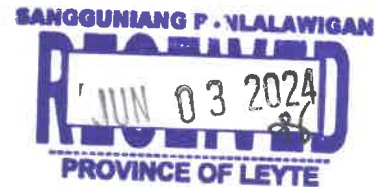


Republic of the Philippines
ENERGY REGULATORY COMMISSION
Pasig City

Item No.: 11
Date: 04 2024 JUN

IN THE MATTER OF THE
APPLICATION FOR
APPROVAL OF THE
ANCILLARY SERVICES
PROCUREMENT
AGREEMENT BETWEEN
THE NATIONAL GRID
CORPORATION OF THE
PHILIPPINES AND ISABEL
ANCILLARY SERVICES CO.
LTD., WITH PRAYER FOR
THE ISSUANCE OF
PROVISIONAL AUTHORITY



ERC CASE NO. 2023-039 RC

NATIONAL GRID
CORPORATION OF THE
PHILIPPINES (NGCP) AND
ISABEL ANCILLARY
SERVICES CO. LTD.
(IASCO),

Applicants.

X-----X

Promulgated:
July 13, 2023

ORDER

For resolution before the Commission is the prayer for the issuance of provisional authority contained in the *Application*, dated 11 April 2023, filed by Applicants National Grid Corporation of the Philippines (NGCP) and Isabel Ancillary Services Co. Ltd. (IASCO) on 08 May 2023.

FACTUAL ANTECEDENT

On 08 May 2023, NGCP and IASCO filed the instant *Application*, seeking the Commission's approval of their Ancillary Service Procurement Agreement (ASPA), with prayer for the issuance of provisional authority.

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.

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Proceedings Conducted by the Commission

On 18 May 2023, the Commission issued an *Order* and a *Notice of Virtual Hearing*, setting the instant *Application* for hearing on the following dates: (1) 23 June 2023 for the determination of compliance with the jurisdictional requirements and expository presentation; and (2) 30 June 2023 for the Pre-Trial Conference and presentation of evidence.

On 16 June 2023, Visayan Electric Company, Inc. (Visayan Electric) filed its *Petition to Intervene* of even date.

On 21 June 2023, IASCO filed its *Opposition* to Visayan Electric's *Petition to Intervene*.

On 23 June 2023, NGCP and IASCO filed their *Joint Pre-trial Brief* dated 22 June 2023.

During the hearing on 23 June 2023, Applicants NGCP and IASCO appeared. Likewise, Visayan Electric appeared as intervenor. NGCP and IASCO presented proofs of their compliance with the Commission's publication and posting requirements, pursuant to the *Order* dated 18 May 2023, as seen below:

EXHIBITS	DOCUMENT
A. NEWSPAPER PUBLICATIONS	
A	The 3 June 2023 issue of Business Mirror where the Notice of Virtual Hearing (NVH) was published.
A-1	Page A11 of the 3 June 2023 issue of the Business Mirror where the NVH was published.
A-2	The 10 June 2023 issue of Business Mirror where the NVH was published.
A-3	Page A11 of the 10 June 2023 issue of the Business Mirror where the NVH was published.
A-4	Affidavit of Publication dated 13 June 2023 executed by Aldwin M. Tolosa, Advertising Sales Manager of the Business Mirror, attesting to the publications of the NVH on 3 and 10 June 2023 issues of the newspaper.

Upon perusal of the foregoing submissions, the Commission found that NGCP and IASCO had complied with the posting and publication requirements, pursuant to the Commission's *Order* dated 18 May 2023. Thus, the Commission acquired jurisdiction over the instant *Application*.

Thereafter, the Commission proceeded with the expository presentation wherein NGCP and IASCO discussed the instant *Application* through their respective witnesses, as follows:

1. Ms. Lisaflor B. Kater (Ms. Kater), Manager of Special Accounts Portfolio Division, Customer Affairs Department, Revenue and Regulatory Affairs of NGCP. Ms. Kater discussed under oath the following topics:
 - a. Legal and Regulatory basis of the *Application*;
 - b. Conduct of Ancillary Service Competitive Selection Process (AS-CSP);
 - c. Ancillary Service (AS) type contracted;
 - d. Features of the ASPA; and
 - e. AS rates and rate impact simulation;
2. Mr. Hannel R. Tamayo (Mr. Tamayo), Regulatory Compliance Officer of IASCO. Mr. Tamayo discussed under oath the following topics:
 - a. Company overview of IASCO;
 - b. Project overview;
 - c. Plant AS Test Reports;
 - d. Plant Certifications;
 - e. Plant Operation and Maintenance; and
 - f. ASPA hourly Schedule.

