

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 THERMA
LUZON, INC. (FOR REACTIVE
POWER SUPPORT), WITH
PRAYER FOR THE ISSUANCE
OF PROVISIONAL
AUTHORITY**

ERC Case No. 2020-033 RC

**NATIONAL GRID
CORPORATION OF THE
PHILIPPINES AND THERMA
LUZON, INC.,**

Applicants.

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Promulgated:
November 18, 2020

NOTICE OF VIRTUAL HEARING

TO ALL INTERESTED PARTIES:

Notice is hereby given that on 15 October 2020, the National Grid Corporation of the Philippines (NGCP) and Therma Luzon, Inc., (TLI) filed an *Application* dated 18 September 2020, seeking the Commission's approval of their Ancillary Services Procurement Agreement (ASPA) for reactive power support, with prayer for the issuance of provisional authority.

The pertinent portions of the said *Application* are hereunder quoted as follows:

NATURE OF THE CASE

1. This Application is for the approval of the Ancillary Services Procurement Agreement (“ASPA”) for Reactive Power Support dated 14 July 2020 between NGCP and TLI, pursuant to the Decision dated 3 October 2007 in ERC Case No. 2006-049 RC, 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.”*

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. 9511¹ 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 TLI is a private corporation duly organized and existing under the laws of the Philippines, with principal address at NAC Tower, 32nd Street, Bonifacio Global City, Taguig City. It may be served with notices, orders, and other processes of the Honorable Commission through its undersigned counsel at the address indicated herein.
4. TLI is the Independent Power Producer Administrator (IPPA)² for the 700 MW capacity from the Pagbilao Coal Fired Thermal Power Plant Units 1 and 2 (“Generation Facility”) located in Pagbilao, Quezon. The Generation Facility was certified and accredited by NGCP to be capable of providing Ancillary Services (also commonly referred to as “AS”) in the form of Reactive Power Support (“RPS”) – Lagging Power Factor Operation.

ANTECEDENT FACTS

5. 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,³ as set forth in the Philippine Grid Code (“PGC”), adopted and promulgated by the Honorable Commission, and to adequately serve generation

¹ 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;

² As IPPA, TLI has the right to trade, sell, or otherwise deal with the Capacity and contract for or offer related ancillary services, in all case for its own account and its own risk and cost;

³ Section 9 (c), and in relation to Republic Act No. 9511;

companies, distribution utilities and suppliers requiring transmission service and/or ancillary services through the transmission system.⁴

6. Similarly, the PGC provides that NGCP, as System Operator, 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 Services tariffs to the ERC.⁵
7. Ancillary Services (also commonly referred to as “AS”) as defined in Section 4 (b) of the EPIRA “*refer to those services that are 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 to be adopted in accordance with this Act.*” These services are essential in ensuring reliability in the operation of the transmission system and consequently, in the reliability of the electricity supply in the Luzon, Visayas and Mindanao grids.
8. In order to implement and regulate the procurement of Ancillary Services, the Honorable Commission approved the Ancillary Services Procurement Plan (“ASPP”) through its Order dated 9 March 2006 in ERC Case No. 2002-253 and the Ancillary Services Cost Recovery Mechanism (“AS-CRM”) through its Decision dated 3 October 2007 in ERC Case No. 2006-049RC.
9. Pursuant to its mandate, NGCP, on 7, 14, 21 and 28 October 2019 in Philippine Daily Inquirer and on 21 and 28 October 2019 and 4 and 11 November 2019⁶ in the Manila Times, published 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. Upon receipt of the intention from TLI to provide RPS, NGCP commenced negotiation for the execution of an ASPA.
10. NGCP agreed to procure and TLI agreed to supply RPS outside the range of 85% lagging and 90% leading power factors under a per-occurrence basis. A copy of the ASPA between NGCP and TLI for RPS dated 14 July 2020⁷ is attached as Annex “A”.
11. During the period of negotiation, NGCP conducted several tests on the Generation Facility, and certified that the generating units have met and complied with the Standard Ancillary Services Technical Requirements of the ASPP as capable of providing RPS. The copy of the Accreditation Certificate No. 2019L017, for RPS – Lagging Power Factor

⁴ *Id.*, Section 9 (d), in relation to Republic Act No. 9511;

⁵ Section 6.3.1.2;

⁶ The copies of the newspaper clippings are attached as Attachment “B” to Annex “K”;

⁷ With attached draft Implementing Guidelines (Annex “A-1”);

Operation, issued on 1 December 2019 is attached as Annex “B”. The Generation Facility is also scheduled for testing of RPS - Leading Power Factor Operation capacity. Accordingly, the maximum kVAR capability subject to nomination and schedule under this ASPA shall be based on the most recent test results and the corresponding AS Accreditation Certificate.

