

Republic of the Philippines
ENERGY REGULATORY COMMISSION
San Miguel Avenue, Ortigas Center
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
CENTRAL NEGROS
POWER RELIABILITY,
INC., WITH PRAYER FOR
THE ISSUANCE OF
PROVISIONAL
AUTHORITY**

ERC CASE NO. 2019-024 RC

**NATIONAL GRID
CORPORATION OF THE
PHILIPPINES AND
CENTRAL NEGROS
POWER RELIABILITY,
INC.,**

Applicants.

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Promulgated:
MAY 10 2019

ORDER

On 28 March 2019, the National Grid Corporation of the Philippines (NGCP) and Central Negros Power Reliability, Inc. (CENPRI) filed an *Application* dated 18 March 2019, seeking the approval of their Ancillary Services Procurement Agreement (ASPA), with prayer for the issuance of provisional authority.

In their *Application*, NGCP and CENPRI alleged, among others, the following:

1. This Application is for the approval of the Ancillary Services Procurement Agreement (“ASPA”) between the NGCP and CENPRI dated 18 December 2018, pursuant to the Decision dated 18 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 holds a franchise under Republic Act No. 9511 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 CENPRI is a corporation duly organized and existing under and by virtue of the laws of the Republic of the Philippines with principal place of business at Purok San Jose, Barangay Calumangan, Bago City, Negros Occidental. It may be served with orders, notices, and other legal processes through its undersigned counsel. It is the owner and operator of the Calumangan Diesel Power Plant (“Generation Facility”), which was certified and accredited by NGCP to be capable of providing Ancillary Services (“AS”) in the forms of Dispatchable Reserve (“DR”) and Reactive Power Support (RPS).

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 system.
5. Similarly, the PGC provides that NGCP is responsible for determining, acquiring, and dispatching the capacity needed to supply the required Grid AS and for developing and proposing Wheeling Charges and AS tariffs to the ERC.

6. AS as defined in Section 4(b) 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 Mechanism (“AS-CRM”) through its Decision dated 3 October 2007 in ERC Case No. 2006-049RC.
8. Pursuant to its mandate, NGCP on different dates published in newspapers of general circulation a Notice of Invitation for Prospective Ancillary Services Providers, inviting all grid-connected merchant plants and independent power producers to participate in the provision of ancillary services. Upon receipt of the intention from CENPRI to provide ancillary services, NGCP commenced negotiations with CENPRI for the execution of an ASPA.
9. NGCP agreed to procure, and CENPRI agreed to supply, AS in the forms of: (a) Dispatchable Reserve [Tertiary Reserve] (DR); and (b) Reactive Power Support (RPS), both under a non-firm arrangement. A copy of the Ancillary Services Procurement Agreement between NGCP and CENPRI dated 18 December 2018 (with attached Addendum – Clarification on the Schedule 1) is attached in the Application.
10. During the period of negotiation, NGCP conducted several tests on the Generation Facility, and certified that the generating units have met and complied with the Standard Ancillary Services Technical Requirements of the ASPP as capable of providing DR and RPS. A copy of the Accreditation Certificate No. 2018-V0036 dated 24 May 2018 is attached in the Application.

CONTRACTED CAPACITY RATE & IMPACT SIMULATION

11. Under Clause 3 of the ASPA, CENPRI shall provide NGCP with the following AS as specified in Schedule 1 of the ASPA:

Non-Firm Contracted Capacity:

A. Dispatchable Reserve (Tertiary Reserve)

1. Up to 4.4 MW for Unit 1
2. Up to 4.4 MW for Unit 2

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3. Up to 4.4 MW for Unit 3
4. Up to 6.6 MW for Unit 4
5. Up to 6.6 MW for Unit 5

B. Reactive Power Support (RPS)

Available Capacity of Reactive Power outside the range of 85% lagging only.

Note that the capacities listed above are the maximum ancillary service capacity that can be provided for each unit. However, nomination and schedule shall be based on the latest AS Certificate.