Subsequently, IASCO presented Mr. Tamayo, as its witness, who testified on matters stated on his *Judicial Affidavit*, as follows:

- a. He is the duly authorized representative of IASCO;
- b. IASCO is limited partnership duly organized and existing under and by virtue of the laws of the Republic of the Philippines;
- c. IASCO is the owner and operator of a power plant composed of eighty (80) modular diesel engine generator units grouped into six (6) Sectors, with a rated capacity of 70MW continuous output at 60Hz, including required ancillaries and spare parts, located in Isabel, Leyte (the "Generation Facility"), which was certified and accredited by the NGCP as capable of providing Regulating Reserve ("RR"), Contingency Reserve ("CR"), and Reactive Power Support ("RPS") (collectively "Ancillary Services" or "AS");
- d. NGCP and IASCO entered into an Ancillary Services Procurement Agreement ("ASPA" or "Agreement") in relation to the Decision dated 3 October 2007 in ERC Case No. 2006-049 RC entitled "In the Matter of the Application for the Approval of the Ancillary Services Procurement Plan, with Prayer for Provisional Authority".
- e. Under the Agreement, NGCP agreed to procure and IASCO agreed to supply the RR, CR, and RPS under a firm arrangement, in accordance with the terms under the ASPA;
- f. If IASCO and the Generation Facility is technically capable to provide the AS;
- g. IASCO is financially capable to provide the AS and maintain the Generation Facility;
- h. The issuance of a provisional authority is warranted under the circumstances;
- i. The existence of conditions that would warrant the treatment of certain information submitted to the Commission as confidential; and
- j. Other matters relevant to the Application, identify documents, material and relevant to the instant Application, in the course of his testimony.

At the end his direct examination, Mr. Tamayo identified his *Judicial Affidavit* and his signature thereon, which were marked as Exhibits "X" and "X-1," respectively.

SEC. 44. Transfer of Powers and Functions. — The powers and functions of the Energy Regulatory Board not inconsistent with the provisions of this Act are hereby transferred to the ERC. The foregoing transfer of powers and functions shall include all applicable funds and appropriations, records, equipment, property and personnel as may be necessary.

Sec. 80. Applicability and Repealing Clause. — The applicability provisions of Commonwealth Act No. 146, as amended, otherwise known as the "Public Services Act;" Republic Act 6395, as amended, revising the charter of NPC; Presidential Decree 269, as amended, referred to as the National Electrification Decree; Republic Act 7638, otherwise known as the "Department of Energy Act of 1992;" Executive Order 172, as amended, creating the ERB; Republic 7832 otherwise known as the "Anti-Electricity and Electric Transmission Lines/Materials Pilferage Act of 1994;" shall continue to have full force and effect except insofar as they are inconsistent with this Act.

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Similarly, Sections 8 and 14 of E.O. No. 172 or the ERB Charter continue to be in full force by virtue of Sections 44 and 80 of the EPIRA.

Relative thereto, the Commission's *Revised Rules of Practice and Procedure (Revised RPP)*,⁶ particularly Sections 2, 3 and 4 of Rule 14 provide that:

Section 2. Allegations in the Motion and Supporting Documents. - The motion must allege such facts and circumstances that would justify the Commission's exercise of discretion in granting provisional authority or interim relief prior to a final decision. Such motion shall be accompanied by affidavits and documents in support of the allegations therein.

Section 3. Action on the Motion. — The Commission shall act on the motion for provisional authority or interim relief on the basis of the allegations in the application or petition, supporting documents and other pieces of evidence that the applicant or petitioner has submitted, as well as the comments or oppositions filed by interested persons, if there be any.

Motions for provisional authority or interim relief may be acted upon with or without hearing.

⁶ Energy Regulatory Commission, A Resolution Adopting the Revised Rules of Practice and Procedure of the Energy Regulatory Commission, Resolution No. 01, Series of 2021, §2 to 4, Rule 14 (17 December 2020).

This is consistent with Section 41⁹ of Republic Act No. 9136, otherwise known as the *Electric Power Industry Reform Act of 2001* (EPIRA) that mandated the Commission to promote and protect the interest of all electricity consumers against possible future power supply curtailment.

Basis for the ASPA Application

Under the EPIRA, the National Transmission Corporation (TRANSCO) is mandated to “ensure and maintain the reliability, adequacy, security, stability and integrity of the nationwide electrical grid”¹⁰ and to “adequately serve generation companies, distribution utilities and suppliers requiring transmission service and/or ancillary services through the transmission system.”¹¹

The NGCP, as concessionaire of TRANSCO and the entity granted with the franchise to operate and maintain the transmission network, is equally tasked under the EPIRA to enforce such mandate.

