

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 GRID
CORPORATION OF THE
PHILIPPINES AND SN
ABOITIZ POWER-MAGAT,
INC., WITH PRAYER FOR
THE ISSUANCE OF
PROVISIONAL AUTHORITY**

ERC CASE NO. 2016 – 164 RC

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

D O C K E T E D
Date: OCT 25 2016
By: [Signature]

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NOTICE OF PUBLIC HEARING

TO ALL INTERESTED PARTIES:

Notice is hereby given that on 24 August 2016, Applicants National Grid Corporation of the Philippines (NGCP) and SN Aboitiz Power-Magat, Inc. (SNAP-MI) jointly filed an *Application (with Prayer for the Immediate Issuance of a Provisional Authority)* dated 11 August 2016 for approval of the their Ancillary Services Procurement Agreement which was executed on 08 August 2016. Relative thereto, the following were the allegations in the said Application:

NATURE OF THE CASE

1. This Application is for the approval of the Ancillary Services Procurement Agreement (ASPA) between the NGCP and SNAP-MI, pursuant to the Decision dated 3 October 2007 in ERC Case No. 2006-049RC, 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.”*

THE PARTIES

2. Applicant NGCP is a corporation created and existing under the laws of the Philippines, with office address at NGCP Building, Quezon Avenue corner BIR Road, Diliman, Quezon City. It is the concessionaire which assumed the power transmission functions of the National Transmission Corporation (TRANSCO) pursuant to Republic Act No. 9136¹ (EPIRA). It holds a franchise under Republic Act No. 9511² 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. The franchise also includes the conduct of activities necessary to support the safe and reliable operation of the transmission system.
3. Applicant SNAP-MI is a corporation organized and existing under and by virtue of the Philippine laws with principal office address at Magat Hydroelectric Power Plant, Brgy. Aguinaldo, Ramon, Isabela. It may be served with orders, notices, and other legal processes through its undersigned counsel. It is the owner and operator of Magat Hydro-Electric Power Plant (Magat HEPP), which was certified and accredited by NGCP as capable of providing

¹ Republic Act No. 9136 entitled, “An Act Ordaining Reforms in the Electric Power Industry, Amending for the Purpose Certain Laws and for other Purposes”;

²An Act Granting the National Grid Corporation of the Philippines a Franchise To Engage in the Business of Conveying or Transmitting Electricity Through High Voltage Back-Bone System of Interconnected Transmission Lines, Substations and Related Facilities, and for other Purposes;

Regulating Reserve (RR), Contingency Reserve (CR), Dispatchable Reserve (DR) and Black Start Capability.

ANTECEDENT FACTS

4. Republic Act No. 9136 provides that it is the responsibility of NGCP to ensure and maintain the reliability, adequacy, security, stability and integrity of the nationwide electrical grid in accordance with the performance standards for its operations and maintenance, as set forth in the Philippine Grid Code (PGC), adopted and promulgated by the Honorable Commission, and to adequately serve generation companies, distribution utilities and suppliers requiring transmission service and/or ancillary services through the transmission system³.
5. Similarly, the PGC provides that NGCP 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 tariffs to the ERC⁴.
6. Ancillary services (AS) as defined in Section 4b of the EPIRA “*refer to 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.*” These services are essential in ensuring reliability in the operation of the transmission system and consequently, in the reliability of the electricity supply in the Luzon, Visayas and Mindanao grids.
7. In order to implement and regulate the procurement of AS, the Honorable Commission approved the Ancillary Services Procurement Plan (ASPP) through its Order dated 9 March 2006 in ERC Case No. 2002-253 and the Ancillary Services-Cost Recovery

³Section 9 (c) and (d);

⁴Section 6.3.1.2;

Mechanism (AS-CRM) through its Decision dated 3 October 2007 in ERC Case No. 2006-049RC.

8. Pursuant to its mandate, NGCP invited and negotiated with all prospective generation companies capable of providing ancillary services, one of which is SNAP-MI.
9. It may be recalled that TRANSCO and SNAP-MI entered into an ASPA in October 2008. On 4 February 2009, TRANSCO and SNAP-MI filed an application docketed as ERC Case No. 2009-007RC, which was approved in the Decision dated 12 October 2009. The Honorable Commission on page 21 of the Decision stated that: *“Based on the foregoing, it was determined that the contracted Ancillary Service capacity is needed to augment the deficiency of ancillary reserve capacity and maintain the reliability in the operation of the transmission system and electricity supply in the grid.”*
10. Also, on 8 March 2013, NGCP and the SNAP-MI entered into another ASPA (2013 ASPA) for a period of three years. On 27 March 2013, the parties filed an application docketed as ERC Case No. 2013-053RC before the Honorable Commission for the approval of the 2013 ASPA, which was provisionally approved through an Order dated 3 June 2013. The Honorable Commission in page 12 of the Order stated that: *“The Commission believes that the contracted ancillary services capacity is needed to augment the deficiency of ancillary reserve capacity and maintain the reliability of the operation of the transmission system and electricity supply in the Luzon Grid.”*
11. Due to the necessity of extending the services of providing the same ancillary services, the Applicants again entered into a new ASPA under the same rates, terms and conditions.⁵ In the latest accreditation tests held in 2015 on the Magat HEPP, the plant demonstrated capability of providing RR, CR, DR and

⁵ The proposed schedules are: 95MW RR firm capacity for 24 hours a day and 7 days a week; and its 60MW CR firm capacity during peak hours.

Black Start Services. The copy of the Accreditation Certificate is attached as Annex "A."

