

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-BENQUET, INC., WITH
PRAYER FOR
PROVISIONAL AUTHORITY**

ERC CASE NO.2010-26RC

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

Applicants,

X -----
X

**APPLICATION
(WITH PRAYER FOR PROVISIONAL AUTHORITY)**

Applicants NATIONAL GRID CORPORATION OF THE PHILIPPINES (“**NGCP**”) and SN ABOITIZ POWER-BENQUET, INC. (“**SNAP-Benguet**”), by respective counsel, respectfully state:

NATURE OF THE CASE

1. This Application is filed with the Honorable Commission for the approval of the Ancillary Services Procurement Agreement (“**ASPA**”) between the Applicants, 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”* which directed the submission of all contracts for the procurement of ancillary services to this Honorable Commission for its approval.

A copy of the ASPA is attached hereto as **Annex “A”**.

THE PARTIES

2. Applicant NGCP is a corporation duly organized and existing under the laws of the Republic of the Philippines, with principal office address at the Power Center, Quezon Avenue corner BIR Road, Diliman, Quezon City. It may be served with orders, notices and other legal processes through its undersigned counsel.
3. NGCP is the corporate vehicle of the consortium which was awarded the concession to assume the power transmission functions of the National Transmission Corporation (“**TRANSCO**”) through public bidding pursuant to Republic Act No. 9136, otherwise known as the Electric Power Industry Reform Act of 2001 (the “**EPIRA**”).
4. NGCP holds a franchise under Republic Act No. 9511 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. NGCP’s franchise also includes the conduct of activities necessary to support the safe and reliable operation of the transmission system.
5. Applicant SNAP-Benguet is a corporation duly organized and existing under and by virtue of the laws of the Republic of the Philippines with principal address at the Binga Hydro-Electric Power Plant, Brgy. Itogon, Benguet Province. It may be served with orders, notices and other legal processes through its undersigned counsel.

6. Pursuant to the bidding process undertaken by the Power Sector Assets and Liabilities Management Corporation (“**PSALM**”), SNAP-Benguet owns and operates the Binga Hydro-electric Power Plant situated in located in Brgy. Itogon, Benguet Province (the “**Binga Plant**”).

COMPLIANCE WITH PRE-FILING REQUIREMENTS

7. Applicants manifest the following as proof of compliance with Rule 6 of the ERC Rules of Practice and Procedure, approved by this Honorable Commission on 22 June 2006 in Resolution No. 38, Series of 2005, to wit:

7.1. Applicants furnished the local legislative bodies of the following local government units copies of the present Application with all its annexes and accompanying documents:

- a) Quezon City, where Applicant NGCP principally operates;
- b) San Fernando, La Union, where Applicant NGCP's regional office for North Luzon is located;
- c) Benguet Province, the province where Applicant SNAP-Benguet operates the Binga Plant; and

d) Itogon, Benguet, the municipality where Applicant SNAP-Benguet operates the Binga Plant.

Copies of proofs of service to legislative bodies of the foregoing local government units are attached hereto as **Annexes "B"** to **"B-3"**.

7.2. Applicants also caused the publication of the present Application in its entirety in a national newspaper of general circulation.

Copies of the corresponding affidavit of publication and the newspaper are attached hereto as **Annexes "C"** and **"C-1,"** respectively.

STATEMENT OF FACTS

8. On 26 June 2001, pursuant to the EPIRA, TRANSCO assumed the electric power transmission functions of the National Power Corporation ("**NPC**"), together with the authority and responsibility of NPC for the planning, construction and centralized operation and maintenance of its high voltage transmission line facilities, including grid interconnections and ancillary services. Under the EPIRA, TRANSCO 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.
9. 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, EPIRA*). Such services are essential in ensuring reliability in the operation of the transmission system and resultantly, in the reliability of the electricity supply in the Luzon, Visayas and Mindanao grids.

10. In the Order dated 9 March 2006 in ERC Case No. 2002-253, this Honorable Commission approved TRANSCO's proposed Ancillary Services Procurement Plan ("**ASPP**") and directed TRANSCO to file a separate application for the approval of the Ancillary Services-Cost Recovery Mechanism ("**AS-CRM**"). In the Decision dated 3 October 2007 in ERC Case No. 2006-049RC, the Honorable 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 ("**WESM**"); and
- b) All contracts for the procurement of ancillary services shall be submitted to this Honorable Commission for approval.

11. Pursuant to its assumption of TRANSCO's power transmission functions and consistent with its franchise to conduct activities necessary to support the safe and reliable operation of the transmission system, NGCP negotiated with SNAP-Benguet for the supply of ancillary services by the Binga Plant. As a result thereof, and in accordance with the ASPP and AS-CRM,

Applicants executed the ASPA for the supply of ancillary services to the Luzon Grid.

12. The ancillary services covered by the ASPA are essential in maintaining the power quality, reliability, and security of the Luzon Grid. These are 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. Generating units providing such reserve shall be on-line and synchronized with the grid, operating below its maximum capability, and can automatically respond to change in frequency caused by a loss of large generating unit.
- 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. The reserve capacity should be sustainable for a minimum period of eight (8) hours.
- 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.