Section 4(b) of the EPIRA defines Ancillary Services (AS) as “services that are necessary to support the transmission of capacity and energy from resources to loads while maintaining reliable operation of the transmission system.” Such services are essential in ensuring not only the reliability in the operation of the transmission system as a whole, but also in the supply of electricity throughout the Luzon, Visayas, and Mindanao Grids.

On 09 May 2006, the Commission issued an *Order*, dated 29 March 2006, in ERC Case No. 2002-253,¹² approving TRANSCO’s proposed Ancillary Service Procurement Plan (ASPP). In the same *Order*, the Commission directed TRANSCO to file a separate application for the approval of its Ancillary Services-Cost Recovery Mechanism (AS-CRM).

⁹ Sec. 41. Promotion of Consumer Interests. – The ERC shall handle consumer complaints and ensure the adequate promotion of consumer interests.

¹⁰ Section 9(c), Republic Act. No. 9136 or EPIRA.

¹¹ Section 9(d), *Ibid.*

¹² Entitled, 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.

On 04 December 2019, the Department of Energy (DOE) issued Department Circular No. DC2019-12-0018,¹⁵ mandating the procurement of the required level and specifications of AS through firm contracts only.

Thereafter, 04 October 2021, the DOE issued Department Circular No. DC2021-10-0031¹⁶ (DOE 2021 AS-CSP Circular), requiring NGCP to conduct a Competitive Selection Process (CSP) in the procurement of its AS.

Hence, the Applicants filed the instant *ASPA* pursuant to the Transitory Provision of the said DOE 2021 AS-CSP Circular, as discussed herein below.

**Commission's Evaluation for
the Issuance of Provisional
Authority**

The final resolution of the instant *Application* shall continue to be pursued by the Commission with the end-view of ensuring grid reliability. Pending the final resolution and after initial evaluation of the submissions of the Applicants, the Commission deems that the prayer for the issuance of provisional authority, as contained in the *Application* of this instant case, be granted for reasons discussed in detail below.

**a. Procurement of the
Ancillary Service
Procurement Agreement
(ASPA)**

The Applicants alleged in their *Application* the following pertinent provisions with regard to their exemption from the required Competitive Selection Process (CSP) under the DOE Department Circular No. DC2021-10-0031¹⁷ (DOE 2021 AS-CSP Circular):

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¹⁵ Department of Energy (DOE), Department Circular No. DC2019-12-0018, "Adopting a General Framework Governing the Provision and Utilization of Ancillary Services in the Grid", 04 December 2019.

¹⁶ Entitled, Prescribing the Policy for the Transparent and Efficient Procurement of Ancillary Services by the System Operator.

¹⁷ Entitled, Prescribing the Policy for the Transparent and Efficient Procurement of Ancillary Services by the System Operator.

the instant Application, wherein NGCP agreed to procure and IASCO agreed to supply the RR, CR, and RPS under a firm arrangement, in accordance with the terms under the ASPA.

12. Pursuant to Section 7 of the ASPA, the Applicants agreed to jointly file the Agreement for approval of the Honorable Commission. Hence this application.

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The Commission notes that the instant *Application* was filed by the Applicants pursuant to the Transitory Provision under Section 11.2 of the DOE 2021 AS-CSP Circular, which states, as follows:

Section 11. Transitory Provision

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- 11.2. All firm AS applications that have successfully completed SO's accreditation test for the applicable AS type, prior to the effectivity of this Circular, and subject to similar terms and conditions with existing ASPAs approved by the ERC, shall not be covered by the said Circular.

As alleged by the Applicants, IASCO has completed the accreditation testing for its generating facility each for RR, CR, and RPS with NGCP on 12 February 2020, 09 October 2020, and 10 February 2021, respectively. NGCP then issued an Accreditation Certificate No. AS-2022-V-003-01, valid from 11 May 2022 to 10 May 2024.

Subsequently, in IASCO's *Letter* to the DOE, dated 31 January 2022, it sought clarification and confirmation of Section 11 of the DOE 2021 AS-CSP Circular, on whether the same will apply to Generation Companies (GenCos) who meet the conditions prescribed and whether such GenCos may still opt to sign an ASPA.

