

Republic of the Philippines
ENERGY REGULATORY COMMISSION
San Miguel Avenue, Pasig City



**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**

ERC CASE NO. 2006- 049 RC

**NATIONAL TRANSMISSION
CORPORATION (TRANSCO),**

Applicant.

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D O C K E T E D

Date: NOV 10 2006

By: [Signature]

ORDER

Before this Commission for resolution is the prayer for provisional authority on the application filed by the National Transmission Corporation (TransCO) on September 11, 2006 for the approval of its Ancillary Services – Cost Recovery Mechanism (AS-CRM) of the Ancillary Services Procurement Plan (ASPP).

In the said Application, TransCO proposed, among others, the following mechanisms and formulae on the implementation of its AS-CRM of the ASPP:

Ancillary Services – Cost Recovery Mechanism (AS-CRM)

1.0 Introduction

The Ancillary Services – Cost Recovery Mechanism (AS-CRM) completes the Ancillary Services Procurement Plan (ASPP, Order on ERC Case 2002-253 dated July 12, 2006) and is consistent with the Open Access Transmission Service (OATS) Rules.

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1.1 Overview

There are three (3) modes for a customer to secure any or all of their ancillary services. First is through TransCO's Ancillary Services Procurement Agreement with qualified generation companies; second is through the market, subject to the methodologies approved by the Energy Regulatory Commission (ERC) - the Market Rules (Section 3.3.3.5) allows trading and settlements of all types of Ancillary Services; and third is through the Alternative Ancillary Services Arrangement with another service provider.

For services arranged through TransCO, the OATS Rules (Section D7) and the ASPP and the AS-CRM will be applied.

In cases where customers opt to secure any or all of their ancillary services requirements through the Wholesale Electricity Spot Market (WESM), procurement and recovery of costs shall be independent of TransCO.

In cases where customers opt to secure any or all of their ancillary services requirements through an Alternative Ancillary Services Arrangement, procurement and recovery of costs shall be independent of TransCO provided that the arrangement is approved by TransCO. In such cases, Section D8 of the OATS Rules shall apply.

Effectively, the decision of where to secure the required Ancillary Services rests on the customer. Availing a particular ancillary service through TransCO will not in any way preclude the customers from availing the rest of their ancillary requirements through WESM or through an alternative ancillary service agreement.

1.2 Principles in the Design of the AS-CRM

The AS-CRM sets the rules on TransCO's recovery of ancillary services contracted and procured under the ASPP. The AS-CRM remains consistent with TransCO's mandate under Republic Act No. 9136 and its Implementing Rules and Regulations (Electric Power Industry Reform Act of 2001) and ERC-approved rules on open access transmission service.

The following are the general principles used in the formulation of the AS-CRM:

- (a) Revenue Neutrality. The formula should be revenue neutral to both System Operator and Market Operator. There should be no under and over recovery of the cost of service and no profit margin will be allowed. That is, the charges should be*

complete passed-on from the user or beneficiary of the service to the service provider.

- (b) *"Causers Pay" Principle. The principle of "causers pay" should apply whenever practical. This means that if the necessity of a certain Ancillary Service can be attributed to a particular user or beneficiary, the cost of that service should be charged accordingly. Otherwise the cost should be allocated in proportion to the level of transaction in the grid. However, charging the cost of Ancillary Services, the "causers pay" principle based on Generator vs. Customer cost allocation may be immaterial considering that Generators will always impute all costs when they charge the Customers or bid into the WESM.*
- (c) *When allocating cost for Ancillary Services, the timeframe for system averaging should be as close as practicable (i.e., coincident) to the time the services are being provided or made available to the system. For example, the cost allocation of reserve should be based on the hourly energy schedules instead of using monthly peak demands.*

Ancillary Services that are allowed to be traded in the WESM will have cost recovery formulations for both the OATS and WESM regimes to provide a transition while the latter is still under development. Other types of services not covered by the WESM will adopt the rates and charges as stipulated in the OATS although this does not preclude TransCO from using the WESM formulae.

1.3 Definition of Terms

The terms used in this AS-CRM is consistent with Section A1 of the OATS Rules (Defined Terms and Interpretation).

1.4 Definition of Ancillary Services

The labels used to describe the ancillary services vary. TransCO, in its 2004 OATS Rules, follows the labels for different ancillary services used in the Grid Code. However, the WESM Rules differ in their labels or terms in some of the ancillary services.

