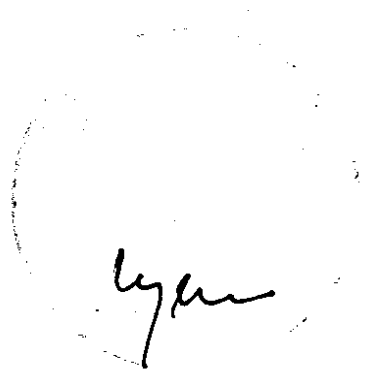


Republic of the Philippines
ENERGY REGULATORY COMMISSION
San Miguel Avenue, Pasig City



**IN THE MATTER OF THE
APPLICATION FOR THE APPROVAL
OF THE REPLACEMENT OF THE
EXISTING TRANSFORMERS OF THE
SAN JOSE SUBSTATION OF THE
NATIONAL TRANSMISSION
CORPORATION, WITH PRAYER
FOR PROVISIONAL AUTHORITY**

ERC CASE NO. 2008-112 MC

**NATIONAL TRANSMISSION
CORPORATION (TRANSCO), NOW
NATIONAL GRID CORPORATION
OF THE PHILIPPINES (NGCP),
Applicant.
x-----x**

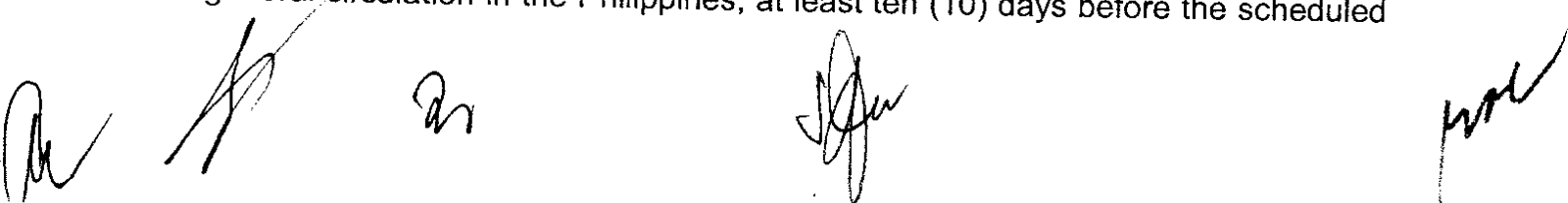
D O C K E T E D
Date: MAY 19 2009
By: [Signature]

D E C I S I O N

Before this Commission for resolution is the application filed on December 15, 2008 by the National Transmission Corporation (TRANSCO), now known as the National Grid Corporation of the Philippines (NGCP) for approval of the replacement of the existing transformers of its San Jose Substation, with prayer for provisional authority.

Having found said application sufficient in form and in substance with the required fees having been paid, an Order and a Notice of Public Hearing, both dated January 12, 2009, were issued setting the case for initial hearing on February 10, 2009.

In the same Order, TRANSCO was directed to cause the publication of the Notice of Public Hearing, at its own expense, once (1x) in a newspaper of general circulation in the Philippines, at least ten (10) days before the scheduled



date of initial hearing. It was also directed to inform the consumers, within its franchise area, by any other means available and appropriate, of the filing of the instant application, its reasons therefor, and of the scheduled hearing thereon.

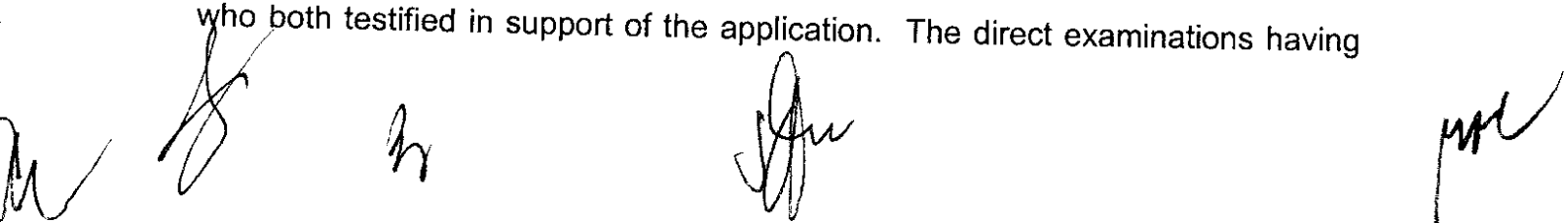
The Office of the Solicitor General (OSG), the Commission on Audit (COA) and the Committees on Energy of both Houses of Congress were furnished with copies of the Order and the Notice of Public Hearing and were requested to have their respective duly authorized representatives present at the initial hearing.

Likewise, the Office of the Mayor of Quezon City was furnished with copies of the Order and the Notice of Public Hearing for the appropriate posting thereof on its bulletin board.

On February 6, 2009, NGCP, concessionaire company of TRANSCO, filed its "*Pre-trial Brief*".

During the February 10, 2009 initial hearing, only NGCP appeared. No intervenor/oppositor appeared nor was there any intervention/opposition registered.