In response to IASCO's query, the DOE provided the following clarifications in its *Letter* dated 18 February 2022:

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2. xxx the DC 2021-10-0031 took effect on 29 October after its publication in the *Business World* and the *Daily Tribune* on 14 October 2021 and thereafter provided the basic requirements for the procurement of AS through CSP.

year term on the same terms and conditions, unless earlier terminated in accordance with Section 12 (Termination);

2. **Proposed Rates:**²⁶ Under Schedule 1 (Ancillary Services to be Provided Under the Agreement) and Schedule 3 (Applicable Rates) of the ASPA, the proposed rates under the instant *Application* is shown in Table 1:

Table 1. Proposed Rate for Ancillary Service

Type of Ancillary Service	Contracted Capacity	Applicable Rate
Regulating Reserve (Firm)	Between 8 MW to 60 MW capacity per hourly interval, 24 hours	PhP2.25/kW/h
Contingency Reserve (Firm)	Between 10 MW to 60 MW capacity per hourly interval, 24 hours	PhP1.50/kW/h
Reactive Power Support	Available Capacity of Reactive Power outside the range of 85% lagging and 90% leading power factor	PhP4.00/kVAR/h

3. **Annual Performance Evaluation:**²⁷ Schedule 5 (Annual Monthly Performance Evaluation) of the ASPA, provides that NGCP shall, on an annual and monthly basis, conduct Performance Evaluations (PE) of IASCO to determine the capability of its generating facility in providing the AS as provided in Schedule 1 of the ASPA. The total number of Hours Complied by IASCO shall be at least 97% of the total number of Scheduled Hours in a year, using the following formula:

$$PE = \frac{\text{Total No. of Hours Complied in a Year or in a Month}}{\text{Total no. of Hours Scheduled in a Year or in a Month}} \times 100$$

²⁶ Schedule 1 and 3 of the ASPA dated 16 January 2022, and Application dated 11 April 2023.
²⁷ Schedule 5, Ibid.;

Figure 1. Average Required and Scheduled RR

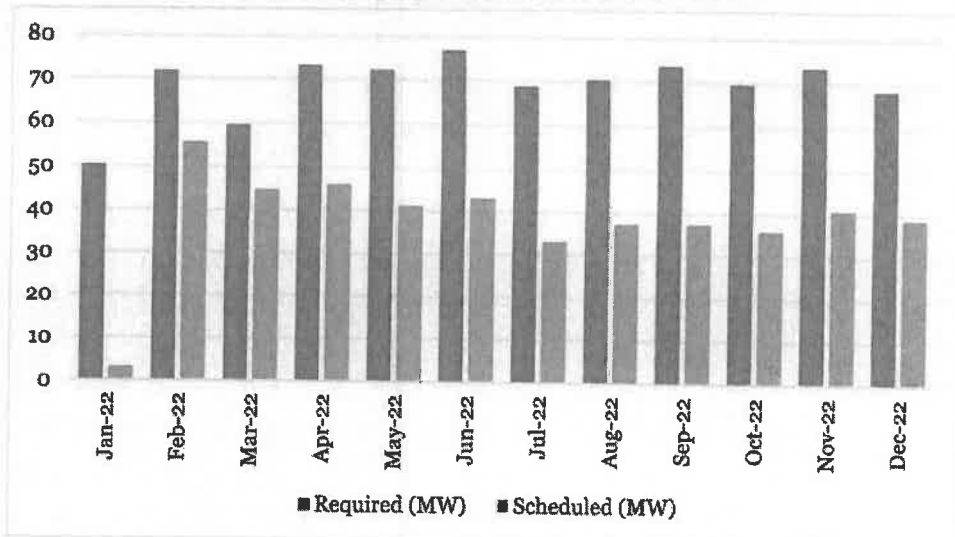


Table 3. Actual Historical Average Required and Scheduled Contingency Reserve for year 2022

Month	Contingency Reserve			
	Required (MW)	Scheduled (MW)	Availability (%)	Deficiency (%)
January 2022	135.08	14.20	10.51%	89.49%
February 2022	185.07	50.62	27.35%	72.65%
March 2022	150.56	38.84	25.80%	74.20%
April 2022	173.91	56.57	32.53%	67.47%
May 2022	162.29	52.26	32.20%	67.80%
June 2022	173.73	57.87	33.31%	66.69%
July 2022	154.32	54.19	35.12%	64.88%
August 2022	168.16	49.48	29.42%	70.58%
September 2022	172.18	48.64	28.25%	71.75%
October 2022	162.46	47.40	29.18%	70.82%
November 2022	174.33	57.42	32.94%	67.06%
December 2022	160.42	53.88	33.59%	66.41%

