.57 – PhP 2.41/kWh.

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% lesser.

Reserve	Old Rate (2011 Actual)		New 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		

<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).

**6. Commission's Initial Evaluation of the Application**

The PEDC's Coal Fired Power Plant has a total rated capacity of 167.40 MW under COC No. 16-01-M-00064V, issued on 19 January 2016, with a 25-year life of the asset. PEDC has a total net dependable capacity of 147.32 MW, 115 MW of which is currently serving various Power Supply Agreements (PSAs), while the remaining 32.32 MW is un-contracted.

In the Accreditation Certificate No. 2016-V0030 issued by NGCP dated 17 August 2016, with an expiry date extended to 16 February 2018, PEDC has successfully proven its capability to provide the CR Service of 13.0 MW/unit. 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.

Under the non-firm basis, PEDC 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.

The Commission made comparison of the proposed maximum rate with that of the previously approved ASPA rates, *to wit*:

AS	PEDC	SNAP-BI Binga HEPP (ERC Case No. 2017-016 RC)	SRPC San Roque HEPP (ERC Case No. 2013-009 RC)	SNAP-BI Ambuklao HEPP (ERC Case No. 2016-165 RC)	SNAP-MI Magat HEPP (ERC Case No. 2016-164 RC)	Thermal Luzon Inc. (ERC Case No. 2013-052 RC)
CR	PhP1.50/kW/ Hr		PhP1.50/kW/Hr (Firm)	PhP1.50/kW/Hr (Firm)	PhP1.50/kW/Hr (Firm)	PhP1.50/kW/Hr (Firm)
	PhP2.25/kW/ Hr	PhP2.25/kW/Hr (Non-Firm)	PhP2.25/kW/Hr (Non-Firm)	PhP2.25/kW/Hr (Non-Firm)	PhP2.25/kW/Hr (Non-Firm)	PhP2.25/kW/Hr (Non-Firm)

The above table shows that the proposed CR rate of PEDC approximates with the aforementioned AS providers provisionally approved by the Commission.

Nevertheless, the Commission, in the course of the final evaluation, will adopt an appropriate benchmark to use in establishing the reasonableness of the proposed ASPA rates. The Commission observed that the proposed CR rates of PEDC, although the said CR rates are within the level of the AS rates approved by the Commission for hydroelectric power plants, may not be a reasonable benchmark considering the difference in technology. Likewise, a hydro plant has a lower O&M compared to a coal plant. The Thermal Luzon Inc. (TMI) plants may be more appropriate benchmark considering that these power plants are of the same technology as the PEDC.

Moreover, the component of the IE Cost under Schedule 4 of the subject ASPA will be examined further by the Commission as part of its final evaluation.

The Commission took note of Applicants' rate simulation of the ASPA, with a CR rate of PhP15.8840/kW/month or equivalent to PhPo.0334/kWh.<sup>8</sup>

Meanwhile, the subject ASPA is governed by the Open Access Transmission Service (OATS) Rules, the Philippine Grid Code (PGC), and other relevant issuances, orders, rules, and regulations as promulgated by proper government agencies and authorities. However, with the approval of the 2016 PGC on 05 October 2016, there is a need to amend the ASPP in order to harmonize it with the provisions of the 2016 PGC. The 2016 PGC adopted the latest international standards and practices in the operation of ancillary services. Under the 2016 PGC, the current types of reserves were amended and in lieu thereof, new types of reserves and order of priority were developed. The 2016 PGC also provides the respective modes and frequency controls that must be reflected in the ASPP.

On 31 March 2017, NGCP filed with the Commission a petition seeking the approval of its proposed amended ASPP under ERC Case No. 2017-005 RM. Pending approval of the same, the subject ASPA is allowed to continue using the current type of AS under the existing ASPP and 2001 PGC (Amendment 1). The Commission adopts NGCP's proposal in the amended ASPP to apply during the transition period, viz:

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<sup>8</sup> Item 13, page 4 of the ASPA Application.