In the said hearing, NGCP adduced proofs of its compliance with the Commission's posting and publication of notice requirements which were duly marked as Exhibits "A" to "F-1", inclusive. Thereafter, it conducted an expository presentation of its application and presented the following witnesses: 1) Mr. Jorge C. Paguio, its Department Manager for Power System Maintenance; and 2) Mr. Giovanni R.A. Galang, its Department Manager for Transmission Planning, who both testified in support of the application. The direct examinations having

The bottom of the page features five handwritten signatures in black ink, arranged horizontally from left to right. The signatures are stylized and vary in length and complexity.

been terminated, the Commission propounded clarificatory questions on the said witnesses and directed NGCP to submit various documents.

On February 24, 2009, NGCP filed its "*Formal Offer of Evidence*" which is hereby admitted for being relevant and material to the final resolution of the case.

On February 25, 2009, NGCP filed its "*Ex-Parte Motion for Extension*" requesting for an additional period of time to file its compliance with the Commission's directives during the February 10, 2009 hearing of the instant application.

On March 6, 2009, NGCP submitted its "*Compliance*".

DISCUSSION

TRANSCO sought the Commission's approval of the following projects:

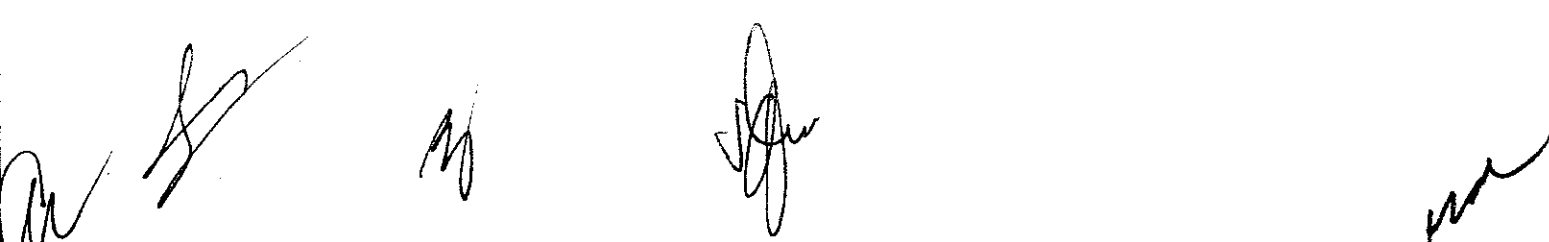
1. Replacement of the Existing Transformers of the San Jose Substation

a. Project Description:

- Replacement of thirteen (13) units of 200 MVA 500/230 kV shell-type single-phase auto-transformers with thirteen (13) units of 250 MVA 500/230 kV shell-type single-phase auto-transformers, one of which will serve as a spare unit

b. Project Rationale

- To maintain the security and reliability of the grid



This highlights the criticality of San Jose Substation as one of the major draw-down substations for the 500 kV Backbone Line since it supplies approximately 40% of the power needs of the National Capital Region (NCR).

As to the present condition of the remaining transformers of the said substation, the submitted Dissolved Gas Analysis showed that only 45% of the indicators were found to be in good condition while the rest are already showing deteriorations:

**Dissolved Gas Analysis (DGA) Status (ppm) as of August 11, 2008
 (by PSMD-South, NLOM)**

Bank	Phase	H ₂	CH ₄	C ₂ H ₄	C ₂ H ₆	C ₂ H ₂	CO	CO ₂
1	A	G	F	C	G	F	F	P
	B	G	F	C	G	P	P	P
	C	G	G	P	G	P	P	P
2	A	G	F	P	G	G	G	P
	B	Failed Unit (July 15, 2008)						
	C	G	F	C	G	G	F	P
3	A	G	F	C	G	G	P	P
	B	G	F	P	G	G	G	P
	C	F	C	C	G	G	F	P
4	A	G	G	C	G	G	P	C
	B	G	G	P	G	G	P	P
	C	G	G	P	G	G	P	P

Condition: G-Good; F-Fair; P-Poor; C-Critical

Based on the foregoing, the Commission believes that the replacement of the transformer in the San Jose Substation is necessary not only for the integrity of the grid but more importantly from an electricity rate impact perspective since the price settlement in the WESM will be significantly affected once an outage occurs again in one of its transformers. It should be noted that the said substation is supplying approximately 40% of the current power requirement of the National Capital Region (NCR), which makes the project vital for the operation of the system.

TECHNICAL ANALYSIS

NGCP proposed that the existing transformers rated 200 MVA 500/230 kV be replaced with thirteen (13) units of 250 MVA 500/230 kV shell-type single phase auto-transformers, one of which will serve as spare unit.