Figure 2. Average Required and Scheduled CR

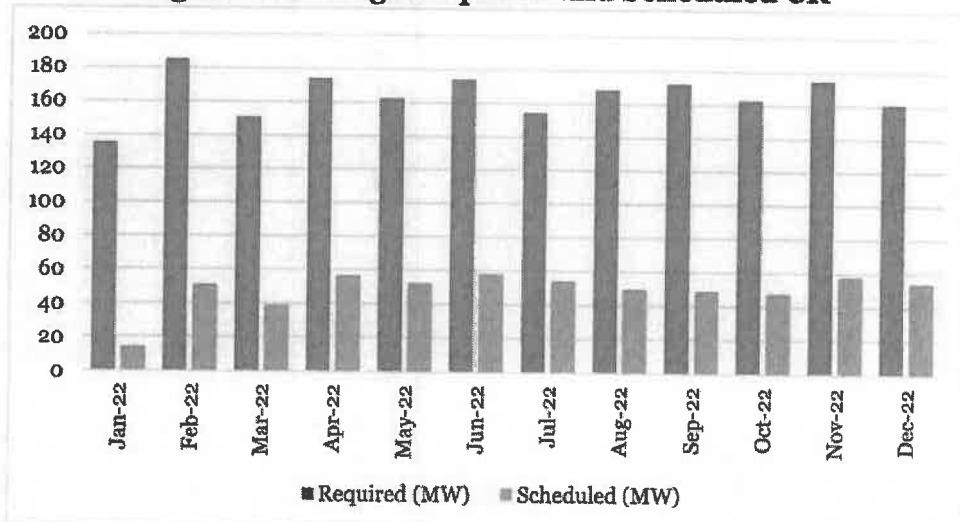


Table 6. Maximum Contingency Reserve Dispatch for year 2022

Month	Contingency Reserve	
	Maximum Capacity Dispatched (MW)	Date and Time of Occurrence
January 2022	42.64	19/01/2022 1900H
February 2022	48.99	27/01/2022 2000H
March 2022	26.45	15/03/2022 1200H
April 2022	48.96	30/03/2022 2000H
May 2022	46.44	06/05/2022 1000H
June 2022	49.16	01/06/2022 1600H
July 2022	48.58	07/07/2022 1500H
August 2022	39.04	16/08/2022 2000H
September 2022	31.58	13/09/2022 1900H
October 2022	47.76	13/10/2022 1500H
November 2022	49.33	26/10/2022 1500H
December 2022	49.26	28/11/2022 1600H

In addition, Table 7 shows the highest, lowest, and mean of the maximum dispatches of RR and CR data sets in the Visayas Grid.

Table 7. RR and CR Maximum Dispatch for year 2022

Dispatch	Regulating Reserve (MW)	Contingency Reserve (MW)
Highest	38.90	49.33
Lowest	17.02	26.45
Mean	24.39	44.02

Based on the information presented in Table 7, it can be observed that the highest in the maximum dispatches of RR and CR data sets in the Visayas Grid is 38.90MW and 49.33MW, respectively.

d. ASPA Rate Proposal

Based on their *Application*, NGCP and IASCO proposed the following tariffs for the RR and CR Capacity Payment and the Incidental Energy Payment in case of dispatch:

A. Ancillary Service Payment

1. For RR, Ancillary Service Payment is the total of the Capacity Payment and the Incidental Energy Payment in B and D below.

$$\text{Ancillary Service Payment}_{RR} = \text{Capacity Payment} + \text{Incidental Energy Payment}$$

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

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

Incidental Energy Payment = {G x (Capacity Payment rate + Variable Costs)} - (WESM Revenue)

Where:

- G = summation of actual energy generated or dispatched from the Scheduled Capacity, in kWh
- Variable Costs, in PhP/kWh = Fuel Cost and Variable O&M Cost, in PhP/kWh
 - Fuel Cost = shall be the rate, in PhP/kWh, submitted by the Service Provider every month based on either of the following, whichever is lower; (i) its actual fuel stock inventory consumption report, or (ii) the estimated fuel consumption based on the monthly generation, in kWh, multiplied by the fuel efficiency rate of 0.47 liters/kWh.
 - Variable O&M Cost, in PhP/kWh = PhP1.38/kWh x (Current CPI ÷ Base CPI)
- WESM Revenue = summation of WESM revenue based on market clearing price at the generator's trading node, arising from G.

e. ASPA Rate Derivation

According to NGCP, in deriving the appropriate rate for the instant ASPA, it considered rates that were deemed appropriate by using the New Build Methodology. NGCP needed to encourage generators to sign and commit to their capacity, for as long as the rates fall within NGCP's benchmark range.