**CONTRACTED CAPACITY RATE AND IMPACT
SIMULATION**

12. Under Schedule 1 of the ASPA, TLI shall provide NGCP with the following ancillary service:

“Reactive Power Support (RPS)

- a. *Available capacity of Reactive Power outside the range of 85% lagging and 90% leading power factor, as provided in Schedule 6. Provision of RPS shall be on a per-occurrence basis, following the scheduling and dispatch process in Schedule 2.*
- b. *The nomination and schedule shall be based on the latest AS Accreditation Certificate.*
- c. *This is in addition to the other Ancillary Service types provided under the Schedule 1 of ASPA entered into by TLI and NGCP with ERC Case No. 2018-059 RC.”*

13. The applicable rates under the ASPA as provided in Schedule 3 are as follows:

“Payments to the AS provider shall have the following components, depending on the way the RPS was scheduled and utilized by the System Operator:

Payment of Cost of Reactive Energy (kVAR) for RPS

Total Payment = kVAR Payment + Energy Payment

- A. *kVAR Payment = Incidental kVARh Rate x Compensable kVARh*

Real Time Incidental kVARh Utilization while providing energy and/or Contingency Reserve. This shall be paid based on the total recorded kVARh delivered/absorbed beyond 0.85 power factor lagging or 0.9 power factor leading from the time when the dispatch of RPS was instructed. The compensable kVARh shall be paid at:

Incidental kVARh Rate: Php 4.00 / kVARh

Compensable kVARh = Actual kVARh – Base kVARh

Where:

Actual kVARh = actual reactive power provided within each interval

Base kVARh = corresponding kVARh at 0.85 power factor lagging or 0.9 power factor leading, for the unit's MW loading. For clarity, the MW loading is the unit's *P_{min}*, or RTD schedule, whichever is greater.

B. Energy Payment

$$I_{ERPS} = [G \times OM + Fuel] - REV_{WESM}$$

Where:

G = Summation of energy generated or dispatched in a particular interval hour due to RPS dispatch, excluding BCQ and/or CR capacity, in kWh

OM = Operation and Maintenance Cost

$$= \frac{PHP_{0.25}}{kWh} * \left\{ \left[0.4 * \left(\frac{PHPCPI_m}{PHPCPI_o} \right) \right] + \left[0.6 * \left(\frac{USCPI_m}{USCPI_o} \right) * \left(\frac{Fx_m}{Fx_o} \right) \right] \right\}$$

PHP CPI_m = Philippine CPI All Items 2006 =100, end of Billing Period

PHP CPI_o = 123.2, Philippine CPI as of January 2011 Billing Period

US CPI_m = US CPI All Items 1982-84 = 100, end of Billing Period

US CPI_o = 219.179, US CPI as of January 2011 Billing Period

Fx_m = Bangko Sentral ng Pilipinas PHP-USD exchange rate, end of Billing Period

Fx_o = PHP/USD exchange rate of 42

In the event that revision are made on the above index, including any shift made in the base year and other adjustments to such index made by the relevant authorized entity, its successor-in-interest, there shall be a corresponding change in the base index such that the use of the revised index will yield the equivalent values as the use of the original base index. In the event that the index (a) becomes unavailable, (b) is replaced by a new benchmark rate as determined by the relevant authorized entity, its successor in interest, or (c) ceases to exist, or (d) in the reasonable determination of either Party, fails to reflect the real costs and forms an integral part of this price mechanism, the Parties shall agree to adopt a new price index.

