

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 THERMA
MARINE, INC., WITH PRAYER FOR
PROVISIONAL AUTHORITY**

ERC CASE NO.2010-014 RC

**NATIONAL GRID CORPORATION
OF THE PHILIPPINES (NGCP) AND
THERMA MARINE, INC. (THERMA
MARINE),**

Applicants,

X ----- X

APPLICATION
(WITH PRAYER FOR PROVISIONAL AUTHORITY)

Applicants **NATIONAL GRID CORPORATION OF THE PHILIPPINES
(NGCP)** and **THERMA MARINE, INC. (THERMA MARINE)**, 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 dated 01 February 2010, pursuant to the Decision dated 3 October 2007 in ERC case 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*" and docketed

as ERC Case No. 2006-049 RC, directing the submission of all contracts for the procurement of ancillary services to this Honorable Commission for its approval.

A copy of the said 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 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 that 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 (EPIRA).

4. NGCP holds a franchise under Republic Act No. 9511 to engage in the business of conveying or transmitting electricity through high voltage backbone 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 THERMA MARINE is a corporation duly organized and existing under and by virtue of the laws of the Republic of the Philippines, with office address at 110 Legazpi Street, Legaspi Village, Makati City, 1229. It may

be served with orders, notices and other legal processes through its undersigned counsel.

6. Pursuant to the privatization efforts undertaken by the Power Sector Assets and Liabilities Management Corporation (PSALM), THERMA MOBILE, INC. (THERMA MOBILE) was the winning bidder in the sale of the 100MW Power Barge No. 117 located in Nasipit, Agusan del Norte ("PB 117") as evidenced by a Notice of Award issued by PSALM dated 11 September 2009.

A copy of the said Notice of Award is attached hereto as **Annex "B"**.

7. Subsequently, THERMA MOBILE undertook to assign its rights and obligations under the PB 117 Asset Purchase Agreement to THERMA MARINE which shall be effective on Closing Date / Turn-Over of PB117 or on 01 March 2010. As such, THERMA MARINE is scheduled to take over the operations of PB 117 on Closing Date / Turn-Over or 01 March 2010.

COMPLIANCE WITH PRE-FILING REQUIREMENTS

8. In relation to 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, Applicants respectfully manifest that :

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

a) Quezon City, where Applicant NGCP principally operates;

- b) Iligan City, Lanao del Norte, where Applicant NGCP's regional office for Mindanao is located;
- c) Butuan City, Agusan del Norte, where Applicant NGCP's district office is located;
- d) Province of Agusan del Norte, the province where Applicant THERMA MARINE shall operate PB 117; and
- e) Municipality of Nasipit, Agusan del Norte, the municipality where Applicant THERMA MARINE shall operate PB 117.

Copies of proofs of receipts of the aforementioned local legislative bodies are attached hereto as **Annexes "C" to "G-1"**.

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

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

STATEMENT OF FACTS

10. 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.

11. Ancillary services 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 (*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.

12. 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.

13. PB 117 is a qualified ancillary service provider capable of providing Contingency Reserve, Dispatchable (back-up) Reserve, Reactive Power Support, and Black Start Capacity ancillary services.

A copy of the relevant certificate of accreditation is attached hereto as **Annex "I"**.

14. PB 117 provides a significant portion of existing ancillary services to the Mindanao grid. However, the sale of PB 117 to THERMA MARINE does not include the assignment of existing contracts and/ or obligations for the supply of ancillary services. Consequently, THERMA MARINE will neither be obligated nor authorized to continue supplying ancillary services after it takes over the operations of PB 117 on 01 March 2010.

15. Also, absent an approved contract for the provision of ancillary services covering PB 117, NGCP has no authority to procure ancillary services from THERMA MARINE and to recover the cost of such services from the load customers pursuant to the Decision dated 3 October 2007 in ERC Case No. 2006-049 RC.

16. Hence, 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 and THERMA MARINE entered into negotiations for the continued supply of ancillary services upon the scheduled take-over of PB 117 by THERMA MARINE. As a result thereof, and pursuant to the ASPP and the AS-CRM, Applicants executed the ASPA subject of the present case on 01 February 2010.

17. The ASPA shall have a contract period of one (1) year commencing upon its approval or grant of provisional authority by this Honorable Commission.