In 2012, the ASPA Application of NGCP and San Roque Power Corporation (SRPC) docketed under ERC Case No. 2013-009 RC,²⁸ the proposed rates were based on the New Build Methodology. In this methodology, NGCP considered the cost of building a new hydro-electric plant (dam type) that could provide all AS.

A hydro-electric plant was chosen by NGCP because of its capability to provide all AS, namely: RR, CR, and DR. It is also a desirable type of technology in view of its minimal fuel cost.

²⁸ Entitled, In the Matter of the Application for Approval of the Ancillary Service Procurement Agreement Between the National Grid Corporation of the Philippines and San Roque Power Corporation, with Prayer for the Issuance of Provisional Authority.

Table 8. Billing Determinants

Billing Determinants	Visayas	Unit
Billing Determinant Demand (monthly average)	1,969	MW
Billing Determinant Energy (monthly average)	1,001	GWh

Using the data in Table 8, NGCP and IASCO were able to derive the following: a) estimated AS cost contribution of IASCO; and b) the indicative rate impact in the Visayas Grid. The results are summarized in Table 9.

Table 9. Simulated Rate Impact

Ancillary Service	Ave. Monthly Cost, PhP Mn	Indicative Rate Impact	
		PhP/ kW-mo.	PhP/kWh equivalent
Regulating Reserve	92.53	46.9925	0.0924
Contingency Reserve	62.55	31.7648	0.0625
Reactive Power Support	10.03	5.0954	0.0100

Based on Table 9, the indicative rate impact with IASCO resulted to PhP46.9925/kW-mo. or equivalent to a PhPo.0924/kWh for RR, PhP31.7648/kW-mo. or equivalent to a PhPo.0625/kWh for CR, and PhP5.0954/kW-mo. or equivalent to a PhPo.0100/kWh for RPS, to be reflected every billing cycle.

g. The Commission's Initial Findings

1. IASCO – Isabel Modular Diesel Power Plant

IASCO is the owner and operator of the 70MW Modular Diesel Engine Power Plant located in Isabel, Leyte. The said generating facility applied with the Commission for the issuance of a Certificate of Compliance (COC) and was issued by the Commission a Provisional Authority to Operate (PAO) valid until 21 October 2022, subject to submission of certain documents. The Commission issued a Certification dated 25 October 2022 to IASCO, with a qualification that the Commission is still in the process of evaluation of the extension of PAO or issuance of the COC.

On 03 October 2022, the Commission, through an email, required IASCO to submit and comply with the additional requirements in relation to IASCO's *Letter*,

Section 4.4.2. Testing of Ancillary Service Providers

Scheduled tests shall be conducted to confirm the compliance of generating units' capability and availability to deliver the Ancillary Services that the Generator had agreed to provide.

X X X

- (3) Lastly, GO 6.11.1.1 of the 2016 Philippine Grid Code (PGC) which provides:

X X X

Tests shall be conducted, in accordance with the agreed procedure and standards, to confirm the compliance of Generating Units for the following:

- a. Capability of Generating Units to operate within their registered Generation parameters;
- b. Capability of the Generating Units to meet the applicable requirements of the Philippine Grid Code;
- c. Capability to deliver the Ancillary Service that the Generation Company had agreed to provide;
- d. Availability of Generating Units in accordance with their capability declaration; and
- e. Annual testing of Over Frequency Relays (OFR) and Under Frequency Relays (UFR).

Based on the submitted AS Certificate, IASCO's MDPP was certified by NGCP to have met and complied with the above-mentioned Standard Ancillary Services Technical Requirements of the System Operations during the actual testing of IASCO's Isabel MDPP Sectors 1 to 6. The Commission deems that the AS capacities indicated in the AS Certificate shall be used for the nomination and scheduling of dispatch of RR, CR, and RPS.

5	2019-024 RC ³⁵	Central Negros Power Reliability, Inc. (CENPRI)			25.9MW
6	2021-056 RC ³⁶	SMCGP Philippines Energy Storage Co. Ltd. (SPESCL)	±20MW		
Total			±20MW	84.0MW	32.9MW

Notably, Table 11 shows that only ±20MW was the firm contracted capacity for RR, and zero (0) was the contracted capacity for CR in the Visayas Grid. Thus, the Commission determined that the firm capacities for RR and CR from IASCO will indeed contribute to alleviating the deficiency in the requirement of RR and CR in the Visayas Grid, needed to maintain grid reliability and security.