In the interest of consistency and avoidance of confusion, the terms are reconciled with due consideration to relevant system requirements such that reliability and quality of service are not compromised. Table 1.1 below shows an equivalence matrix of the definition of each service.



Table 1.1 Definition Matrix for Ancillary Services

2004 OATS Rules	2006 OATS Rules	WESM Rules
Load Following and Frequency Regulation	Regulating Reserve	Regulating Reserve
Contingency Reserve Spinning Reserve	Contingency Reserve	Contingency Reserve
Contingency Reserve – Back-Up Power Supply	Dispatchable Reserve	Dispatchable Reserve
Black Start Service	Black-Start Capacity	(Not Traded in WESM)
Energy component and additional capacity of Back-Up Power Supply	Energy Imbalance	Ex-Post Price within Trading Interval
		Spot Energy Purchase beyond Trading Interval
Reactive Power Support	Reactive Power Support	(Not Traded in (WESM))
Customer Load Dropping	(Not Included in filing)	Interruptible Loads in Lieu of Reserve

2.0 Contracting of Ancillary Services

The decision of where to secure the required ancillary services rests on the customer. Customers can enter into a contract under the OATS Rules, participate in the WESM, and/or secure an alternative ancillary services agreement.

2.1 Contracting under the OATS Rules

All Ancillary Services procured outside of WESM shall be contracted by TransCO from qualified Generators and will be recovered through rates and charges from the Generation Customers, Embedded Generation Customers and Load Customers, where applicable.

Ancillary Service Charges shall be paid by Connected Transmission Customers and Embedded Generators, except to the extent that the obligation is relieved in part or in whole by an Alternative Ancillary Service Agreement.

2.2 Participating in the WESM

Ancillary Services which are to be traded in the WESM mostly deal with operating reserve requirements for system operations. In addition, the WESM Rules allows Customers to offer Interruptible Loads as Ancillary Service in lieu of operating reserves, a condition that was not considered in the OATS Rules. This is consistent with Section 3.3.3.5 of the Market Rules.

2.3 Alternative Ancillary Services Agreement

The Alternative Ancillary Services Arrangement must be approved by TransCO by virtue of Section D8 of the OATS Rules.

2.4 Procurement and Cost Recovery (OATS Rules vs. WESM)

AS-CRM is closely related to the manner by which they are procured or contracted. It is in the procurement methods of some Ancillary Services where the distinction between what are traded in the WESM and those procured outside of the WESM (the OATS and WESM regimes) is apparent as discussed in Section 4 of this ASPP.

Table 2.1 shows a comparison of OATS Rules and WESM mode of securing the required ancillary services.

Table 2.1 Ancillary Service Procurement and Cost Recovery

Ancillary Service Types	Procurement	
	WESM	OATS
<i>Load Following and Frequency Regulation = Regulating Reserve</i>	<i>Spot offers</i>	<i>Transition contracts</i>
<i>Spinning Reserve = Contingency Reserve</i>	<i>Spot offers</i>	<i>Transition contracts</i>
<i>Back-Up Power = Dispatchable Reserve</i>	<i>Spot offers</i>	<i>Transition contracts</i>
<i>Black Start Capacity</i>	<i>(Not traded)</i>	<i>Long-term contracts</i>
<i>Energy Imbalance ≈ Ex Ante and Ex Post Pricing</i>	<i>Spot offers</i>	<i>Back-Up Power (energy and additional capacity)</i>
<i>Reactive Power Support</i>	<i>(Not traded)</i>	<i>Long-term contracts</i>
<i>Customer Load Dropping = Interruptible Loads</i>	<i>Spot offers</i>	<i>(Not included)</i>

Table 2.2 shows cost recovery schemes applicable for each type of ancillary service. in the OATS and WESM regimes. The columns under cost recovery specify the method of allocating the procurement costs, which could either be imposed to a specific user (i.e., beneficiary of the service), or to all Transmission Customers. When the procurement cost is charged to all Transmission Customers, it is allocated through the use of billing determinant such as system demand or energy consumption. Effectively, this results into the system average rate for that service. The system averaging approach in cost recovery is adopted in both procurement methods under the OATS and WESM regimes. The only difference is mainly in the timeframe of cost allocation (or charging) as will be clarified in the succeeding sections.

