

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  
TRANSMISSION CORPORATION  
AND SN ABOITIZ POWER-MAGAT,  
INC. WITH PRAYER FOR  
PROVISIONAL AUTHORITY

ERC CASE NO. 2009-007RC

NATIONAL TRANSMISSION  
CORPORATION (TRANSCO) AND SN  
ABOITIZ POWER-MAGAT, INC. (SN  
ABOITIZ)

Applicants.

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## JOINT APPLICATION

COME NOW, the NATIONAL TRANSMISSION CORPORATION and SN ABOITIZ POWER-MAGAT, INC. (hereinafter referred to as “TRANSCO” and “SN ABOITIZ”, respectively, and shall herein be collectively referred to as the “**Joint Applicants**”), through their respective counsels, to this Honorable Commission respectfully state that:

1. TRANSCO is a government-owned and controlled corporation created and existing by virtue of Republic Act No. 9136, otherwise known as the Electric Power Industry Reform Act of 2001 (henceforth, the “EPIRA”), with principal offices at the Power Center, Quezon Avenue corner BIR Road, Diliman, Quezon City;

2. SN ABOITIZ is a corporation duly organized and existing under and by virtue of the laws of the Republic of the Philippines with plant/operations address at the Magat Hydro-Electric Power Plant, Gen. Aguinaldo, Ramon, Isabela. It owns and operates the Magat Hydro-electric Power Plant situated in Isabela (the “**Magat Plant**”, for brevity);

3. Created to assume the electric transmission functions of the National Power Corporation (NPC), and 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<sup>1</sup>, the EPIRA mandates TRANSCO, among others, to:

“(a) *Act as system operator of the nationwide electrical transmission and subtransmission system, to be transferred to it by NPC;*

*x x x*

(c) *Ensure and maintain the reliability, adequacy, security, stability and integrity of the nationwide electrical grid in accordance with the performance and standards for the operation and maintenance of the grid, as set forth in a Grid Code to be adopted and promulgated by the ERC within six (6) months from the effectivity of this Act; and*

(d) *Improve and expand its transmission facilities, consistent with the Grid Code and the Transmission Development Plan (TDP) to be promulgated pursuant to this Act, to adequately serve generation companies, distribution utilities and suppliers requiring transmission*

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<sup>1</sup> Section 8 of the EPIRA

*service and/or ancillary services through the transmission system.*<sup>2</sup>

(Emphasis and underscoring supplied)

4. Likewise, the Grid Code provides that TRANSCO, 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 Service tariff to the ERC”<sup>3</sup>;*

5. Ancillary services is defined as “*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.*”<sup>4</sup> Such services play a pivotal role in ensuring reliability in the operation of the transmission system and resultantly, in the reliability of the electricity supply in the Grid;

6. In fulfillment of its mandate under the EPIRA and the Grid Code as above-discussed, TRANSCO filed an application for the approval of its proposed Ancillary Services Procurement Plan (“ASPP,” for brevity) with the Honorable Commission, which application was docketed as ERC Case No. 2002-253. Under the said ASPP, TRANSCO shall procure ancillary services from various power plants in the Philippine Grid essential in maintaining power quality, reliability, and security in the Philippine Grid;

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<sup>2</sup> Section 9 of the EPIRA, reiterated in Sections 7 and 9 of Rule 6 of the Implementing Rules and Regulations (IRR) of the EPIRA

<sup>3</sup> Grid Code, Sec. 7.3.1.2

<sup>4</sup> R.A. 9136, Section 4(b)

7. In an Order dated 09 March 2006, the Honorable Commission approved TRANSCO's proposed ASPP. Section 5 of the ASPP was directed to be filed as a separate case entitled the "*Ancillary Services-Cost Recovery Mechanism (AS-CRM)*," and docketed as ERC Case No. 2006-049RC;

8. In its Order dated October 11, 2006, the Honorable Commission granted a provisional authority for the AS-CRM of the ASPP, allowing TRANSCO to procure ancillary services from Independent Power Producers. In the said Order, the provisional authority was conditioned on the submission by TRANSCO of any Ancillary Services Procurement Agreement with the Honorable Commission for approval;

9. With the approval of the ASPP and the provisional authority to recover the cost of the procurement of these ancillary services, TRANSCO commenced consultations with the various Independent Power Producers to provide the much needed ancillary services for the Luzon Grid;