Description of the Power Transformer to be purchased:

250/250/50 MVA, YNa0d11,
500/230/13.8kV
Single-Phase, OLTC, IEC 60076

The proposed increase in the capacity for each of the transformers from the existing 200 MVA to 250 MVA is required to serve the increasing demand of the substation with minimal downtime. Upon replacement of the transformers, the total capacity of the San Jose Substation will now be increased from 2400 MVA to 3000 MVA and the effective capacity, while maintaining the provision for N-1 contingency, will also be increased from 1800 MVA to 2250 MVA. With the increased capacity of the substation, while maintaining the provision of N-1, an increase in the price settlement in the WESM due to an outage of one of the transformers of the San Jose Substation will be avoided.

COST ANALYSIS

NGCP manifested that the funding of the project will be sourced entirely from its Internal Cash Generation (ICG). The procurement of the required transformers for San Jose Substation is not included in the computation of the Annual Revenue Requirement (ARR) of TRANSCO for the 2nd Regulatory Period. Thus, the cost of procuring the transformers will not be automatically included in

The bottom of the page features several handwritten signatures and initials in black ink. From left to right, there is a large, stylized signature, a smaller signature, the initials 'MC', another large signature, and a final signature on the far right.

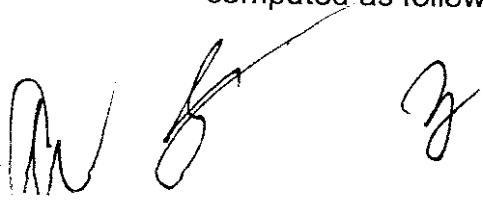
the Maximum Allowable Revenue (MAR) for the current regulatory period but will be included in the 3rd Regulatory Period subject to optimization process and further evaluation following the procedures prescribed under the Transmission Wheeling Rates Guidelines (TWRG).

A perusal of the evidence presented herein showed that the completion of the aforesaid project will redound to the benefit of NGCP's consumers in terms of continuous, reliable and efficient power supply as mandated by Republic Act No. 9136, or the *Electric Power Industry Reform Act of 2001 (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 application for approval for the replacement of the existing transformers of its San Jose Substation, with prayer for provisional authority, filed by the National Transmission Corporation (TRANSCO), now known as the National Grid Corporation of the Philippines (NGCP), is hereby **APPROVED** subject to the following conditions:

1. The proposed project cost of PhP2.957 Billion will not be automatically included in the Maximum Allowable Revenue (MAR) for the current Regulatory Period; and
2. The proposed project will be further optimized based on its actual use during the Reset Process for the 3rd Regulatory Period following the procedure stated in the TWRG and other relevant issuances of the Commission.

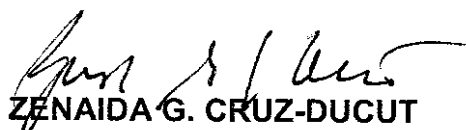
Relative thereto, NGCP is hereby directed to pay a permit fee in the amount of Twenty Two Million One Hundred Seventy Eight Thousand Pesos (PhP22,178,000.00) within fifteen (15) days from receipt hereof, which will be included as part of its Regulatory Compliance Cost for the 3rd Regulatory Period, computed as follows:



PhP2,957,000,000.00
----- x PhP0.75 = PhP22,178,00.00
PhP100.00

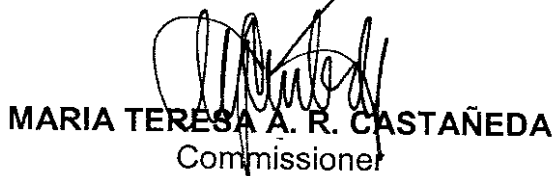
SO ORDERED.

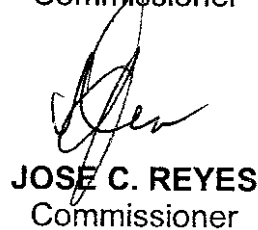
Pasig City, April 27, 2009.


ZENAIDA G. CRUZ-DUCUT
Chairperson


RAUF A. TAN
Commissioner


ALEJANDRO Z. BARIN
Commissioner


MARIA TERESA A. R. CASTAÑEDA
Commissioner


JOSE C. REYES
Commissioner

Copy Furnished:

1. **ATTY. RAYCELL D. BALDOVINO**
NATIONAL GRID CORPORATION OF THE PHILIPPINES (NGCP)
Power Center, Quezon Avenue corner
BIR Road, Diliman, Quezon City

2. **ATTY. NOEL Z. DE LEON**
ATTY. LEON T. TAPEL
ATTY. MARLO V. DESTURA
Counsel for Applicant
National Transmission Corporation (TRANSCO)
Power Center, Quezon Avenue corner
BIR Road, Diliman, Quezon City

2. **Office of the Solicitor General**
134 Amorsolo Street, Legaspi Village
Makati City, Metro Manila

3. **Commission on Audit**
Commonwealth Avenue
Quezon City, Metro Manila

4. **Senate Committee on Energy**
GSIS Bldg., Roxas Blvd., Pasay City
Metro Manila

5. **House Committee on Energy**
Batasan Hills, Quezon City, Metro Manila

6. **The City Mayor**
Quezon City, Metro Manila