12. The Applicable Rates for the capacity covered by the ASPA as provided in Schedule 4 are as follows:

A. Non-Firm Contracted Capacity:

1. Dispatchable Reserve (Tertiary Reserve);
PhP1.25/kW/Hr
2. Reactive Power Support (RPS): PhP4.00/kVAR/Hr

B. Incidental Energy Cost

The Cost of Incidental Energy ("IE") is the cost of actual energy generated for the Firm and Non-Firm Contracted Capacity which shall be paid and computed using the formula below:

Payment of Cost of Incidental Energy (IE) computed as follows:

$$\begin{aligned} IE_{DR} &= G \times (AR + \text{Variable Costs}) - REV_{WESM} \\ IE_{RPS} &= (G \times \text{Variable Costs}) - REV_{WESM} \end{aligned}$$

Where:

G = Summation of actual energy generated or dispatched due to Firm and Non-Firm Contracted Capacity, in kWh

AR = Applicable Rate per AS type

Variable Costs = Actual Fuel and oil Costs plus Variable O&M costs at P0.35/kWh x (USCPI_n/USCPI_o) x (XR_n/XR_o). Actual Fuel Cost shall be the cost of total actual fuel and oil consumption of Firm and Non-Firm Contracted Capacity including start-up and shutdown.



- Notes:
- USCPI_n – US Consumer Price Index, current period
 - USCPI_o – US Consumer Price Index, base period (January 2011)
 - XR_n – Average Foreign Exchange Rate, current period
 - XR_o – Average Foreign Exchange Rate, base period (P43.00)

REV_{WESM} = Summation of WESM revenue based on Final Ex-post market clearing price of the AS Provider's trading Node arising from G above.

13. Applicants submit that the rates represent a reasonable recovery of its opportunity cost in making available generation capacity to provide the procured AS.
14. The rates under ASPA were subjected to a simulation by NGCP, the results of which are as follows:

Ancillary Service	Indicative Rate Impact	
	P/kW-month	P/kWh equivalent
Dispatchable Reserve	13.6421	0.0290
Reactive Power Support	12.1116	0.0258

A copy of the Rate Impact Simulation is attached in the Application.

15. 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 Visayas Grid.
16. The ASPA shall be effective for a period of five (5) years, to commence immediately upon the effectivity of the provisional approval ("PA"), or in the absence thereof, the final approval ("FA") of the instant Application. In the event that the PA or FA, as the case may be, does not state a particular date of effectivity, the Agreement shall be effective on the date agreed upon by the Parties.
17. The capacity of the Generation Facility accommodates not only the instant ASPA, but also the Amended MOA and Supplemental Agreement with the Central Negros Electric Cooperative, Inc. (CENECO), as detailed in the Summary of Agreements with CENECO, attached in the Application.
 - a. The Amended MOA and Supplemental Agreement were executed by Energreen Power Inter-Island Corp. (formerly Energreen Power Development and

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Management, Incorporated) and thereafter transferred to CENPRI as “Project Company” by virtue of the Assignment and Assumption Agreement executed on 15 December 2015, a copy of which is attached in the Application.

b. CENPRI has prepared a simulation projecting intervals for nomination per type of service to ensure that CENECO’s requirements will be met. A copy of the Projected Intervals for Nomination Per Type of Service is attached in the Application.

18. CENPRI, as a generation company, falls within the ambit of Section 6 of the EPIRA. Attached are copies of relevant documents proving CENPRI’s due registration as a generation company, relevant permits to operate the Generation Facility and audited financial statements, as follows:

Document	Annex
Articles of Incorporation	“E”
Latest General Information Sheet filed with the Securities and Exchange Commission	“F”
Statement of Management Responsibility for Financial Statements (Latest Audited Financial Statement)	“G”
Certificate of Compliance covering the Generation Facility	“H”
CENPRI’s WESM Registration in respect of the Generation Facility	“I series”

While CENPRI is a co-applicant, it manifests that the instant Application shall neither modify, diminish or constitute a waiver of CENPRI’s rights nor expand its obligations and responsibilities as a generation company under EPIRA.

ALLEGATIONS IN SUPPORT OF THE PRAYER FOR PROVISIONAL AUTHORITY

19. It is a declared policy of the State to ensure the quality, reliability, security and affordability of the supply of electric power (Section 2(b), EPIRA). To this end, there is a need to comply with the system requirements for AS to ensure grid system security and reliability. As mentioned above, NGCP has the mandate to procure the required AS.

20. The current levels of available contracted AS in the Visayas Grid have not yet reached the desired levels necessary for the system security and reliability. Thus, Applicants executed the ASPA. A copy of the relevant actual data showing the required and available levels of AS in the Visayas Grid, entitled as Visayas Dispatchable Reserve Availability are attached in the Application.

21. As the demand for power in the Visayas 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. The importance of AS, from CENPRI to ensure and maintain the reliability, adequacy, security, stability and integrity of the Visayas Grid cannot be overemphasized.
22. Applicants respectfully submit that the immediate approval of the ASPA by this Honorable Commission is a necessity to maintain the reliability, adequacy, security, stability and integrity of the Visayas Grid. In support of these allegations, NGCP submits a copy of the Judicial Affidavit of Engr. Riza C. Ereño of the Revenue and Regulatory Affairs Department of NGCP, which is attached in the Application.