18. The ancillary services covered by the ASPA, which are essential in maintaining the power quality, reliability, and security of the Mindanao grid, 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 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 assist 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.

19. Pursuant to the ASPA, NGCP may schedule PB 117 to provide the foregoing ancillary services to the Mindanao Grid, whereby THERMA MARINE must reserve a portion of PB 117's capacity to meet the ancillary service requirements. In the event that PB 117 is dispatched for ancillary services, it necessarily generates incidental electric energy that is consumed by load customers.

19.1. NGCP's scheduling of and procurement of ancillary services from PB 117 on behalf of its load customers shall be governed by the ASPA.

19.2. The incidental electric energy generated by the dispatch of PB 117 will be consumed by PSALM's customers and paid for under existing Transition Supply Contracts (TSCs) to meet the demand and minimize or avert load curtailment. In this regard, and in connection with their Asset Purchase Agreement governing THERMA MARINE's acquisition of PB 117, PSALM and THERMA MARINE will execute the necessary agreements to implement the availment by TSC customers of the energy incidental to the dispatch of ancillary services based on the prevailing ERC-approved NPC Time of Use (TOU) rates in the Mindanao Grid and other applicable adjustments.

ASPA RATES

20. In accordance with the AS-CRM, the following rates charged by THERMA MARINE under the ASPA for the provision of ancillary services shall be recovered by NGCP from all load customers in the Mindanao grid, as follows:

1. Electricity Fees

Capital Recovery Fee (CRF)	= PhP0.92277/kW/hr (Initial Term)
Capital Recovery Fee (CRF)	= PhP0.87061/kW/hr (1 st Renewal Term)
Capital Recovery Fee (CRF)	= PhP0.81845/kW/hr (2 nd Renewal Term)
Fixed O&M Fee (FOM)	= PhP0.32524/kW/hr
Energy Fee (EF)	= PhP0.14891/kW/hr

Fuel and Oil Lube Rates (FLR) in PhP/kW/hr are computed based on fixed values of Heavy Fuel Oil Consumption Rate (HFCR) and Lube Oil Consumption Rate (LOCR).

2. Ancillary Services Charge per Month

$$ASC = FC + VC - ADJ$$

$$FC = [CRF + (FOM)(IF_f)] \left[\sum_{h=1}^{H_m} BC_h \right] + \frac{INS_y - INS_1}{12}$$

$$VC = [(EF)(IF_v) + FLR]ED_m - \sum_{h=1}^{H_m} [(TOU_h)(ED_h)]$$

$$ADJ = ADJ_1 + ADJ_2 + ADJ_3$$

For $h = 1, 2, \dots, H_m$ $y = 1, 2, \dots, 10$ and $m = 1, 2, \dots, 12$

Where:

ASC = Ancillary services charge per month in Pesos

FC = Fixed charge per month in Pesos

VC = Variable charge per month in Pesos

ADJ = Adjustment charge per month in Pesos

ADJ₁ = Billing capacity adjustment charge in Pesos

ADJ₂ = Synchronization time adjustment charge in Pesos

ADJ₃ = Black start synchronization time adjustment charge
in Pesos

CRF = Capital recovery fee in PhP/kW/hr

FOM = Fixed O&M fee in Php/kW/hr
IF_f = Inflation factor for fixed O&M fee
BC_h = Billing capacity for hour h in kW
INS_y = Actual insurance paid for the whole plant at the beginning of year y
INS₁ = Actual insurance paid for the whole plant at the beginning of year 1 or Php 21,517,891.00
EF = Energy fee in Php/kWh
IF_v = Inflation factor for energy fee
FLR = Fuel and lube oil rate in Php/kWh
ED_m = Energy delivered to the Grid for the billing month
TOU_h = Mindanao time of use rate for hour h
ED_h = Energy delivered to the Grid for hour h, net of system losses
H_m = Number of hours of current billing month

A more detailed discussion of applicable rates and billing mechanics as well as the rate justification and derivation are attached hereto as **Annexes “J”** to **“J-2”**, respectively.

COLLECTION DEFICIENCY MECHANISM

21. Under the AS-CRM, the cost of procuring ancillary services shall be recovered from all the load customers in the grid for whom the said services are contracted. These costs consist of ancillary services charges paid to ancillary service providers.