12. Similar to the existing ASPA, NGCP agreed to procure and SNAP-MI agreed to continuously provide, under the new ASPA, the following AS for a period of a period five (5) years:

Capacity	Type of Ancillary Services
Firm	Regulating Reserve
	Contingency Reserve
Non-firm	Regulating Reserve
	Contingency Reserve
	Dispatchable reserve
	Black Start Capability

A copy of the ASPA is attached as Annex "B."

**CONTRACTED CAPACITY RATES AND
IMPACT SIMULATION**

13. Also, the Applicants used the following rates for the capacity fees as provided in the previous ASPA:

Firm:

Ancillary Service	Applicable Rates (Maximum Hourly Rate)
Regulating Reserve	Php2.50/kW/Hr
Contingency Reserve	Php1.50/kW/Hr

Non-Firm:

Ancillary Service	Applicable Rates (Maximum Hourly Rate)
Regulating Reserve	Php3.00/kW/Hr
Contingency Reserve	Php2.25/kW/Hr
Dispatchable Reserve	Php1.25/kW/Hr
Black Start Capability	Php2.14/kW/Hr

14. SNAP-MI respectfully submits that the proposed rates represent a reasonable recovery of the opportunity cost in making available generation capacity to provide the procured AS.
15. The rates under ASPA were subjected to a simulation with the following results:

Ancillary Services	Indicative Rate Impact	
	P/kW-month	P/kWh
Regulating Reserve	24.9009	0.1340
Contingency Reserve	12.2620	0.0660
Dispatchable Reserve	2.7928	0.0150

A copy of the said rate impact simulation is attached as Annex "C."

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

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

17. 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 AS to ensure grid system reliability. As mentioned above, NGCP has the mandate to procure the required AS. However, the Honorable Commission must first approve the contract before the same could be implemented.
18. As mentioned above, the Honorable Commission has already declared that there is a necessity for NGCP to procure the contracted ancillary services capacity of SNAP MI to maintain the reliability of the operation of the transmission system and electricity supply in the Luzon Grid.

19. SNAP-MI must continue to provide the current contracted ancillary services beyond the 2013 ASPA to maintain the reliability of the power grid. Based on the current levels of available contracted AS in the Luzon Grid, the firm contracted AS have not yet met the required levels of the ASPP. The copies of the relevant actual data and its corresponding graphical presentations showing the required and available levels of AS in the Luzon Grid are attached as Annex "D."
20. NGCP must be guaranteed that there are available AS on a daily basis to assure reliability of the grid. There is no assurance that the non-firm capacities would be available when needed. NGCP cannot gamble on this chance. As the grid operator, the contracted capacity of SNAP, especially its firm capacities, are greatly needed.
21. Thus, NGCP and SNAP MI agreed to execute another ASPA for a period of another five years. With this ASPA, the Luzon Grid is assured of AS until 2021.
22. Also, as the demand for power in the Luzon increases, the requirements of the system to ensure stability, reliability and security likewise increases. Ensuring the integrity of the system is essential to protect the interests of the public. The absence of system reliability and stability will certainly discourage investments and growth.
23. Applicants respectfully submit that the immediate approval of the ASPA by this Honorable Commission is a necessity to maintain the present reliability and security of the Grid. In support of these allegations, NGCP submits a copy of the Judicial Affidavit of Engr. Lizaflor Bacani-Kater, which is attached as Annex "E."

PRAYER

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

- a) Immediately ISSUE a provisional authority to implement the subject ASPA;
- b) APPROVE, after notice and hearing, the subject ASPA.

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

The Commission has set the said Application for determination of compliance with the jurisdictional requirements, Expository Presentation, Pre-trial Conference, and presentation of evidence on **17 November 2016 (Thursday) at ten o'clock in the morning (10:00 a.m.), at the ERC Hearing Room, 15th Floor, Pacific Center Building, San Miguel Avenue, Pasig City.**

All persons who have an interest in the subject matter of the proceeding may become a party by filing, at least five (5) days prior to the initial hearing and subject to the requirements in the ERC's Rules of Practice and Procedure, a verified petition with the Commission giving the docket number and title of the proceeding and stating:

- (1) the petitioner's name and address;
- (2) the nature of petitioner's interest in the subject matter of the proceeding, and the way and manner in which such interest is affected by the issues involved in the proceeding; and
- (3) a statement of the relief desired.

All other persons who may want their views known to the Commission with respect to the subject matter of the proceeding may file their opposition to the Application and or comment thereon at any stage of the proceeding before the Applicants conclude the presentation of their evidence. No particular form of opposition or comment is required, but the document, letter or writing should

contain the name and address of such person and a concise statement of the opposition or comment and the grounds relied upon.

All such persons who wish to have a copy of the *Application (with Prayer for the Immediate Issuance of a Provisional Authority)* may request the Applicants, prior to the date of the initial hearing, that they be furnished a copy thereof. The Applicants are hereby directed to furnish all those making said request with copies of their Application and its attachments, subject to reimbursement of reasonable photocopying costs. Any such person may likewise examine the Application and other pertinent records filed with the Commission during standard office hours.

WITNESS, the Honorable Chairman **JOSE VICENTE B. SALAZAR** and the Honorable Commissioners **ALFREDO J. NON**, **GLORIA VICTORIA C. YAP-TARUC**, **JOSEFINA PATRICIA A. MAGPALE-ASIRIT**, and **GERONIMO D. STA. ANA**, Energy Regulatory Commission, this 17th day of October 2016 in Pasig City.

per: NJR
ATTY. NATHAN J. MARASIGAN
Chief of Staff
Office of the Chairman and CEO

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LS: GLS/NJM/APV