PRAYER

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

- a) Immediately ISSUE a provisional authority to implement the subject ASPA executed on 18 December 2018; and
- b) APPROVE, after notice and hearing, the subject ASPA.

Applicants pray for other just and equitable relief.

Finding the said *Application* to be sufficient in form and substance with the required fees having been paid, the same is hereby set for determination of compliance with the jurisdictional requirements, expository presentation, Pre-trial Conference, and presentation of evidence on **27 June 2019 (Thursday) at nine o'clock in the morning (9:00 A.M.) at O Hotel, 52 San Sebastian St, Bacolod City.**

Accordingly, NGCP and CENPRI 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 Provincial Governor, the City and Municipal Mayors, and the Local Government Unit (LGU) legislative bodies where NGCP and SIPC principally operate, including their regional offices, for the appropriate posting thereof on their respective bulletin boards;
- 3) Inform the consumers within the affected franchise area of the filing of the *Application*, its reasons therefor, and of the scheduled hearing thereon, 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 *Application* and its attachments all those making requests therefor, subject to reimbursement of reasonable photocopying costs.

On the date of the initial hearing, NGCP and CENPRI must submit to the Commission their 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 were 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 Governor, Mayors, LGU legislative body, or their duly authorized representatives, bearing the seals of their offices;
- 3) The evidence of other means employed by NGCP and SIPC to inform the consumers within the affected franchise area



of the filing of the *Application*, its reasons therefor, and of the scheduled hearing thereon;

- 4) The evidence of receipt of copies of this Order and the attached Notice of Public Hearing by the OSG, COA, and the Committees on Energy of both Houses of Congress;
- 5) The evidence of receipt of copies of the *Application* and its attachments by all those making requests therefor, if any; and
- 6) Such other proof of compliance with the requirements of the Commission.

NGCP, CENPRI, and all interested parties are also required to submit, at least five (5) days before the date of the 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 therefor; 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 NGCP and CENPRI 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.

NGCP and CENPRI must also be prepared to make an expository presentation of the instant *Application* aided by whatever communication medium that they may deem appropriate for the purpose. For the benefit of the consumers and other concerned parties, Applicants must be able to put in plain words and explain the nature of the *Application* with relevant information and pertinent

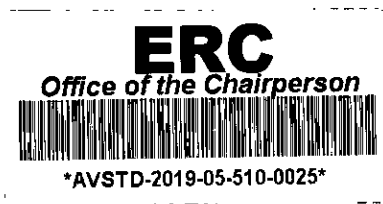


details substantiating the reasons and justifications being cited in support thereof.

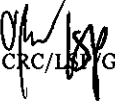
SO ORDERED.

Pasig City, 07 May 2019.

FOR AND BY AUTHORITY
OF THE COMMISSION:




AGNES VST DEVANEDARA
Chairperson & CEO


LS: CRC/LD/GLO ord.2019-024 RC NGCP CENPRI ASPA


Copy Furnished:

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4. Central Negros Power Reliability, Inc.
Purok San Jose, Barangay Calumangan
Bago City, Negros Occidental
5. Office of the Solicitor General
134 Amorsolo Street, Legaspi Village, Makati City
6. Commission on Audit
Commonwealth Avenue, Quezon City
7. Senate Committee on Energy
GSIS Bldg. Roxas Blvd., Pasay City
8. House Committee on Energy
Batasan Hills, Quezon City
9. Philippine Chamber of Commerce and Industry (PCCI)
3rd Floor, Chamber and Industry Plaza (CIP), 1030 Campus Avenue corner Park Avenue,
McKinley Town Center, Fort Bonifacio, Taguig City

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Cebu City
11. Office of the LGU Legislative body
Cebu City
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13. Office of the LGU Legislative body
Iligan City
14. Office of the Mayor
Quezon City
15. Office of the LGU Legislative body
Quezon City
16. Office of the Mayor
Makati City
17. Office of the LGU Legislative body
Makati City
18. Office of the Mayor
Bago City, Negros Occidental
19. Office of the LGU Legislative body
Bago City, Negros Occidental
20. Office of the Governor
Province of Negros Occidental
21. Office of the Sangguniang Panlalawigan
Province of Negros Occidental
22. Regulatory and Operations Service (ROS)
Energy Regulatory Commission
17th Floor, Pacific Center Bldg., San Miguel Avenue, Pasig City

