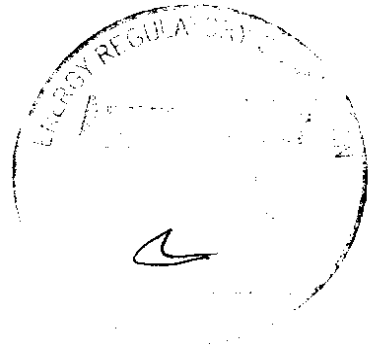


Republic of the Philippines
ENERGY REGULATORY COMMISSION
San Miguel Avenue, Pasig City



IN THE MATTER OF THE
APPLICATION FOR APPROVAL OF
THE ANCILLARY SERVICES
PROCUREMENT AGREEMENT
BETWEEN THE NATIONAL GRID
CORPORATION OF THE PHILIPPINES
AND FIRST GEN HYDRO POWER
CORPORATION, WITH PRAYER FOR
THE ISSUANCE OF PROVISIONAL
AUTHORITY

ERC CASE NO. 2011-062 RC

NATIONAL GRID CORPORATION OF
THE PHILIPPINES (NGCP) AND FIRST
GEN HYDRO POWER CORPORATION,
INC. (FGHPC),

Applicants.

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DOCKETED
Date: JUL 05 2011
By: *me*

ORDER

On April 11, 2011, the National Grid Corporation of the Philippines (NGCP) and First Gen Hydro Power Corporation (FGHPC) filed an application for approval of their Ancillary Services Procurement Agreement (ASPA), with prayer for the issuance of provisional authority.

In support of their prayer for the issuance of a provisional authority, NGCP and FGHPC alleged, among others, that:

1. It is the policy of the State to ensure the quality, reliability, security and affordability of the supply of electric power as declared under Section 2 (b) of the Electric Power Industry Reform Act of 2001 (EPIRA);
2. The current levels of available Ancillary Services in the Luzon Grid are significantly insufficient to meet the required levels. At present, the transmission of power in the Luzon Grid cannot be considered reliable and secure, and its stability, at great risk;

3. The necessity of acquiring Ancillary Services to maintain power quality, reliability and security of the grid in Luzon cannot be gainsaid. The increasing demand for power in Luzon area translates to a parallel increase in demand for Ancillary Services to guarantee continued stability and reliability of power. Hence, NGCP, mandated by the EPIRA to ensure and maintain the reliability, adequacy, security, stability and integrity of the nationwide electrical grid, had to procure Ancillary Services from FGHPC which can provide the needed services at reasonable rates starting February 23, 2011;
4. The ASPA rates payable to FGHPC are just and reasonable being reflective of true and efficient costs of generation, but with due regard to a just and reasonable return on investment, to enable FGHPC to operate viably;
5. To ensure the integrity of the system is to protect the interests of the public, including small and large scale businesses alike. The absence of system reliability and stability will certainly discourage investments and growth; and
6. It is then imperative to approve the instant application and the concomitant ASPA rates, immediately albeit provisionally, pending final resolution of the same, and to make such provisional authority retroactive to the date the ASPA was executed on February 23, 2011, which marks the commencement of the three-year term of the ASPA. This is to ensure reliable, secure, stable and efficient power particularly in the Luzon area, as mandated by the EPIRA.

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

Under the EPIRA, the National Transmission Corporation (TRANSCO)/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 4 (b), EPIRA]. Such services are essential to ensure reliability in the operation of the transmission system and the electricity supply in the Luzon, Visayas and Mindanao Grids.

On March 9, 2009, TRANSCO's proposed Ancillary Services Procurement Plan (ASPP) was approved. Thus, it was directed to file a separate application for the approval of the Ancillary Services Cost Recovery Mechanism (AS-CRM).

In a Decision dated October 3, 2007 in ERC Case No. 2006-049 RC, the Commission approved with finality the AS-CRM, subject to certain conditions, such as 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 (WESM); and
- b) All contracts for the procurement of Ancillary Services shall be submitted to the Commission for approval.