22. Following various ERC Resolutions and Orders, NGCP, as the System Operator, manages and arranges for the procurement of ancillary

services, including billing and collection, while receiving no revenue or income therefrom.

22.1. It bears stressing that the procurement of ancillary services should be revenue-neutral on the part of NGCP. NGCP obtains no financial gain from ancillary services and should not incur financial losses or costs in securing ancillary services.

22.2. Ancillary service charges are billed to NGCP by its ancillary service providers. As these amounts are to be recovered from the benefitting load customers, NGCP, in turn, bills the said customers. The payments from the load customers are paid to the ancillary service providers.

23. Although NGCP has significantly improved the collection efficiency of transmission billings in Mindanao since assuming its transmission functions in January 2010, a collection deficiency still persists in the grid.

24. For the eleven (11) -month period from January until November 2009, the collection deficiency amounts to an average of 3.3% of the Total Monthly Ancillary Services Billing, equivalent to P2,118,792.00 each month. In short, the amounts collected for payment of ancillary service charges are insufficient to pay the ancillary service providers in full.

25. To ensure the continued supply of ancillary services, NGCP has had to pay the resultant deficiency to the providers from its own funds, thereby incurring financial loss, when its procurement of ancillary services should be revenue neutral.

26. To address this matter, Applicants agreed on a Collection Deficiency Mechanism consisting of a 3.3% surcharge on the Total Monthly Ancillary Service Charge, equivalent to the historical collection deficiency as discussed, to be collected from the load customers in the Mindanao Grid on a monthly basis. The collected surcharge shall be used to cover the collection shortfall to pay for the ancillary services to ensure the continuous supply of ancillary services in the grid. In accordance with the AS-CRM, adjustments for over- or under-recoveries will be undertaken at the end of the year; hence, the surcharge will not adversely affect any of the load customers.

27. Considering that the Collection Deficiency Mechanism is an integral part of the ASPA, the ASPA shall neither take effect nor be implemented without the approval and/ or grant of provisional authority of the said Collection Deficiency Mechanism. In view of the foregoing, applicants likewise seek the approval and/ or grant of provisional authority for the said Collection Deficiency Mechanism provided in Schedule 5 of the ASPA.

RATE IMPACT

28. Based on rate simulations prepared by NGCP using data from a sample billing month, the impact of the application of the rates to be charged by THERMA MARINE under the ASPA on NGCP's charges in the Mindanao Grid is estimated at PhP129.44/kW/mo or PhP0.2923/kW/h:

Actual Computation	Contingency and Dispatchable Reserve	
December 2009 Total Cost	96,795,774.12	
Applicable Billing Determinant Demand	1,443,090	
Applicable Billing Determinant Energy	639,091,081	
Applicable Rates P/kW/Month	67.08	
Computed P/kWh	0.1515	

Estimated using new rates for PB 117		Rate Difference
December 2009 Total Cost	283,585,660.06	
Applicable Billing Determinant Demand	1,443,090	
Applicable Billing Determinant Energy	639,091,081	
Applicable Rates P/kW/Month	196.51	129.44
Computed P/kWh	0.4437	0.2923

29. The abovementioned rate impact simulations include the impact of the proposed Collection Deficiency Mechanism.

A copy of the Rate Impact Simulation calculations is attached hereto as **Annex “K.”**

ALLEGATIONS IN SUPPORT OF THE PRAYER FOR PROVISIONAL AUTHORITY

30. 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.

31. NGCP has the sole mandate and responsibility to procure the necessary ancillary services. The available ancillary services in the Mindanao Grid currently being provided exclusively by the NPC are insufficient to meet the required levels. Thus, at present, the transmission of power in the Mindanao Grid cannot be considered reliable, stable, and secure. Consequently, the stability of Grid is at risk.

32. As stated earlier, PB 117 provides a significant portion of the existing ancillary services to the Mindanao Grid. The current level of ancillary services in the Mindanao Grid, which includes the ancillary services provided by

PB 117 *via* NPC, is already insufficient to meet the required levels. Hence, it is clear that the safety and stability of the Mindanao Grid is already at risk given the insufficiency of available ancillary services.

