

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 CIP II
POWER CORPORATION,
WITH PRAYER FOR THE
ISSUANCE OF
PROVISIONAL AUTHORITY,**

ERC CASE NO. 2017-009 RC

**NATIONAL GRID
CORPORATION OF THE
PHILIPPINES (NGCP) and
CIP II POWER
CORPORATION (CIP II),
Applicant.**

DOCKETED
Date: MAR 30 2017
By: ✓

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ORDER

On 16 February 2017, the National Grid Corporation of the Philippines (NGCP) and CIP II Power Corporation (CIP II) filed a *Joint Application (with Prayer for the Immediate Issuance of Provisional Authority) (Joint Application)* seeking the Commission's approval of Ancillary Services Procurement Agreement (ASPA) dated 05 January 2017 entered into by both parties.

In the said *Joint Application*, Applicants alleged the following:

NATURE OF THE CASE

1. This Application is for the approval of the Ancillary Services Procurement Agreement (ASPA) between the NGCP and CIP, 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 CIP is a corporation organized and existing under and by virtue of the laws of the Philippines with principal office address at Barangay Quirino, Bacnotan, La Union. It may be served with orders, notices and other legal processes through its undersigned counsels at its address below. It is the owner and operator of the 20-MW diesel power generation facility (Diesel Power Plant), which was certified and accredited by NGCP as capable of providing Dispatchable Reserve (DR).

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

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;

³Section 9 (d);

⁴ Section 6.3.1.2;

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 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 CIP. NGCP determined that its units are capable of providing DR. The copy of the Accreditation Certificate No. 2016-LO08 dated 1 November 2016 is attached as Annex "A".

9. Consequently, the Applicants executed the ASPA for the supply of DR for a period of five (5) years under a non-firm arrangement. A copy of the ASPA dated 5 January 2017 is attached as Annex "B".

NON-FIRM CONTRACTED CAPACITY RATES AND IMPACT SIMULATION

10. The Applicants used the following rate for the capacity fee:

Non-Firm:

Ancillary Service	Applicable Rates (Maximum Hourly Rate)
Dispatchable Reserve	Php1.25/kW/Hr

11. CIP respectfully submits that the proposed rates represent a reasonable recovery of the opportunity cost in making available generation capacity to provide the procured AS.

12. The rate under ASPA was subjected to a rate impact simulation by NGCP, as follows:

AS Type	SIMULATION	
	P/kW-mo	P/kWh equivalent
DR	1.8961	0.0038
Total	1.8961	0.0038

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

13. 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.

PRAYER FOR PROVISIONAL AUTHORITY

14. 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.

15. CIP must provide the current contracted ancillary services to maintain the reliability of the power grid. Based on the current levels of available contracted AS in the Luzon Grid, the non-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 hereto as Annex "D."

16. 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 CIP, especially its firm capacities, are greatly needed.

17. As a non-firm AS service provider, the AS to be provided by CIP and paid for by NGCP shall only be when it is needed. The entry of CIP as an additional AS service provider ensures competition between and among AS service providers which will ultimately initiate a downward pressure to current prices. CIP has no existing contract with any customer, thus, ensuring the reliability of the AS service to be provided by CIP.

18. Thus, NGCP and CIP agreed to execute the ASPA for a period of five years. With this ASPA, the Luzon Grid is assured of AS until 2021.

19. 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 and sufficient reserves is essential to protect the interests of the public. The absence of system reliability and stability will certainly discourage investments and growth.

20. 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. Lisaflor Bacani-Kater which is hereto 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.