Table 2.2 Ancillary Service Procurement and Cost Recovery

Ancillary Service Types	Cost Recovery	
	(WESM) User Specific	(OATS) System Average
Load Following and Frequency Regulation = Regulating Reserve	None	All (capacity)
Spinning Reserve = Contingency Reserve	None	Generator (capacity)
Back-Up Power = Dispatchable Reserve	None	Generator (capacity)
Black Start Capacity	User (energy)	All (capacity)
Energy Imbalance = Ex Ante and Ex Post Pricing	User (energy)	None
Reactive Power Support	Users (reactive energy)	All (capacity)
Customer Load Dropping = Interruptible Loads	None	Generator (capacity)

3.0 Ancillary Services

Ancillary Service Charges shall be paid by Connected Transmission Customers and Embedded Generators, except to the extent that the obligation is relieved in part or in whole by an Alternative Ancillary Service Agreement or via WESM participation.

3.1 Billing Determinant

For the purposes of determining Ancillary Service Charges:

- 3.1.1 The Embedded Generator Billing Determinant for each embedded generating facility shall be the maximum scheduled dispatch in MW of that Generation Customer for the Billing Period for which the Ancillary Services were provided.
- 3.1.2 The Generator Billing Determinant for each Generation Customer shall be the maximum scheduled dispatch in MW of that Generation Customer for the Billing Period for which the Ancillary Services were provided.
- 3.1.3 The Load Billing Determinant for each Load Customer shall be the non-coincident peak demand in kW, measured in fifteen (15) minute intervals, of that Load Customer for the current Billing Period, for which the Ancillary Services were provided.





3.2 Charges

The following formulae on Ancillary Service Charges are taken from Annex VI-Module F of the Proposed Revised OATS Rules (2006 OATS Rules) which TransCO filed to the ERC on 07 July 2006 to the ERC under ERC Case No. 2006-015RC.

3.2.1 Regulating Reserve Service

- (a) *Regulating Reserve Service Charge (RRC). Prior to the Spot Market Commencement Date, Load Customers, Generation Customers and Embedded Generators shall pay RRC each billing period determined as follows:*

$$RRC = RR \text{ Rate} \times ABD$$

Where:

RR Rate = the Regulating Reserve Rate

ABD = Applicable Billing Determinant which shall be either:

*the Load Customer Billing Determinant;
or*

the Generator Billing Determinant; or

the Embedded Generator Billing Determinant.

- (b) *Regulating Reserve Rate (RR Rate). The RR Rate shall be determined as follows:*

$$RR \text{ Rate} = \frac{RR \text{ Costs}}{\Sigma ABD}$$

Where:

RR Costs = Expected or contracted cost to the Transmission Provider/System operator for Regulating Reserve Services for the current Regulatory Year, plus any short-fall, or less any surplus, in aggregate RRC collected in the previous year compared to actual costs in that year, divided by 12.

ΣABD = The sum of the Billing Determinants for all Transmission Customers including Embedded Generators

- (c) Subsequent to the Spot Market Commencement Date, Transmission Customers shall pay for Regulation Reserves as determined by the WESM Rules, WESM manuals and the Ancillary Services Procurement Plan.

3.2.2 Contingency Reserve Service

- (a) Contingency Reserve Service Charge (CRSC). Prior to the Spot Market Commencement Date, the CRSC payable by the Generation Customer and Embedded Generator in a Billing Period shall be determined as follows:

$$\text{CRSC} = \text{CR Rate} \times \text{GBD}$$

Where:

CR Rate = the Contingency Reserve Rate

GBD = Applicable Generator Billing Determinant which shall be either:

the Generator Billing Determinant; or

the Embedded Generator Billing Determinant

- (b) Contingency Reserve Service Rate (CRSR). The CRSR shall be determined as follows:

$$\text{CR Rate} = \frac{\text{CR Costs}}{\Sigma \text{GBD}}$$

Where:

CR Costs = Expected or contracted cost to the Transmission Provider/System Operator for Contingency Reserve Services for the current Regulatory Year, plus any short-fall, or less any surplus, in aggregate CRSC collected in the previous year compared to actual SR Costs for that year, divided by 12.

ΣGBD = The sum of the Generator and Embedded Generator Billing Determinants for all Generation Customers, including Embedded Generators

- (c) Subsequent to the Spot Market Commencement Date, Transmission Customers shall pay for Contingency Reserves as determined by the WESM Rules, WESM manuals and the Ancillary Services Procurement Plan.