10. To address future power requirements corresponding to the continuing rise in demand in the Luzon Grid, all possible suppliers of Ancillary Services to the grid were invited to attend and submit their respective price offers in a series of meetings conducted by TRANSCO. In addition, the said suppliers' generation facilities were tested in order to confirm their capability and availability to deliver the required ancillary services. A copy of the Invitation for Accredited and Prospective Ancillary Services Providers which was published in a newspaper of nationwide circulation is hereto attached as **Annex "A"**. A copy of the letter-invitation dated

September 17, 2007 to SN ABOITIZ on TRANSCO's Roadshow on the ASPP is likewise hereto attached as **Annex "B"**;

11. In response, three (3) possible suppliers submitted offers to provide ancillary services:

- a) NPC;
- b) Angeles Electric Corporation; and
- c) SN ABOITIZ;

12. Subsequent thereto, TRANSCO conducted a test on SN ABOITIZ's facility to determine its capability to provide ancillary services. Upon the successful testing of SN ABOITIZ's facility, TRANSCO issued an Accreditation Certificate No. 2007-L0005 dated June 1, 2007, signifying that the SN ABOITIZ Magat Plant is a qualified Ancillary Service Provider capable of providing the following ancillary services: (a) Load Following and Frequency Regulation (Regulating Reserve); (b) Contingency (Spinning) Reserve; (c) Reactive Power Support Service; (d) Back-Up Reserve Service; and (e) Black Start Service. After a subsequent successful testing, TRANSCO issued Accreditation Certificate No. 2008-L0002 dated March 1, 2008, which certification remains effective to date, a copy of which is attached as **Annex "C"**;

13. TRANSCO has since entered into contracts with NPC and Angeles Electric Corp. for the provision of ancillary services;

14. After receipt of SN ABOITIZ's offer, TRANSCO began negotiating with SN ABOITIZ regarding the terms and conditions of its offer. As a result thereof, on

October 2008, TRANSCO executed an Ancillary Services Procurement Agreement (“ASPA”) with SN ABOITIZ for the supply of the aforesaid Ancillary Services to the Luzon Grid. A copy of the subject ASPA is submitted herewith for the approval of the Honorable Commission and is attached hereto as **Annex “D”**;

15. The applicable rates for the capacity covered by the said ASPA is as follows:

<b>Ancillary Service</b>	<b>Applicable Rate</b>
Contingency Reserve	PhP6.0781/kW capacity/hour
Regulating Reserve	PhP6.6859/kW capacity/hour
Dispatchable Reserve	PhP6.0781/kW capacity/hour
Reactive Power Support	PhP7.2937/KVar/hour
Black Start Capacity	PhP7,900,000.00/mo

16. SN ABOITIZ respectfully submits that the above rates represent reasonable recovery of its opportunity cost in making available generation capacity to provide ancillary services. SN ABOITIZ further respectfully submits that such rates are fair and reasonable especially considering that the Magat Plant is a peaking plant, and that in order to provide such services, it would have to reserve significant volumes of its water supply that it could otherwise use to generate power;

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

17. In accordance with the AS-CRM, the rate to be paid by TRANSCO as provided in the subject ASPA shall be charged as follows:

<b>Type of Ancillary Services</b>	<b>Recovered from/ Billed to</b>
Regulating Reserve	Load customers and generators when applicable
Contingency Reserve	Load customers and Generators when applicable
Dispatchable Reserve	Load customers and generators when applicable
Black Start Capacity	Load customers and generators when applicable
Reactive Power Support	Load customers

18. Consistent with the AS-CRM and with the intention of the Business Separation and Unbundling Plan, TRANSCO, in order to avoid its transmission business subsidizing the cost of ancillary services, shall recover from benefiting customers, for whom the contracted ancillary services, all relative and incidental expenses (not included in the Second Regulatory Period - Final Determination) that TRANSCO will incur in relation with the procurement and operation of the ancillary services for the grid requirement. These expenses may include, but not limited, to the following: filing fees, publications (Application, Notices, Orders and etc.), interest on account for delayed payment attributable to customers' failure to pay the amount due on ancillary services, and others.