Finding the said *Joint Application* sufficient in substance with the required fees having been paid, the same is hereby set for determination of compliance with jurisdictional requirements, expository presentation, Pre-trial Conference, and presentation of evidence on **8 June 2017 at one o'clock in the afternoon (1:00 P.M.), at the ERC Hearing Room, 15th Floor, Pacific Center, San Miguel Avenue, Pasig City.**

Accordingly, Applicants are hereby directed to:

- 1) Cause the publication of the attached Notice of Public Hearing in two (2) newspapers of nationwide circulation in the Philippines at their own expense, twice (2x) within two (2) successive weeks, the dates of publication not being less than seven (7) days apart and the date of the last publication to be made not later than ten (10) days before the date of the scheduled initial hearing;
- 2) Furnish with copies of this Order and the attached Notice of Public Hearing the offices of the City Mayor and the Local Government Unit (LGU) legislative body of Quezon City for the appropriate posting thereof on their respective bulletin boards;
- 3) Inform of the filing of the *Joint Application*, the reasons therefor, and of the scheduled hearing thereon, the consumers within the affected franchise area, by any other means available and appropriate;
- 4) Furnish with copies of this Order and the attached Notice of Public Hearing, the Office of the Solicitor General (OSG), the Commission on Audit (COA), and the Committees on Energy of both Houses of Congress. They are hereby requested, if they so desire to send their duly authorized representatives at the scheduled hearing; and

- 5) Furnish with copies of the *Joint Application* and the attachments all those making requests therefor, subject to reimbursement of reasonable photocopying costs.

On the date of the initial hearing, Applicants must submit to the Commission its written compliance with the aforementioned jurisdictional requirements attaching therewith, methodically arranged and duly marked the following:

- 1) The evidence of publication of the attached Notice of Public Hearing consisting of affidavits of the Editors or Business Managers of the newspapers where the said Notice of Public Hearing was published, and the complete issues of the said newspapers;
- 2) The evidence of actual posting of this Order and the attached Notice of Public Hearing consisting of certifications issued to that effect, signed by the aforementioned Mayor and LGU legislative bodies or their duly authorized representatives, bearing the seals of their offices;
- 3) The evidence of other means employed by Applicants to inform of the filing of the *Joint Application*, the reasons therefore, and of the scheduled hearing thereon, the consumers within the affected franchise area;
- 4) The evidence of receipt of copies of this Order and the attached Notice of Public Hearing by the Office of the Solicitor General (OSG), the Commission on Audit (COA), and the Committees on Energy of both Houses of Congress;
- 5) The evidence of receipt of copies of the *Application*, and the attachments by all those making requests therefor, if any; and
- 6) Such other proofs of compliance with the requirements of the Commission.

Applicants and all interested parties are also required to submit, at least five (5) days before the date of initial hearing and Pre-Trial Conference, their respective Pre-Trial Briefs containing, among others:

- 1) A summary of admitted facts and proposed stipulation of facts;

- 2) The issues to be tried or resolved;
- 3) The documents or exhibits to be presented, stating the purposes and proposed markings therefore; and
- 4) The number and names of the witnesses, with their written testimonies in a Judicial Affidavit form attached to the Pre-trial Brief.

Failure of Applicants to comply with the above requirements within the prescribed period shall be a ground for cancellation of the scheduled hearing, and the resetting of which shall be six (6) months from the said date of cancellation.

Applicants must also be prepared to make an expository presentation of the instant *Joint Application* aided by whatever communication medium that they may deem appropriate for the purpose, in order to put in plain words and explain, for the benefit of the consumers and other concerned parties, what the *Joint Application* is all about and the reasons and justifications being cited in support thereof.

SO ORDERED.

Pasig City, 22 March 2017.

FOR AND BY AUTHORITY
OF THE COMMISSION:


JOSE VICENTE B. SALAZAR
Chairman and CEO

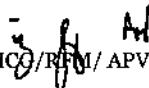
ERC



Office of the Chairman and CEO



C-2017-029-OC-01289

LS: ICG/RFM/APV


COPY FURNISHED:

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8. Commission on Audit (COA)
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9. Senate Committee on Energy
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10. House Committee on Energy
Batasan Hills, Quezon City
11. Philippine Chamber of Commerce and Industry (PCCI)
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