Ancillary Services are essential in maintaining the power quality, reliability and security of the national grid. These are classified as follows:

- a) **Contingency Reserve (or Spinning Reserve)**, which refers to the ability of a generating unit to provide generating capacity necessary to respond immediately to infrequent, but usually large failures of generating units and/or transmission tie lines.
- b) **Dispatchable Reserve (or Backup Power Service)**, which refers to the fast start capability of a generating unit. Generating units providing such reserve should be able to synchronize within fifteen (15) minutes upon the advice of the relevant control center and provide additional energy to the system rapidly.
- c) **Reactive Power Support**, which refers to the capability of a generating unit to supply reactive power to, or absorb reactive power from the transmission network in order to maintain the bus voltage within five percent (5%) of its nominal voltage.

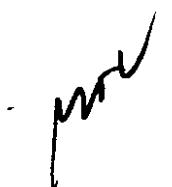
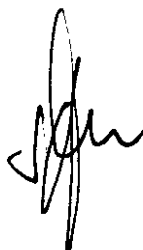



As mandated by the EPIRA to ensure and maintain the reliability, adequacy, security, stability and integrity of the nationwide electrical grid, NGCP procured additional Ancillary Services from FGHPC by directly negotiating for the supply of Ancillary Services from its Pantabangan Hydro Power Plant. This was without the benefit of a public bidding and invitations to any possible Ancillary Services provider.

NGCP and FGHPC alleged that the Ancillary Services covered by the ASPA, like Contingency Reserve, Dispatchable Reserve, Reactive Power Support and Black Start Capacity, are essential in maintaining the power quality, reliability and security of the Luzon Grid.

The Pantabangan Hydro Power Plant is certified by NGCP to be capable of providing the said Ancillary Services as mandated by the Philippine Grid Code (PGC) under Section 6.10.1 of the Test Requirements. Further, the standard Ancillary Service technical requirements of the System Operator were met and complied with during the actual testing of the said plant.

The Pantabangan Hydro Power Plant has an installed capacity of 120 MW. The water utilized to run the turbine to generate electricity comes from a water reservoir which indicates that the power plant runs for a limited period to be able to accumulate and save enough water.



In its "Urgent Motion to Resolve Prayer for the Issuance of Provisional Authority" filed on May 17, 2011, FGHPC reiterated the necessity of a provisional authority and alleged that it has been delivering Ancillary Services urgently needed by the NGCP, for which services it ought to be compensated.

A perusal of the evidence submitted in support of the provisional authority disclosed that the available Ancillary Services in the Luzon Grid are currently insufficient to meet the required levels as provided in the PGC. Said actual data were based on the actual operation recorded by the System Operator. Considering that the transmission of power in the Luzon Grid cannot be considered reliable, stable and secure, the stability of the Grid is at risk.

The actual system data for the year 2010 indicate that the available Ancillary Services in the Luzon Grid failed to meet the required levels, as shown below:

PARTICULARS	Required Reserve	Scheduled Reserve	Percentage
Regulating Reserve	126,969	161,290	78.72%
Contingency Reserve	139,997	369,030	37.94%
Dispatchable Reserve	88,445	368,295	24.01%

*based on actual situation for CY 2010

The actual scheduled reserve is not sufficient to comply with the required levels, particularly, the Contingency and Dispatchable Reserves.

Prior to the privatization of its assets, the National Power Corporation (NPC) provides large portions of the Ancillary Services. However, its ability to provide such services has been considerably reduced due to the said privatization. Thus,



generators, other than the NPC, which can provide Ancillary Services are necessary to augment such deficiency and meet the required level.

Further, as the demand of the Luzon Grid continuously increases, the requirements of the system for Ancillary Services in order to ensure system stability and reliability increases correspondingly.