- d) **Black Start Capacity**, which 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 assists other generating units to start. Black start plants must be put on-line and ready to extend power within thirty (30) minutes upon receipt of dispatch instructions and can sustain operation for at least 12 hours.

13. The Binga Plant was tested and determined by NGCP as capable of providing the aforesaid ancillary services.

A copy of the relevant Accreditation Certificate is attached hereto as **Annex “D”**.

ASPA RATES AND IMPACT

14. The applicable rates for the capacity covered by the ASPA are as follows:

Ancillary Service	Applicable Rate
Contingency Reserve	6.36 PhP/kW capacity/hour
Dispatchable Reserve	6.36 PhP/kW capacity/hour
Reactive Power Support	7.63 PhP/KVAR/hour
Black Start Capacity*	3,100,000.00 PhP/month

*SNAP-Benguet's minimum Black Start Capacity nomination for the month shall be 50 MW. If, for any particular day, the capacity nomination is below 50 MW, the fees for Black Start Capacity service for such day shall be adjusted proportionately by dividing the fixed monthly Black Start Capacity rate with the number of calendar days in the relevant billing month.

15. SNAP-Benguet respectfully submits that the rates represent reasonable recovery of its opportunity cost in making available

generation capacity to provide the ancillary services. The said ASPA rates take into due consideration the requirements related to providing the subject ancillary services. The rates also consider the nature and capacity of the Binga Plant as a merchant peaking plant which, having no bilateral contracts, trades its entire available capacity at the WESM.

Copies of the computation or derivation of the ASPA rates are attached hereto as **Annexes “E” and “E-1”**.

16. The rates under the ASPA were likewise subjected to a simulation by NGCP using data from the billing month of January 2010. Based on data from such billing month, the application of the ASPA rates will have the following impact on the ancillary service charges in the Luzon grid:

AS Type	P/kW/month			P/kWh		
	As Billed	Simulated	Increase	As Billed	Simulated	Increase
Contingency Reserve	21.19	36.00	14.81	0.0456	0.0776	0.032
Dispatchable Reserve	29.34	45.80	16.46	0.0632	0.0987	0.0355
Reactive Power Support	-	5.35	5.35	-	0.01	0.01
Black Start Capacity	0.11	0.54	0.43	0.0002	0.0012	0.001

Note: The **As Billed** amount represents the actual Ancillary Services Charges during January 2010 billing period

A copy of the said rate impact simulation is attached hereto as **Annex “F”**.

17. Consistent with the AS-CRM, all the related and incidental expenses which NGCP will incur as a result of the procurement and operation of ancillary services shall be recovered from all the load customers in the Luzon Grid for whom the said services are contracted.

ALLEGATIONS IN SUPPORT OF THE PRAYER

FOR PROVISIONAL AUTHORITY

18. 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 ancillary services to ensure system reliability. NGCP has the sole mandate and responsibility to procure the necessary ancillary services.
19. The current levels of available ancillary services in the Luzon Grid are significantly insufficient to meet the required levels. Thus, at present, the transmission of power in the Luzon Grid cannot be considered reliable, stable and secure, and the stability of the Luzon Grid is at risk.
20. Even if the Binga Plant provided the ancillary services under the ASPA during the said sample billing period, the required levels of ancillary services would still not have been met.

Copies of the relevant actual data for a sample billing month and its corresponding graphical presentations showing the required and available levels of ancillary services in the Luzon grid, as well as the impact of ancillary services that would have been provided from the Binga Plant are attached hereto as **Annex "G"**.

21. As the demand for power in Luzon increases, the requirements of the system to ensure stability, reliability and security likewise increase. The continued deficiency of available ancillary services despite the increasing demand for power will have significant adverse effect on the public.

7.3. There is a critical and immediate need to address the deficiency in ancillary services in the Luzon Grid in view of the upcoming national and local elections in May

2010, which urgency is vital not only for Luzon but with effect to the entire nation as well.

7.4. Ensuring the integrity of the system is essential to protect the interests of the public and particularly key to small and large scale businesses. The absence of system reliability and stability will certainly discourage investments and economic growth.

22. Applicants respectfully submit that the immediate and approval of the ASPA by this Honorable Commission will greatly help mitigate the risk to the Grid caused by the insufficiency of available services in Luzon.

PRAYER

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

1. Immediately issue an Order:
 - a. Provisionally approving the ASPA between NGCP and SNAP-Benguet; and,
 - b. Granting provisional approval to NGCP to recover from its load customers the cost of the ancillary services in accordance with the rates provided in the ASPA.
2. After due hearing, render judgment approving the said ASPA and permitting NGCP to recover from benefiting customers all related and

incidental expenses that it incurred or may incur in relation with the procurement and operation of ancillary services under the ASPA.

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

Quezon City and Makati City for Pasig City, 2 March 2010.

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