For, the RPS provision of IASCO, the Commission notes that there are other existing RPS Providers in the Visayas Grid, as shown in Table 12:

Table 12. Existing RPS Providers in the Visayas Grid

ERC Case No.	Power Plant	Location	RPS Rate	Contract period
2018-109 RC ³⁷	TPC Carmen	Brgy. Daanglungsod, Toledo City, Cebu	PhP4.00/kVar/hr	6/26/2019-6/25/2024
2018-108 RC ³⁸	PPC3-Nabas	Nabas, Aklan	PhP4.00/kVar/hr	6/25/2019-6/25/2014
2019-024 RC ³⁹	CENPRI Calumangan DPP	Calumangan, Central, Negros Oriental	PhP4.00/kVar/hr	8/26/2019 – 8/25/2024
2013-181 RC ⁴⁰	Panay DPP 1 and DPP3	Brgy. Tinocuan, Dingle, Iloilo	PhP4.00/kVar/hr	12/26/2013 12/25/2018

³⁵ Entitled, 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.

³⁶ Entitled, In the Matter of the Application for Approval of the Ancillary Services Procurement Agreement Between the National Grid Corporation of the Philippines and SMCGP Philippines Energy Storage Co. Ltd., with Prayer for the Issuance of Provisional Authority.

³⁷ Entitled, In the Matter of the Application for Approval of the Ancillary Services Procurement Agreement Between the National Grid Corporation of the Philippines and Toledo Power Company, with Prayer for the Issuance of Provisional Authority

³⁸ Entitled, In the Matter of the Application for Approval of the Ancillary Services Procurement Agreement Between the National Grid Corporation of the Philippines and Panay Power Corporation, with Prayer for the Issuance of Provisional Authority.

³⁹ Entitled, 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.

⁴⁰ Order dated 03 November 2014, In the Matter of the Application for Approval of the Ancillary Services Procurement Agreement (ASPA) Between the National Grid Corporation of the Philippines (NGCP) and SPC Island Power Corporation (SIPC), with Prayer for the Issuance of Provisional Authority.

“Considering that the Commission is still in the process of evaluating the instant application, the provisional authority granted in the Order dated November 11, 2013 is hereby **EXTENDED** until revoked or made permanent by the Commission.”

The result of the AS-CSP for the Visayas Grid shows that there is no awarded capacity contracted for the RR. On the other hand, the awarded capacity for the CR and DR from the CSP is lower compared to the required CR and DR capacities for the Visayas Grid.

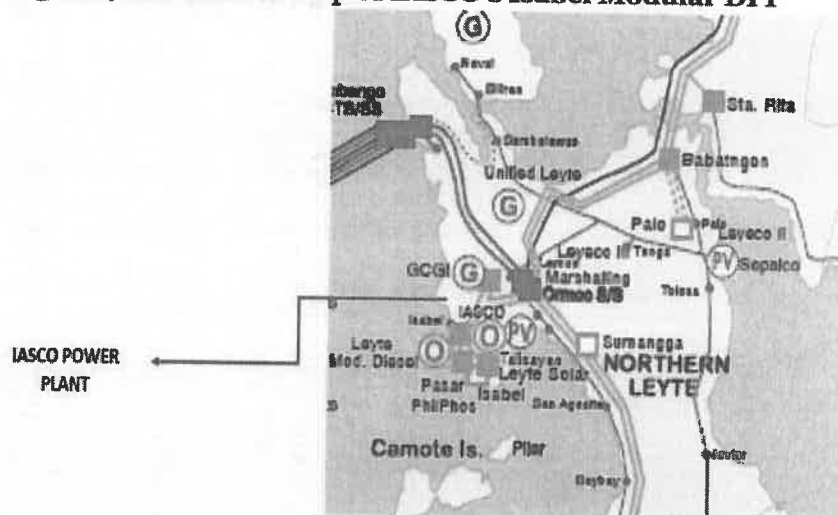
In view thereof, the Commission finds it necessary to issue a provisional authority for the subject ASPA to augment the existing remaining RR provider, and to provide CR capacity in the Visayas Grid, which CR capacity is currently zero, as shown in Table 10.

4. Existing Bilateral Contracts for IASCO

Currently, IASCO has no existing Power Supply Agreement (PSA) for its Isabel MDPP, as indicated in the Certification signed by Mr. Kazunobu Takijima, the President of IASCO.

Although IASCO has no existing PSA, Isabel MDPP can provide the RR, CR, and RPS since it is registered and offering its capacity to the WESM as a Marginal Plant. Likewise, the SO uses Supervisory Control and Data Acquisition (SCADA) to determine the status of the circuit breaker, allowing to monitor whether the plant is synchronized from the start and end of the intervals when scheduled by the NGCP.