NGCP and FGHPC proposed the following tariffs and rates structure:

Applicable Rates:

ANCILLARY SERVICE	APPLICABLE RATE
Contingency Reserve	PhP6.2185/ kW capacity/ hr
Dispatchable Reserve	PhP6.2018/ kW capacity/ hr
Reactive Power Support	PhP11.1987/ kVar/ hr
Black Start Service	PhP1,100,325.29/ Monthly

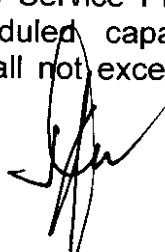
1. Scheduled Capacity with Energy Dispatched

- 1.1 If Market Price is higher than the Nominated Price, NGCP shall not pay the Service Provider for the capacity dispatched considering that its cost is already recovered through settlement in the market;
- 1.2 If Market Clearing Price is lower than the Nominated Price, NGCP shall pay the difference between the Market Clearing Price and the lower of: (a) the Service Provider's reasonable cost of generation; and (b) the Nominated Price for the capacity dispatched.

The Service Provider's reasonable cost of generation shall be the aggregate of: (a) the Capacity Fee equivalent to PhP6.2018/kW capacity per hour which is the sum of the Capital Cost Recovery Fee and the Operating Cost Recovery Fee; and (b) the actual cost paid by the Service Provider to the National Irrigation Administration (NIA) for the cost of the water utilized for serving the nominated Ancillary Service.

2. Scheduled Capacity Without Energy Dispatched

- 2.1 NGCP shall pay the Service Provider the corresponding Nominated Price of the scheduled capacity. Provided, however, that the Nominated Price shall not exceed the lower between the Applicable



Rate and the Market Clearing Price (at Plant Node) at the time that such capacity is scheduled for Ancillary Service. Otherwise, NGCP shall pay to it the Market Clearing Price.

Provided, further, that the Market Clearing Price shall not be lower than the Applicable Rate. Otherwise, NGCP shall pay to it the said Applicable Rate.

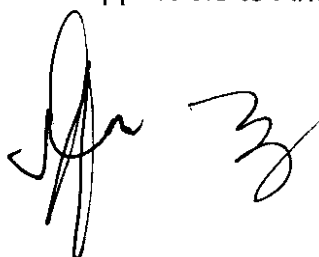
In the event that the Service Provider nominates a rate that is lower than the Applicable Rate, said rate shall be regarded as the floor price.

The Commission noted that the proposed applicable rates are higher than its approved true costs for Hydro Plants providing Ancillary Service, such as SNAP Magat and SNAP Benguet. The data submitted by NGCP and FGHPC in support of their proposed costs are insufficient to verify the validity and reasonableness of the rates. Thus, NGCP and FGHPC are enjoined to further substantiate their proposed applicable rates.

The Commission deems it appropriate to adopt the NPC's Average Basic Time-Of-Use (TOU) rates for the Luzon Grid equivalent to PhP4.3648/kWh as FGHPC's cost of generation. The cost of water shall be added to the said charge as a variable cost to serve the nominated Ancillary Service capacity, equivalent to a Water Utilization Fee of PhP0.2445/kWh.

The Black Start Service Rate shall be charged per occurrence at the rate of PhP4.3648/kW capacity provided per hour.

The rate to be paid by NGCP as Ancillary Service Cost should be passed on to its customers in accordance with the approved AS-CRM. The Ancillary Service provided by FGHPC should be consistent with the requirements of the approved ASPP and all existing laws and regulations applicable to Ancillary Service.



NGCP, as System Operator, is enjoined to make sure that the Service Provider should be able to demonstrate its ability to deliver the nominated capacity. Otherwise, any payment made by it without such verification shall not be allowed to be passed on to the customers and the Service Provider shall be subject to applicable rules and regulations.

An initial evaluation of the instant application discloses that the ASPA entered into by and between NGCP and FGHPC will redound to the benefit of the consumers in terms of continuous, reliable, efficient and affordable power supply as mandated by the EPIRA [Section 2. Declaration of Policy – (b) “to ensure the quality, reliability, security and affordability of the supply of electric power”].