*W. J. [Signature]*



*All approved and existing ASPA shall remain in full force and effect until the termination date, unless the accredited power plant of the AS Provider cannot comply with the technical requirements provided in the 2016 PGC. Accordingly, the AS categories of the ASPA will be converted as follows:*

- i. Contingency Reserve - Primary Reserve;*
- ii. Dispatchable Reserve - Tertiary Reserve; and*
- iii. Regulating Reserve - Secondary Reserve.*

*However, the AS Provider with an existing ASPA may opt to renegotiate its offer in a new ASPA that will be filed to the Honorable Commission for approval."*

The Commission has a mandate to protect the interest of the electricity consumers insofar as they are affected by the rates, by ensuring that the tariffs imposed are consistent with the principle of full recovery of prudent and reasonable costs.

The initial evaluation of the instant Application disclosed that the ASPA entered into by and between NGCP and PEDC will redound to the benefit of all member-consumers in the Visayas Grid in terms of maintaining the power quality, reliability, and security of the energy from resources to loads as mandated by the EPIRA.

**WHEREFORE**, the foregoing premises considered, the Commission hereby grants **PROVISIONAL AUTHORITY** to Applicants National Grid Corporation of the Philippines (NGCP) and Panay Energy Development Corporation (PEDC) for the implementation of their Ancillary Services Procurement Agreement (ASPA), subject to the following conditions:

1. **Applicable Rates:**

PEDC shall nominate the corresponding price (in per kW capacity per hour) for the ancillary service capacity to NGCP. In the event that said nominated capacity is scheduled for ancillary service, the pricing shall be as follows:

**a. Scheduled capacity without energy dispatched**

NGCP shall pay PEDC the corresponding nominated price of that scheduled capacity. Provided, however, that the

nominated price shall in no case exceed the following Fixed Fee Rate, without any minimum cost:

Ancillary Service	Applicable Rate (Maximum Hourly Rate)	
	Firm	Non-Firm
Contingency Reserve	PhP1.50/kW/Hr	PhP2.25/kW/Hr

***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 PEDC 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 is 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 AS-CRM. Further, NGCP is 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 every month; and
4. The above provisional rates is effective on the next billing cycle of NGCP from receipt of the Order. In the event that the final rates are higher than that provisionally granted, the resulting additional charges shall be collected by PEDC from NGCP and the latter shall pass it on to its customers.

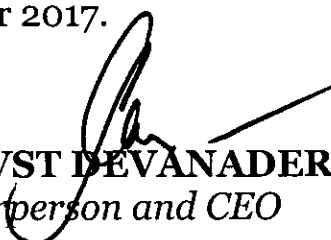
18/12

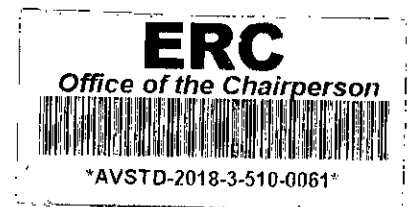
On the other hand, if the final rates are lower than that provisionally granted, the amount corresponding to the reduction shall be refunded by PEDC to NGCP and the latter shall pass it on to its customers.

The above approval is consistent with the Commission's Provisional Approval of the previous ASPAs between the NGCP and other AS Providers.

**SO ORDERED.**

Pasig City, 15 December 2017.

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

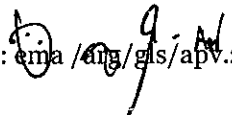


  
**ALFREDO J. NON**  
*Commissioner*

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

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

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

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4. Commission on Audit  
Commonwealth Ave., Quezon City
5. The Senate Committee on Energy  
GSIS Building, Roxas Boulevard, Pasay City
6. The House Committee on Energy  
Batasan Hills, Quezon City
7. TRANSCO  
Quezon Ave., cor. BIR Rd., Quezon City
8. PSALM  
7/F, Bankmer Bldg.,  
6756 Ayala Ave., Makati City
9. Office of the City Mayor  
Quezon City
10. Office of the LGU legislative body  
Quezon City
11. Office of the City Mayor  
Iloilo City, Iloilo
12. Office of the LGU legislative body  
Iloilo City, Iloilo
13. Office of the Barangay Chairman  
Brgy. Ingore, La Paz, Iloilo City
14. Office of the LGU Legislative Body  
Brgy. Ingore, La Paz, Iloilo City
15. Office of the Governor  
Province of Iloilo
16. Office of the LGU legislative body  
Province of Iloilo
17. Regulatory Operations Service  
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