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

19. Joint Applicants replead and incorporate by reference all the preceding allegations and averments;

20. It is a declared policy of the State to ensure the quality, reliability, security and affordability of the supply of electric power.<sup>5</sup> With this end in view,

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<sup>5</sup> R.A. 9136, Section 2(b).

there is a need to ensure compliance with the system requirements for ancillary services to ensure system reliability;

21. The available ancillary services in the Luzon Grid are currently 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 Grid is at risk;

22. To illustrate, actual system data from a sample recent billing period (*26 October to 25 November 2008*) indicate that the available ancillary services in the Luzon Grid during the said period failed to meet the required levels. In addition, even if during the said sample billing period ancillary services were provided by the Magat Plant, the required levels of would still not have been met. The following is shown in the table below:

A/S	A/S Availability for 26 October to 25 November 2008	
	Actual	Actual with Magat Plant
Regulating Reserve	90.55%	100%
Contingency Reserve	33.24%	53.36%
Dispatchable Reserve	45.80%	66.14%

A copy of the actual data and relevant computation for the said sample billing month is attached hereto as **Annex “F”**. A copy of the simulation showing the impact of ancillary services from the Magat Plant is attached hereto as **Annex “G”**;

23. To further illustrate the aforementioned insufficiency of available ancillary services, a graphical presentation showing the Luzon Grid requirements and the actual levels of available ancillary services on a sample day, November 8, 2008, is

attached hereto as **Annex “H.”** For comparison, a graphical presentation showing the impact of the ancillary services to be provided by SN ABOITIZ under the ASPA is attached hereto as **Annex “H-1.”** Similar comparative graphical presentations for others sample days are attached hereto as **Annexes “I” and “I-1”, up to “O” and “O-1”;**

24. As the demand in the Luzon Grid continuously increases, the requirements of the system for ancillary services in order to ensure system stability and reliability increases correspondingly. Since the subject ASPA covers the only sizable capacity other than NPC contracted by TRANSCO to provide ancillary services in the Luzon Grid, the approval of the present Joint Application as well as the grant of the Provisional Authority prayed for herein is crucial in ensuring stability and reliability in the Luzon Grid;

25. Also, a significant portion of NPC’s erstwhile generation capacity in the Luzon Grid has already been privatized in line with the restructuring of the power industry under the EPIRA. At this point, while most of the private owners of the plants capable of providing ancillary services are still in the process of taking over the plants, there is an urgent need to address the Grid’s requirements for ancillary services. In the meantime, other than Angeles Electric Corporation, no other private generator with non-NPC generation facilities has offered to provide, or has been certified as capable of providing such services;

26. Significantly, other than SN ABOITIZ, none of the private generators who have taken over or are in the process of taking over the privatized plants have signified an interest in providing ancillary services;

27. The outage of two (2) of NPC's four (4) generating units in the Kalayaan Hydro-electric Power Plant (the "Kalayaan Plant" for brevity) has further exacerbated the insufficiency of available ancillary services;

28. The Kalayaan Plant, located in the province of Laguna, is NPC's generation facility used primarily for the provision of ancillary services. Two (2) 178 MW generating units were damaged by flooding on 16 November 2008 and have been inoperable since. Repairs on the damaged units are expected to take several months;

29. Until the Kalayaan Plant is restored, the reduction of available ancillary services, equivalent to 356 MW in installed capacity, poses a significant threat to the stability and reliability of the Luzon Grid;

30. Furthermore, historically, the summer months pose the highest demand for electricity and the need to ensure the availability of ancillary services, during the upcoming summer months is crucial to ensure system reliability.

31. The absence of the system reliability in the Grid will result in an adverse effect to the public as well as to the small and large scale businesses in the area. This will certainly discourage investments and growth in the local area;

32. The approval of the ASPA by this Honorable Commission will further encourage other providers to offer ancillary services to further address the insufficiency of available services in the Luzon Grid in order to ensure system reliability and stability.

## PRAYER

WHEREFORE, Joint Applicants respectfully pray that the Honorable Commission:

1. Immediately issue an order:
  - a. Provisionally approving the Ancillary Services Procurement Agreement between TRANSCO and SN ABOITIZ; and
  - b. Granting Provisional Authority to TRANSCO to include the costs for the provision of Ancillary Services by SN ABOITIZ in its Transmission Charge to the concerned benefiting entities in the Luzon Grid, in accordance with the rates provided in the Ancillary Services Procurement Agreement;
2. After due hearing, render judgment approving the said Ancillary Services Procurement Agreement and accordingly, approving the inclusion of the costs thereof in the Ancillary Services Charges of TRANSCO in accordance with the terms and conditions of the ASPA and the Ancillary Services Cost Recovery Mechanism (AS-CRM); and
3. Render judgment permitting TRANSCO to recover from benefiting customers, for whom the contracted ancillary services, all relative and incidental expenses (not included in the Second Regulatory Period - Final Determination) that it has occurred or may incur in relation with the procurement and operation of the ancillary services for the grid requirement. These expenses may include, but not limited, to the following: filing fees, publications (Application, Notices, Orders and

etc.), interest on account for delayed payment attributable to customers' failure to pay the amount due on ancillary services, and others.

