

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
TRANSMISSION CORPORATION (NOW
NATIONAL GRID CORPORATION OF
THE PHILIPPINES) AND THE
NATIONAL POWER CORPORATION,
WITH PRAYER FOR PROVISIONAL
AUTHORITY

ERC CASE NO. _____RC

NATIONAL GRID CORPORATION OF
THE PHILIPPINES (NGCP),

Applicant,

X - - - - - X

APPLICATION
(WITH PRAYER FOR PROVISIONAL AUTHORITY)

Applicant NATIONAL GRID CORPORATION OF THE PHILIPPINES, by
counsel, respectfully states:

THE PARTIES

1. Applicant 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, where it may be served with orders, notices and other legal processes.

2. Applicant 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").

3. Applicant 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. Applicant's franchise also includes the conduct of activities necessary to support the safe and reliable operation of the transmission system.

COMPLIANCE WITH PRE-FILING REQUIREMENTS

4. In 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, Applicant furnished the Sangguniang Panlungsod of Quezon City a copy of the present Application with all its annexes and accompanying documents. Applicant also caused the publication of the present Application in its entirety in a national newspaper of general circulation.

A copy of the relevant certification the Sangguniang Panlungsod of Quezon City is attached hereto as **Annex "A."** Copies of the corresponding affidavit of publication and the newspaper are attached hereto as **Annexes "B" and "B-1,"** respectively

STATEMENT OF FACTS

5. On 26 June 2001, pursuant to the EPIRA, TRANSCO assumed the electric power transmission functions of the National Power Corporation,

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.

6. 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, R.A. 9136*). 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.

7. 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; and

- b) All contracts for the procurement of ancillary services shall be submitted to this Honorable Commission for approval.

8. On 29 September 2008, pursuant to the ASPP and the AS-CRM, TRANSCO executed with NPC an Ancillary Services Procurement Agreement ("ASPA"), which assigned to Applicant, as the Concessionaire under Section 4.01 of the Concession Agreement between the Power Sector Assets and Liabilities Management Corp., TRANSCO and NGCP, and later accepted by NGCP through a letter dated 5 May 2009. Notably, even before the execution of the ASPA, NPC has been providing ancillary services to the Luzon, Visayas and Mindanao grids based on the rates provided in this Honorable Commission's Order dated 20 September 2002 in ERC Case No. 2001-901.

Copies of the ASPA and letter dated 5 May 2009 are attached hereto as Annexes "C" and "D," respectively.

9. The ancillary services covered by the ASPA are essential in maintaining the power quality, reliability, and security of the national 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) Regulating Reserve (or Load Following and Frequency Regulation), which refers to the ability of a generating unit to adjust total system generation over short periods of time to match system load changes that result from random fluctuations in total transmission system load in order to address the temporary variation in load and unintended fluctuation in generation.

10. In accordance with the AS-CRM, the rates charged by NPC under the ASPA for the provision of ancillary services shall be recovered from all load customers, as follows:

ANCILLARY SERVICES CHARGES

Luzon	P/kW/hour
Regulating Reserve	2.3490
Contingency Reserve	2.3490
Dispatchable Reserve	2.3490
	P/MVAR/month
Reactive Power Support	38.40
Visayas	P/kW/hour
Regulating Reserve	2.1006
Contingency Reserve	2.1006
Dispatchable Reserve	2.1006
	P/MVAR/month
Reactive Power Support	17.33
Mindanao	P/kW/hour
Regulating Reserve	1.3044
Contingency Reserve	1.3044
Dispatchable Reserve	1.3044
	P/MVAR/month
Reactive Power Support	21.25

Energy-Related Ancillary Service Charge

The energy-related ancillary service charges shall be set equal to the prevailing ERC-approved total average effective rate per grid, as applicable.

NOTE:

1. The above-stated Ancillary Service (AS) charges are based on the existing ERC-approved AS charges re-calculated on a per hour basis.
2. The above-stated AS charges shall be uniformly applied to all AS Provider plants within the same grid under this Agreement.
3. The above-stated AS charges shall be subject to changes (per plant and per type of AS service) to be agreed upon by the parties to the Agreement and further subject to approval by the ERC.

11. Under the AS-CRM, all the related and incidental expenses (not covered by the Second Regulatory Period's Final Determination) which Applicant will incur as a result of the procurement and operation of ancillary

services shall be recovered from all the load customers in the grid for whom the said services are contracted. These expenses may include interest on account for delayed payment attributable to any load customer's failure to pay the amount due on ancillary services, expenses in securing approval of the ASPP by this Honorable Commission such as filing fees and publication costs.

12. On 15 January 2009, Applicant took over the operations of the transmission and subtransmission facilities of TRANSCO, including the performance of TRANSCO's obligations and enforcement of its rights under the ASPA.