3.2.3 Dispatchable Reserve (Cold Standby) Service

- (a) Dispatchable Reserve (Cold Standby) Service Charge (DRSC). Prior to the Spot Market Commencement Date, the DRSC payable by the Generation Customer and Embedded Generator in a Billing Period shall be determined as follows:

$$DRSC = DR Rate \times GBD$$

Where:

DR Rate = The Dispatchable Reserve (Cold Standby) Service Rate

GBD = Applicable Generator Billing Determinant which shall be either:

the Generator Billing Determinant; or

the Embedded Generator Billing Determinant

- (b) Dispatchable Reserve Service Rate (DRSR). The DRSR shall be determined as follows :

$$DR Rate = \frac{DR Costs}{\Sigma GBD}$$

Where:

DR Costs = Expected or contracted cost to the Transmission Provider/System Operator for Dispatchable Reserve (Cold Standby) Services for the current Regulatory Year, plus any short-fall, or less any surplus, in aggregate DRSC collected in the previous year compared to actual DR Costs in that year, divided by 12.



Σ GBD = The sum of the Generator and Embedded Generator Billing Determinants for all Generation Customers, including Embedded Generators

(c) Subsequent to the Spot Market Commencement Date, Transmission Customers shall pay for Dispatchable Reserves as determined by the WESM Rules, WESM manuals and the Ancillary Services Procurement Plan.

3.2.4 Black Start Capacity Service

(a) Black Start Service Charge (BSSC). The BSSC payable by the Load Customer, Generation Customer and Embedded Generator in a Billing Period shall be determined as follows:

$$\text{BSSC} = \text{BSS Rate} \times \text{ABD}$$

Where:

BSS Rate = The Black Start Service Rate

ABD = Applicable Billing Determinant which shall be either:

The Load Customer Billing Determinant;
or

the Generator Billing Determinant; or

the Embedded Generator Billing Determinant

(b) Black Start Service Rate (BSSR). The BSSR shall be determined as follows :

$$\text{BSS Rate} = \frac{\text{BSS Costs}}{\Sigma \text{ABD}}$$

Where:

BSS Costs = Expected or contracted cost to the Transmission Provider/System operator for Black Start Services for the current Regulatory Year, plus any short-fall, or less any surplus, in aggregate BSSC collected in the previous year compared to the actual BSS Costs in that year, divided by 12.



ΣABD = The sum of the Billing Determinants for all Transmission Customers, including Embedded Generators

3.2.5 Reactive Power Support Service Charge

(a) Reactive Power Support Service Charge (RPSSC). The RPSSC payable by the Load Customer in a Billing Period shall be determined as follows:

RSSC = RS Rate x LBD

Where:

RS Rate = The Reactive Power Support Service Rate

LBD = Load Customer Billing Determinant

(b) Reactive Power Support Service Rate (RPSSR). The RPSSR shall be determined as follows:

RS Rate = $\frac{RS\ Costs}{\Sigma LBD}$

Where:

RS Costs = Expected or contracted cost to the Transmission Provider/System operator for Reactive Power Support Services for the current Regulatory Year, plus any short-fall, or less any surplus, in aggregate RSSC collected in the previous year compared to the actual RS Costs in that year, divided by 12.

ΣLBD = The sum of the Load Billing Determinants for all Load Customers

3.2.6 Energy Imbalance

(a) Energy Imbalance Service Charges

(i) Imbalance Capacity Charge

The rates and charges for Imbalance Capacity Charge are determined by the following formula:



$$\text{Charge}_{\text{IC}} = \text{Rate}_{\text{Capacity}} \times \sum_d \text{Imbalance}_i^d$$

Where:

- Charge_{IC}** - The Imbalance Capacity Charge in Peso payable by the Generation Facility of each Generation Customer and of each Embedded Generator in a Billing Period.
- Rate_{Capacity}** - The Backup Reserve (Cold Standby) Service rate in Peso per kW.
- Imbalance_i^d** - The Imbalance Capacity in kW for each Generation Facility of each Generation Customer and of each Embedded Generator "i", recorded in whole kW for each day "d" of the Billing Period. Imbalance Capacity is determined after subtracting the Credited Imbalance from the Maximum Under Generation for the day.
 Thus,

$$\text{Imbalance}_i^d = \text{Under Generation}_{\text{Max}} - \text{Credited Imbalance.}$$

Where:

- Under Generation_{Max}** = Maximum difference between hourly schedule and actual generation for the day.
- Credited Imbalance** = Under Generation_{Max} if Under Generation_{Max} is less than % level of AS_{LFFR and SR} X Scheduled Demand_{Max} for the Day
- = % level of AS_{LFFR and SR} X Scheduled Demand_{Max} for the Day if Under Generation_{Max} is greater than % level of AS_{LFFR and SR} X Scheduled Demand_{Max} for the Day

(ii) Energy Imbalance Charge for Net Allowable Shortage

The rates and charges for Energy Imbalance Charge for Net Allowable Shortage are determined by the following formula:

$$\text{Charge}_{\text{EI}} = \text{Rate}_{\text{Energy}} \times \sum_d \text{Imbalance}_i^d$$





Where:

- Charge_{EI} - The Energy Imbalance Charge for Net Allowable Shortage in Peso payable by the Generation Facility of each Generation Customer and of each Embedded Generator in a Billing Period.
- Rate_{Energy} - Average energy rate of BUR Providers in Peso per kWh.
- Imbalance_i^d - The Energy Imbalance in kWh for each Generation Facility of each Generation Customer and of each Embedded Generator "i", recorded in whole kWh for each day "d" of the Billing Period. Energy Imbalance for Net Allowable Shortage is net generated amount after subtracting the Allowable Shortage from the Allowable Excess.

Where,

Allowable Shortage = Total Under Generation within the 1.5 % of the limit

Allowable Excess = Total Over Generation within 1.5 % of the limit
(Note: Over Generation above 1.5% limit is not credited.)

Thus,

If Allowable Excess < Allowable Shortage,

$$\text{Imbalance}_i^d = \text{Allowable Shortage} - \text{Allowable Excess}$$

Else,

$$\text{Imbalance}_i^d = 0$$

(iii) Energy Imbalance Penalty Charge

The rates and charges for Energy Imbalance Penalty Charge are determined by the following formula:

$$\text{Charge}_{EI} = \text{Rate}_{\text{Energy}} \times \text{PIE Factor} \times \sum_d \text{Imbalance}_i^d$$



Where:

- Charge_{EI} - The Energy Imbalance Penalty Charge in Peso payable by the Generation Facility of each Generation Customer and of each Embedded Generator in a Billing Period.
- Rate_{Energy} - Average energy rate of BUR Providers in Peso per kWh.
- PIE Factor - ERC-Approved Penalized Imbalance Energy Factor
- Imbalance_i^d - The Energy Imbalance Penalty in kWh for each Generation Facility of each Generation Customer and of each Embedded Generator "i", recorded in whole kWh for each day "d" of the Billing Period. Energy Imbalance Penalty is a generated amount that is 1.5% below the output Scheduled Generation. Energy Imbalance Penalty is determined after subtracting the Allowable Shortage from the Under Generation.

Thus,

$$\text{Imbalance}_i^d = \text{Under Generation} - \text{Allowable Shortage}$$

3.3 Billing Process

The ERC Order¹ dated February 11, 2004 provides among others that "the Commission is inclined to allow industry participants considerable flexibility to determine the billing process that works best to implement the new billing determinant". The same ERC Order further states that "Customers can be assigned the responsibility for paying the TransCO charges related to the metered demand of Generators, and vice versa. To ensure a smooth implementation, TransCO is given the option to place responsibility for payment of charges on either Generator or the Load Customers who are parties to an existing purchase power agreement, regardless of the location of the metered demand".

Consistent thereto, TransCO adopts a principle, as far as practicable, to place the responsibility of paying the Ancillary Services provided to generators to all benefiting TransCO customers. Simply put, TransCO may recover the costs of Ancillary Services provided to generators from load customers.

¹ ERC Case No. 2002-253 In the Matter of the Application for the Approval of the Proposed Rules, Terms and Conditions for Open Access Transmission Service (OATS) and Proposed Rates, Terms and Conditions of Ancillary Services



DISCUSSION

I. ANCILLARY SERVICES – COST RECOVERY MECHANISM (AS-CRM)

Evaluation of the AS-CRM reveals that the said mechanism is designed to allow TransCO to recover the cost of ancillary services it arranged or procured with the qualified ancillary services provider/s for the system requirement from a particular user or beneficiary or beneficiaries.

The AS-CRM will likewise serve as a complement to the ASPP and is intended to be revenue neutral, hence, TransCO will not profit or gain from all generation-related ancillary services transactions.