Other just and equitable relief are likewise prayed for.

Quezon City for Pasig City, December \_\_\_\_, 2008.

**NATIONAL TRANSMISSION CORPORATION**  
Power Center, Quezon Avenue cor. BIR Road  
Diliman, Quezon City

By:

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MCLE Compliance No. II-0010891, August 12, 2008

**VERIFICATION AND CERTIFICATION OF NON- FORUM SHOPPING**

I, **ARTHUR N. AGUILAR**, Filipino, of legal age and with office address at Power Center Complex, Quezon Avenue cor. BIR Road, Diliman, Quezon City, after having being duly sworn, hereby depose and state that:

1. I am the President and CEO of Applicant TRANSCO who is the duly authorized representative in the above-entitled case pursuant to Sec. 7.0 of the Revised Manual of Approval duly approved by the TRANSCO Board on June 26, 2003 under Board Resolution No. TC 2003-043. A copy of the said Manual of Approvals is hereto attached as **Annex “P”**;
2. I have read and understood the allegations and contents of the Joint Application and the same are true and correct based on my own personal knowledge and on authentic records at my disposal;
3. I hereby attest and certify that Applicant TRANSCO has neither heretofore commenced any other action and/or proceedings involving the same facts and issues in the Supreme Court, the Court of Appeals, or any other tribunal or agency nor is there such action or proceeding pending before said courts, tribunals or agency;
4. If I should thereafter learn that a similar action or proceeding has been filed or is pending before the Supreme Court, the Court of Appeals, or any other tribunal or agency, I undertake to report the fact within five (5) days from notice thereof to this Honorable Commission.

**IN WITNESS WHEREOF**, I have hereunto affixed my signature this \_\_\_\_ day of \_\_\_\_\_ 2008 at \_\_\_\_\_, Philippines.

**ARTHUR N. AGUILAR**  
Affiant

**SUBSCRIBED AND SWORN** to before me this \_\_\_\_ day of \_\_\_\_\_ 2008 in \_\_\_\_\_, Philippines, affiant exhibiting to me his TRANSCO Employee ID No. 4657-4.

Doc. No.: \_\_\_\_;  
Page No.: \_\_\_\_;  
Book No.: \_\_\_\_;  
Series of 2008.

**VERIFICATION AND CERTIFICATION OF NON- FORUM SHOPPING**

I, **EMMANUEL V. RUBIO**, Filipino, of legal age and with office address at c/o 2nd Floor, Herco Center, 114 Benavidez St., Legaspi Village, Makati City, after having being duly sworn, hereby depose and state that:

1. I am the Chief Executive Officer and authorized representative of Applicant SN ABOITIZ who had caused the preparation of the foregoing Joint Application. A copy of the Secretary's Certificate authorizing the filing of this Joint Application is attached hereto as **Annex "Q"**;
2. I have read and understood the allegations and contents thereof and the same are true and correct based on my own personal knowledge and on authentic records at my disposal;
3. I hereby attest and certify that Applicant SN ABOITIZ has neither heretofore commenced any other action and/or proceedings involving the same facts and issues in the Supreme Court, the Court of Appeals, or any other tribunal or agency nor is there such action or proceeding pending before said courts, tribunals or agency;
4. If I should thereafter learn that a similar action or proceeding has been filed or is pending before the Supreme Court, the Court of Appeals, or any other tribunal or agency, I undertake to report the fact within five (5) days from notice thereof to this Honorable Commission.

**IN WITNESS WHEREOF**, I have hereunto affixed my signature this \_\_\_\_ day of \_\_\_\_\_ at Makati City, Philippines.

**EMMANUEL V. RUBIO**

Affiant

**SUBSCRIBED AND SWORN** to before me this \_\_\_\_ day of \_\_\_\_\_ in Makati City, Philippines, affiant exhibiting to me his Government-issued identification \_\_\_\_\_ issued on \_\_\_\_\_ at \_\_\_\_\_.

Doc. No.: \_\_\_\_;

Page No.: \_\_\_\_ ;

Book No.: \_\_\_\_;

Series of \_\_\_\_\_.