

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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DOCKETED  
Date: APR 21 2008  
By: 

**ORDER**

Before this Commission for resolution is the "Motion for Reconsideration (Re: Order of the Honorable Commission dated October 3, 2007)" filed by the National Transmission Corporation (TransCo) on January 7, 2008 praying that:

- a) the Commission reconsiders the subject Order;
- b) TransCo, on the principle of causer's pay, be allowed to allocate the cost of Ancillary Services (AS) and recover the cost from the following:

Type of Ancillary Services	Recovered from/Billed to
Regulating Reserve (formerly known as Load Following and Frequency Regulation)	All capacity, i.e. Generators and Load Customers
Contingency Reserve (formerly known as Spinning Reserve)	Generators
Dispatchable Reserve (formerly known as Back-up Power)	Generators
Black Start Capacity	All Capacity, i.e. Generators and Load
Reactive Power Support	Load Customers
Energy Imbalance	Settlement if from generators



- c) the deadline of December 28, 2007 be extended to a period of six (6) months from receipt of the Order or June 2008; or in the alternative, not to set a deadline for the submission of AS contracts as this is an on-going process;
- d) the implementation effective March 26, 2008 of the Ancillary Services-Cost Recovery Mechanism (AS-CRM) be clarified in relation to the provisional authority granted by the Commission on the Memorandum of Agreement (MOA) between TransCo and Toledo Power Company (TPC) for the dispatchable reserve ancillary services for the Cebu-Negros-Panay (CNP) Grid; and
- e) whether TransCo, in the absence of any agreement with National Power Corporation (NPC) on the provision of ancillary service required by the grids, can still bill and charge benefiting customers of the existing ERC-approved unbundled tariffs.

In support of the said motion, TransCo averred, among others, that:

1. As intended in the formulation of the AS-CRM of the ASPP, the obligation to pay for the AS provision for the grid should be based on the causer's pay principle. Under the afore-said principle, the cost of AS should be directed to the parties causing the requirement and to those that caused the costs to be incurred. Directing the costs to these entities can have a significant effect on their behavior;
2. Although these AS costs would ultimately be paid by retail or load consumers, charging these costs to generators will all the more encourage the generation owners to maintain their facilities;
3. As to this date, TransCo has concluded only two (2) AS contracts for the Visayas AS requirements for approval of the Commission and that it has been negotiating with NPC since the first quarter of 2007, regarding the AS provision;
4. It is exerting reasonable and utmost effort to contract for AS provision, given that this is a new process in the Philippine energy business after years of NPC monopoly, the process of contracting for AS is not a simple and effortless work, thus, the December 28, 2007 deadline is perceived to be too short a period for it to comply; and
5. The Commission, in its Order dated November 27, 2007, provisionally authorized TransCo and TPC for the provision of dispatchable reserve (or back-up power) in the CNP Grid. With the issuance of the provisional authority, it sees the need to implement the AS-CRM in the CNP grid earlier than directed. Should it schedule or dispatch the TPC Power in accordance with the MOA, the cost of dispatchable reserve in the CNP will include the AS provision of TPC. Effectively, at any time and for the dispatchable reserve provision by TPC in the CNP grid, it will pay TPC for said cost and will recover the cost it needs to pay to TPC from all load customers in CNP.

## DISCUSSION

### 1. On Causer's Pay Principle

Under the causer's pay principle, generation companies may impute the AS charges as part of its operations and maintenance costs which will eventually be passed to the customers through the rates. However, the Commission, as a matter of policy and in a number of approved applications, has excluded the cost of these AS in the allowable rates of generation companies. Thus, the recovery of such cost from the generator's customers may entail amendments to the already approved and existing Power Supply Agreements (PSA) between the generators and their customers.

TransCo claimed that although these AS costs will ultimately be paid by the retail or load customers, charging these costs to generators will have a significant effect on their behavior as they will be encouraged to maintain their generation facilities. The Commission, however, is not so convinced. Generators, with facilities connected to the grid, are required to observe and follow the standards set forth under the Philippine Grid Code (PGC) and other relevant Rules and Regulations of the Commission to ensure their compliance therewith.



The Commission, therefore, maintains that the cost of procuring the AS under the ASPP shall be recovered 100% from the load customers but only until such time that the AS are already traded in the Wholesale Electricity Spot Market (WESM).

**2. Implementation of the AS-CRM for the Dispatchable Reserves in the Cebu-Negros-Panay (CNP) Grid.**

The Commission, in its Order dated November 27, 2007, provisionally authorized TransCo and TPC for the provision of dispatchable reserve (or back-up power) in the CNP Grid as TransCo saw the need to implement the AS-CRM in the CNP grid earlier than directed. Should it schedule or dispatch the TPC power in accordance with the MOA, the cost of dispatchable reserve in the CNP will include the AS provision of TPC. For the dispatchable reserve provision by TPC in the CNP grid, TransCo will pay TPC for said cost and will recover the cost it needs to pay to TPC from all load customers in CNP.

The Commission agrees with the position of TransCo as it is consistent with the provisionally approved MOA.

With regard to the request of TransCo and NPC for an extension of time to submit their AS contracts, the Commission finds said request reasonable.

Accordingly, TransCo and NPC are hereby directed to submit their AS contracts or MOA on or before June 30, 2008.



Finally, TransCo is hereby authorized to bill and charge its benefiting load customers of the existing approved tariffs of NPC pending the submission and approval of its MOA with NPC.

**SO ORDERED.**

Pasig City, March 24, 2008.

  
**RODOLFO B. ALBANO, JR.**  
Chairman

(On Official Travel)  
**RAUF A. TAN**  
Commissioner

  
**ALEJANDRO Z. BARIN**  
Commissioner

  
**MARIA TERESA A.R. CASTAÑEDA**  
Commissioner

(On Official Travel)  
**JOSE C. REYES**  
Commissioner

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