Fuel = the fuel rate, in Php/kWh, submitted by the Service Provider every month based on their Actual Fuel Stock Inventory Consumption Report and their actual generation for the month

REV_{WESM} = Summation of WESM revenue in a particular interval hour based on Final Ex-post market clearing price of the AS Provider's trading Node arising from G above

- C. *Service Provider shall attach to the AS Power Bill the Actual Fuel Stock Inventory Consumption Report which includes the following relevant information for the applicable billing month:*
- I. *Net generation, in MWh;*
 - II. *Coal consumption, in MT*
 - III. *Light Fuel Oil (LFO) consumption, in liters;*
 - IV. *Calculated coal consumption rate, in MT/MWh;*
 - V. *Calculated LFO consumption rate, in liters/MWh*
- D. *Failure to submit the Actual Fuel Stock Inventory Consumption Report within the next billing period after the relevant billing period will forfeit the payment to Service Provider for the Fuel in B (e.g for the fuel costs in January, the Actual Fuel Stock Inventory Consumption Report must be submitted by March, at the latest. Otherwise, Fuel in B for January will no longer be paid)."*

14. Applicants submit that the rates represent a reasonable recovery of the opportunity cost in making available generation capacity to provide the procured Ancillary Services.
15. The rates under the ASPA were subjected to a simulation by NGCP with the following results:

RPS	PhP/kW-month	PhP/kWh equivalent
TLI (without IE)	0.5965	0.0012

A copy of the *Rate Impact Simulation Summary Report* and the *Details of Rate Impact Simulation for Therma Luzon, Inc. (TLI)* are attached as Annexes "C" and "C-1".

16. Consistent with the AS-CRM, all the related and incidental expenses which NGCP will incur as a result of the procurement and operation of the ancillary services shall be recovered from all the load customers in the Luzon Grid.
17. The ASPA shall be effective for a period of five (5) years, to commence upon receipt of a provisional approval ("PA"), or

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in the absence thereof, a final approval (“FA”) issued by the ERC, subject to Clause 12 (Termination) of the ASPA. In the event that the PA or FA, as the case may be, does not state a particular date of effectivity, the Agreement shall be effective on the date agreed upon by the Parties.

18. TLI respectfully submits copies of the following documents:

Document	Annex
Summary of existing PSAs of TLI	“D”
Certificate of Filing of Amended Articles of Incorporation (Company Reg. No. CS200830331)	“E”
2020 Amended General Information Sheet	“F”
2019 Audited Financial Statements	“G”
Certificate of Compliance (“COC”) No. 19-07M-00040L for the Pagbilao Coal Fired Thermal Power Plant	“H”
WESM Registration Approval Form of TLI	“I”

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

19. It is a declared policy of the State to ensure the quality, reliability, security and affordability of the supply of electric power. [Section 2(b), EPIRA] To this end, there is a need to comply with the system requirements for Ancillary Services to ensure grid system security and reliability. As mentioned above, NGCP has the mandate to procure the required Ancillary Services.
20. RPS is one of the Ancillary Services provided in the PGC that is *essential in maintaining power quality and the reliability of the grid*.⁸ TLI having offered to provide its RPS, will significantly help maintain the required power quality and voltage level in Luzon. The Generation Facility is strategically located in Luzon, thus, its provision for RPS will definitely enable NGCP to comply with its mandate. A copy of the List of Ancillary Services Providers in Luzon Certified with Reactive Power Support and related documents are attached as Annex “J” and series.
21. NGCP must be guaranteed of available Ancillary Services on a daily basis to ensure reliability of the grid. Thus, it is necessary for the Honorable Commission to approve the ASPA. As the demand for power in the Luzon increases, the requirements of the system to ensure stability, reliability and security likewise increase. 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.

⁸ GC 1.7 (Definitions), Chapter 1, PGC;

Applicants respectfully submit that the immediate approval of the ASPA by this Honorable Commission is a necessity to ensure the reliability and security of the Grid. In support of these allegations, NGCP submits a copy of the Judicial Affidavit of Engr. Lisaflor Bacani-Kater of the Revenue and Regulatory Affairs Department of NGCP, which is attached as Annex "K."

PRAYER

WHEREFORE, premises considered, Applicants respectfully pray that the Honorable Commission to:

- a) Immediately ISSUE a provisional authority to implement the subject ASPA executed on 14 July 2020, granting authority for the procurement and supply, under a per-occurrence basis, of RPS outside the range of 85% lagging and 90% leading power factors, the latter subject to the submission of the accreditation certificate; and
- b) APPROVE, after notice and hearing, the subject ASPA.