A copy of the actual data and graphical presentation is attached hereto as **Annex “L.”**

33. As discussed, THERMA MARINE is scheduled to take-over the operations of PB 117 on 01 March 2010. Absent the approval of the ASPA covering the billing period of 26 February 2010 to 25 March 2010, whether final or provisional, THERMA MARINE is not obligated to provide ancillary services and NGCP is not authorized to bill its customers for the ancillary service charges to be paid to THERMA MARINE.

34. It is also pertinent to note that the current level of available ancillary services still includes the services provided by PB 117. Consequently, the available ancillary services, already insufficient to meet the required levels, will be further reduced to more critical levels after the scheduled turn-over of PB 117 to THERMA MARINE with no approved contract for the supply of the ancillary services.

A copy of the actual data and graphical presentation showing the impact to available ancillary services if PB 117 ceases providing ancillary services to the Mindanao Grid is attached hereto as **Annex “M.”**

35. In addition to the privatization of PB 117, Power Barge No. 118 located in Maco, Compostela Valley (PB 118) owned by NPC, which also supplies a significant portion of the current ancillary services in Mindanao, has also been recently privatized and is scheduled for turn-over to the winning bidder

on February 2010. Similar to PB 117, the sale of PB 118 does not include the assignment of the obligation to supply ancillary services.

36. The turn-over of PB 118 will reduce further the level of available ancillary services and further put the security and stability of the Mindanao Grid at risk. The continuing supply of ancillary services from PB 118 after turn-over will be the subject of a separate ASPA and joint application of NGCP and THERMA MARINE.

Copies of graphical presentations showing the impact to the available ancillary services if both PBs cease to provide ancillary services to the Mindanao Grid are attached hereto as **Annex "N."**

37. The ASPP requires at least twenty-five (25) MW of black start capability available per restoration highway in the Mindanao Grid (Section 3.2.5.6). There are five (5) area control centers in Mindanao with one (1) restoration highway each.

38. Notably, PB 117 is the sole provider of black start service in the Butuan Area Control Center (BACC). Absent a provisional authority or final approval authority for the subject ASPA, PB 117 will not be able to provide black start service and it will take a much longer time for generating plants within BACC to recover from a shutdown, which area is already besieged by constant black outs.

39. The absence of system reliability and stability in the Mindanao Grid will have significant adverse effects on the public.

39.1. Ensuring that THERMA MARINE will be allowed to provide ancillary services to NGCP and the latter to recover the cost of the ancillary services from its load customers effective on the billing period of 26 February 2010 to 25 March 2010, is essential considering the turn-over of PB 117 on 01 March 2010. The upcoming national and local elections in May 2010 makes the need for system reliability and stability all the more critical – not only in Mindanao, but with respect to implications to the entire nation as well.

39.2. As the demand for power in Mindanao continuously increases, the requirements of the system for ancillary services to ensure system stability and reliability likewise increases. Providing system stability is essential to avoiding adverse effects on the public, is key to protecting the interests of existing small and large scale businesses throughout Mindanao, as well as ensures continuing investments and economic growth.

40. Thus, the insufficiency of available ancillary services in the Mindanao Grid cannot be over-emphasized, particularly upon the turn-over of PB 117 to THERMA MARINE. Should this Honorable Commission issue a provisional approval of the subject ASPA effective the billing period of 26 February 2010 to 25 March 2010 in consideration of the turn-over of PB 117 to Applicant THERMA MARINE on 1 March 2009, the continuous provision of ancillary services to the Mindanao Grid by PB 117 will be assured, and the risk to the safety and stability of the Grid substantially mitigated.

41. Hence, the Applicants respectfully pray for the provisional approval of the subject ASPA.

PRAYER

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

1. Immediately issue an Order provisionally approving the ASPA between NGCP and THERMA MARINE obligating THERMA MARINE to provide and NGCP to pay for ancillary services and allowing NGCP to recover from its load customers the cost of the ancillary services effective the billing period of 26 February 2010 to 25 March 2010 in the manner provided under the ASPA.
2. After due hearing, render judgment approving the said ASPA.
3. Render judgment permitting NGCP to recover from benefiting customers, all related and incidental expenses that it incurs or may incur in relation with the procurement and operation of ancillary services under the ASPA, including the implementation of the Collection Deficiency Mechanism provided in Schedule 5 of the ASPA.

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

Quezon City and Makati City for Pasig City, 02 February 2010.

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Admitted on 03 May 2007