WHEREFORE, the foregoing premises considered, the Commission hereby **PROVISIONALLY APPROVES** the application filed by the National Grid Corporation of the Philippines (NGCP) and First Gen Hydro Power Corporation (FGHPC), with prayer for the issuance of provisional authority, subject to the following rates and conditions:

1. Applicable Rates:

For Contingency and Dispatchable

FGHPC should nominate a corresponding price (in per kW capacity per hour) each time it nominates 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 FGHPC the corresponding Nominated Price of that scheduled capacity. Provided, however, that the Nominated Price shall in no case exceed the lower between the proposed rates and the Market Clearing Price (ex-post prices at plant node) at the time that such capacity is scheduled for Ancillary Service.



Provided, further, that the Market Clearing Price shall not be lower than the Commission's provisionally approved FGHPC's reasonable cost of generation (PhP4.3648/kW capacity per hour). Otherwise, NGCP shall pay to FGHPC the said reasonable cost of generation. However, in the event that FGHPC nominates a rate that is lower than its generation cost, said nominated rate shall be regarded as the floor price.

The proposed rates are as follows:

Ancillary Service	Applicable Rate
Contingency Reserve	PhP6.2185/kW capacity/hour
Regulating Reserve	PhP6.2018/kW capacity/hour

The proposed rate, as price cap, shall be applied on a monthly basis and shall be computed as follows:

$$\text{Proposed Monthly AS Cost} = \sum (\text{kW scheduled per hour during the relevant month}) \times \text{proposed AS rate}$$

The determination of whether the approved AS rates exceeded the proposed AS rates shall be determined monthly based on the formula indicated above.

b. Scheduled Capacity With Energy Dispatched

- 1) If the Market Clearing Price is higher than the reasonable cost of generation


NGCP shall not pay FGHPC considering that its cost or its Nominated Price is already recovered thru settlement in the market. Thus, in this case, the ancillary capacity is free of charges as the cost is recovered thru the market.

- 2) If Market Clearing Price is lower than the reasonable cost of generation or the nominated price.

NGCP shall pay the difference between the Market Clearing Price and the lower between FGHPC's reasonable cost and the Nominated Price. In this case, the reasonable cost of generation shall be PhP4.3648/kW capacity per hour plus the PhP0.2445/kWh cost of water for serving the nominated Ancillary Service.

For Reactive Power Support

The pricing mechanism for reactive power support should be priced separately from the supply of energy service at a rate of



PhP4.3648/kVar/hour. However, the payment of the reactive power support shall be made only if the FGHPC's power plant operates at a power factor beyond the normal range (0.85 lagging and 0.90 leading).

For Black Start Service

The Black Start Service Rate shall be charged per occurrence at the rate of PhP4.3648/kW capacity provided per hour.

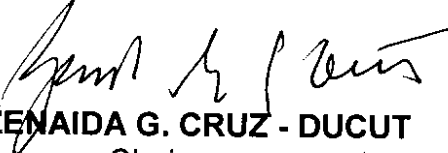
2. The rate to be paid by NGCP as Ancillary Service Cost should be passed on to its customers in accordance with the approved AS-CRM.

Relative thereto, NGCP is hereby directed to submit its monthly computation of Ancillary Service rates that it passed on to its customers with supporting documents, within the 5th day of the month;

3. Any of the Ancillary Services under this agreement shall be terminated upon the issuance of an Order approving another method of procurement and/or arrangement of Ancillary Services; and
4. The provisionally approved rates shall be effective on the next billing cycle of NGCP from receipt hereof. In the event that the final rate is higher than the provisionally approved rates, the resulting additional charges shall be collected by FGHPC 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 approved rates, the amount corresponding to the reduction shall be refunded by FGHPC to NGCP and the latter shall pass it on to its customers.

SO ORDERED.

Pasig City, June 6, 2011.


ZENAIDA G. CRUZ - DUCUT
Chairperson


RAUF A. TAN
Commissioner

(On Leave)
ALEJANDRO Z. BARIN
Commissioner


MARIA TERESA R. CASTAÑEDA
Commissioner


JOSE C. REYES
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