13. Hence, Applicant is instituting the present Application.

RATE IMPACT

14. Based on rate simulations prepared by Applicant using data from the billing month of March 2009, the application of the rates to be charged by NPC under the ASPA will have the following impact on Applicant's transmission charges in the Luzon, Visayas and Mindanao grids:

Luzon	P/kW/month			P/kWh		
	As Billed	Simulated	Increase	As Billed	Simulated	Increase
Regulating Reserve	8.25	20.57	12.32	0.02	0.05	0.03
Contingency Reserve	11.54	28.77	17.23	0.03	0.06	0.04
Dispatchable Reserve	18.21	45.43	27.22	0.04	0.10	0.06

Visayas	P/kW/month			P/kWh		
	As Billed	Simulated	Increase	As Billed	Simulated	Increase
Regulating Reserve	6.17	30.76	24.59	0.01	0.07	0.06

Contingency Reserve	16.21	80.84	64.63	0.04	0.19	0.15
Dispatchable Reserve	7.41	36.94	29.53	0.02	0.09	0.07

Mindanao	P/kW/month			P/kWh		
AS Type	As Billed	Simulated	Increase	As Billed	Simulated	Increase
Regulating Reserve	6.45	16.09	9.64	0.02	0.04	0.02
Contingency Reserve	20.56	51.27	30.71	0.05	0.12	0.07
Dispatchable Reserve	19.31	48.16	28.85	0.05	0.12	0.07

A copy of the said rate simulation is attached hereto as **Annex "E."**

15. Applicant is unable to provide an assessment of the rate impact of the ASPA rate for reactive power support for lack of historical data, considering NPC has not provided such ancillary service up to the present. It is also not possible to provide a reasonable approximation of the expected reactive power support to be provided by NPC as the same is variable and dependent on various circumstances pertaining to prevailing system conditions.

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

16. It is a declared policy of the State to ensure the quality, reliability, security and affordability of the supply of electric power (*Section 2b, R.A. 9136*). With this end in view, there is a need to ensure compliance with the system requirements for ancillary services to ensure system reliability.

17. Applicant has the sole mandate and responsibility to procure the necessary ancillary services. The available ancillary services in the Luzon, Visayas and Mindanao grids are currently insufficient to meet the required

levels. **Without the required ancillary services, the stability of the grids is at risk.**

18. As the demand for power is continuously increases, the requirements of the system for ancillary services to ensure system stability and reliability likewise increase. The absence of system reliability in the grids will adversely affect the public, as well as the small and large scale businesses throughout the country. This will certainly discourage investments and economic growth.

19. The insufficiency of available services in the Luzon, Visayas and Mindanao grids cannot be over-emphasized. Currently, almost all of the available ancillary services are provided by NPC without the benefit of contractual bond. The absence of a clearly defined legal obligation on the part of NPC to continue providing ancillary services creates uncertainty in availability of such services which are already insufficient.

20. Applicant respectfully submits that, considering that NPC is the dominant provider of ancillary services in the national grid, it is imperative that the ASPA be immediately approved to formalize the provision of such services, and elevating the same into a contractual obligation on the part of NPC and ensure the continuity of the provision of ancillary services, and the stability of the grids.

PRAYER

WHEREFORE, premises considered, Applicant respectfully prays that the Honorable Commission:

1. Immediately issue an Order provisionally approving the ASPA between Applicant and NPC, obliging NPC to provide ancillary services in the manner provided therein.

2. After due hearing, render judgment approving the said ASPA.

3. Render judgment permitting Applicant to recover from benefiting customers, all related and incidental expenses (not included in the Second Regulatory Period - Final Determination) that it incurred or may incur in relation with the procurement and operation of ancillary services under the ASPA.

Applicant prays for other just and equitable relief under the premises.

**NATIONAL GRID CORPORATION
OF THE PHILIPPINES**

Power Center, Quezon Avenue corner
BIR Road, Diliman, Quezon City

By:

TEODORO B. CRUZ Jr.

PTR No. 1572524; 01/07/09; Makati City
Lifetime Member, IBP No. 667521; 01/05/06
Roll No. 24411
MCLE Compliance No. II-008188; 09/26/07

L.F. CYNTHIA D. PEREZ-ALABANZA

PTR No. 1667524; 04/20/09; Quezon City
Lifetime Member, IBP No. 485777; 01/21/08
Roll No. 48577
MCLE Compliance No. II-0001058; 03/15/07

SUNDY LORENCE C. LACHICA

PTR No. 0020841/1-07-09; Makati City
IBP No. 773293/1-09-09; Makati City

Roll No. 51017
MCLE Compliance No. II-0016202/2-05-09

RAYCELL D. BALDOVINO
PTR No. 5107578; 01-12-09; Pasig City
IBP No. 772939; 01-09-09; RSM
Roll No. 50672
MCLE Compliance No. 00008887; 01-14-08