Applicants pray for other just and equitable relief under the premises.

The Commission hereby sets the instant *Application* for determination of compliance with the jurisdictional requirements, expository presentation, Pre-trial Conference, and presentation of evidence on **12 January 2021 (Tuesday) at two o'clock in the afternoon (2:00 P.M.)**, through a virtual hearing using the **MS Teams Application** as the online platform for the conduct thereof pursuant to Resolution No. 07, Series of 2020⁹ dated 23 July 2020.

Any interested stakeholder may submit its comments and/or clarifications at least one (1) calendar day prior to the scheduled virtual hearing, via electronic mail (e-mail) at records@erc.gov.ph and records.erc.gov.ph@gmail.com, copy furnish the Legal Service through legal.erc.gov.ph@gmail.com. The Commission shall give priority to the stakeholders who have duly submitted their respective comments and/or clarifications, to discuss the same and propound questions during the course of the expository presentation.

Moreover, all persons who have an interest in the subject matter of the instant case may become a party by filing with the Commission via e-mail at records@erc.gov.ph and records.erc.gov.ph@gmail.com, copy furnish the Legal Service through legal.erc.gov.ph@gmail.com, a

⁹ A Resolution for the Transitory Implementation of Legal e-Processes Pending the Adoption of the Interim Guidelines Governing Electronic Application, Filings, and Virtual Hearings Before the Energy Regulatory Commission;

verified Petition to Intervene at least five (5) calendar days prior to the date of the initial virtual hearing and subject to the requirements under Rule 9 of the 2006 ERC Rules of Practice and Procedure, indicating therein the docket number and title of the case and stating the following:

- 1) The petitioner's name, mailing address and e-mail address;
- 2) The nature of petitioner's interest in the subject matter of the proceeding and the way and manner in which such interest is affected by the issues involved in the proceeding; and
- 3) A statement of the relief desired.

Likewise, all other persons who may want their views known to the Commission with respect to the subject matter of the case may likewise file through e-mail at records@erc.gov.ph and records.erc.gov.ph@gmail.com, copy furnish the Legal Service through legal.erc.gov.ph@gmail.com, their Opposition or Comment thereon at least five (5) calendar days prior to the initial virtual hearing and subject to the requirements under Rule 9 of the 2006 ERC Rules of Practice and Procedure. No particular form of Opposition or Comment is required, but the document, letter, or writing should contain the following:

- 1) The name, mailing address and e-mail address of such person;
- 2) A concise statement of the Opposition or Comment; and
- 3) The grounds relied upon.

All such persons who wish to have a copy of the *Application* may request from Applicants that they be furnished with the same prior to the date of the initial hearing. Applicants are hereby directed to furnish all those making such request with copies of the *Application* and its attachments, through any of the available modes of service, upon their agreement, subject to the reimbursement of reasonable photocopying costs. Any such person may likewise examine the *Application* and other pertinent records filed with the Commission during the standard office hours. In the alternative, those persons who wish to have an electronic copy of the *Application* may request the Commission for the e-mail addresses of the Applicants by sending an e-mail to records@erc.gov.ph and records.erc.gov.ph@gmail.com, copy furnish the Legal Service through legal.erc.gov.ph@gmail.com. Nonetheless,

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any person may also access the *Application* as posted by the Commission in its official website at www.erc.gov.ph.

Finally, all interested persons may be allowed to join the scheduled initial virtual hearing by providing the Commission, thru legal.virtualhearings.erc.gov.ph@gmail.com, with their respective e-mail addresses and indicating therein the case number of the instant *Application*. The Commission will send the access link/s to the aforementioned hearing platform within five (5) working days prior to the scheduled hearing.

WITNESS, the Honorable Commissioners **ALEXIS M. LUMBATAN**, **CATHERINE P. MACEDA**, **FLORESINDA G. BALDO-DIGAL** and **MARKO ROMEO L. FUENTES**, Energy Regulatory Commission, this 3rd day of November 2020 in Pasig City.


AGNES VST DEVANADERA
Chairperson and CEO


LS: KJP/LSP/MCCG