Further, the AS-CRM is designed to ensure that:

- 1) TransCO will not incur any losses and financial cost in securing the required ancillary services to the system;
- 2) TransCO will allow the computation of any over-or-under-recovery on all ancillary services transactions;
- 3) TransCo will keep intact its approved revenue; and
- 4) TransCO will include recovery mechanisms for the following ancillary services:
 - a) Load following and frequency regulation or regulating reserve intended to be billed and charged to load and generator customers;
 - b) Spinning Reserve or Contingency Reserve intended to be billed and charged to generator customers;
 - c) Back-up Power or dispatchable reserve intended to be billed and charged to generator customers;
 - d) Reactive Power Support intended to be billed to load customers;

- e) Black-Start Capacity Service intended to be billed and charged to load and generator customers; and
- f) Energy Imbalances intended to be billed and charged to generator availing customers.

II. ANCILLARY SERVICES

TransCO, as a System Operator, is mandated to ensure and maintain the power quality, reliability and security of the Philippine Grid. However, with the ever increasing demand for power supply and requirements of AS and the limited supply of electricity from NPC, TransCO realized the need to procure AS from other AS providers.

In the Visayas Region alone, particularly the area of Cebu City, the Commission finds that there is an insufficient supply of electricity. While the other service providers, such as the East Asia Power Corporation (EAPC) located in Mactan City, has signified its interest to fill-up the shortage of supply of electricity of Cebu City, it is apprehensive to enter into an AS of replacement power contract with TransCO or any other entity due to the higher costs of operation of providing the needed AS and possibility that it will not be properly compensated. On the other hand, TransCO is hesitant to enter into this type of agreement in the absence of any recovery mechanism. Thus, there is a need to put in place the AS-CRM in order to address the insufficient supply of electricity.


Records of the Commission show that NPC is the current and dominant AS provider in the whole of Philippine Grid. Given the ever increasing requirements of AS for the Philippine Grid and the limited supply of electricity by the NPC, there is, therefore, an urgent need to procure AS from the other accredited AS providers in order to address the

shortage of supply of electricity and maintain the integrity of the transmission grid. However, the other prospective service providers are not motivated from participating in the provision of the ancillary services because the actual cost involved is higher than the present approved AS rate (as contained in the Commission's decision in NPC's unbundling application in ERC Case No. 2001-901 dated September 20, 2002, with 2002 as the test year). The present and existing rate is said to be lower due to the fact that at the time it was established, the rates and the existing billing recovery mechanism were designed based on the 2002 operation and maintenance costs of NPC Power Plants.

Thus, pending the approval of the AS-CRM, TransCO may not have the option but to source its present AS from the NPC, otherwise, it would not be able to recover its cost of procuring the needed AS from the other providers since the allowed rates for the required AS, as approved, are lower than the reasonable rates of providing the needed AS by the other service providers.

III. AS-CRM VIS-A-VIS OATS Rules

The formula used in the computation of the charges for the different Ancillary Services under the proposed AS-CRM was found to be consistent with the proposed Revised OATS Rules of TransCO. The Commission, however, temporarily removed Module F(AVI) of the OATS Rules which pertains to the AS Charges pending the approval of the AS-CRM and the on-going Public Consultation with the end in view that upon approval of the AS-CRM, it will be incorporated in the new OATS Rules as replacement of the removed Module F (AVI).



The Commission is cognizant of the importance and the urgent need to procure AS from the other accredited AS providers to address the shortage of supply of electricity and maintain the integrity of the transmission grid. Hence, in order not to prejudice TransCO's financial standing and the continuous delivery of electricity to the end-users, the needed ancillary services cost recovery mechanism must be put in place.

WHEREFORE, the foregoing considered, the Commission hereby **PROVISIONALLY APPROVES** the Ancillary Services – Cost Recovery Mechanism (AS-CRM) of the Ancillary Services Procurement Plan (ASPP) of the National Transmission Corporation (TransCO) subject to the condition that any Ancillary Services Procurement Agreement to be entered into by TransCO with the AS Provider shall be filed before the Commission for its approval.

SO ORDERED.

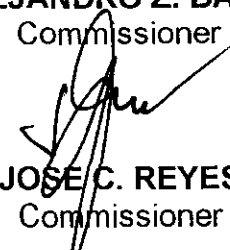
Pasig City, October 11, 2006.

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