Figure 3. Locational Map of IASCO's Isabel Modular DPP



Based on the aforesaid *Decision*, the Commission has devised a pricing scheme based on the mixture of true cost of generation and the opportunity cost. Thus, the general formula was introduced for the recovery of true cost and opportunity cost in the settlement of IE, as follows:

$$IE = G * (AR + \text{Variable Costs}) - (REV_{WESM})$$

The Variable Costs pertain to the actual costs and charges incurred by the AS provider in generating and dispatching the incidental energy, depending on the type of AS provision.

For purposes of issuing a provisional authority, the Commission reviewed the proposed formula by the Applicants in their *Application* and modified the formula of IE to be consistent with the previously approved ASPA by the Commission. Thus, the Incidental Cost Payment will now be as follows:

$$\text{Incidental energy Payment} = G \times (AR + VOM + \text{Actual Fuel Cost}) - (REV_{WESM})$$

Where:

- G = Summation of energy generated or dispatched due to Firm Scheduled Capacity, in kWh.
- AR = Applicable AS Rate (Maximum of PhP2.25/kW/hour)
- VOM = All actual costs and charges incurred by the AS provider in provision of ancillary service (RR and CR)
- a) Operating Cost
 - b) Spare Parts related Cost
 - c) ER 1-94
 - d) Local Business Tax
 - e) Others
 - i. Insurance Cost
 - ii. Security Fee
 - iii. Land Lease Fee
 - iv. G&A Cost
 - v. Real Property Tax

$$\text{Actual Fuel Cost} = \text{Rate of fuel in PhP/kWh}$$

Table 15. Comparison of IASCO's Proposed RPS Maximum Rate & the Previously Approved ASPA Rates of other GenCos

Ancillary Service	Toledo Power Co. (TPC) (ERC Case No. 2018-109 RC⁴⁶)	Panay Power Corp. (PPC) (ERC Case No. 2018-108 RC⁴⁷)	Central Negros Power Reliability, Inc. (CENPRI) (ERC Case No. 2019-024 RC⁴⁸)	Isabel Ancillary Services Co. Ltd. (IASCO) (ERC Case No. 2023-039 RC) – subject case
Reactive Power Support	PhP4.00/kVAR/hr	PhP4.00/kVAR/hr	PhP4.00/kVAR/hr	PhP4.00/kVAR/h

Tables 14 and 15 show the distinction between IASCO's maximum RR, CR, and RPS rates and the Commission's previously approved maximum rates of existing RR, CR, and RPS for different AS providers. Based on the foregoing, IASCO's proposed maximum RR, CR, and RPS rates are the same with previously approved maximum rates of existing RR, CR, and RPS of AS providers for different technologies.

In the final evaluation of this case, the Commission will address the issue of the appropriate benchmark to use for different power plant technologies, to establish the reasonableness of the proposed ASPA rates.

WHEREFORE, the foregoing premises considered, Applicants National Grid Corporation of the Philippines (NGCP) and Isabel Ancillary Services Co. Ltd. (IASCO) are **GRANTED PROVISIONAL AUTHORITY** to implement their Ancillary Service Procurement Agreement (ASPA) for the 70 MW Modular Diesel Power Plant (MDPP) of IASCO located in Isabel Leyte, subject to the following conditions and modifications:

1. Applicable Rates:

IASCO shall charge the provisional rates (in per kW capacity per hour) for the Regulating Reserve (RR) and Contingency Reserve (CR) Ancillary Service (AS) capacity to NGCP, and per

⁴⁶ Entitled, In the Matter of the Application for Approval of the Ancillary Services Procurement Agreement Between the National Grid Corporation of the Philippines and Toledo Power Corporation, with Prayer for the Issuance of Provisional Authority.

⁴⁷ Entitled, In the Matter of the Application for Approval of the Ancillary Services Procurement Agreement Between the National Grid Corporation of the Philippines and Panay Power Corporation, with Prayer for the Issuance of Provisional Authority.

⁴⁸ Entitled, 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.

For Reactive Power Support Service:

**RPS Payment = Compensable kVARh x
Corresponding nominated
price (which shall not exceed
PhP4.00/kVAR/hr)**

**Compensable kVARh = Actual kVARh – Base
kVARh**

In the event that the IE resulted in a negative amount due to a higher net result between WESM revenue and payment, said negative amount shall be used to off-set any positive amount determined within the relevant period or to the succeeding billing month;

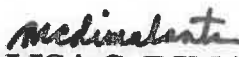
- 1.2 The term of the ASPA shall be for a non-renewable period of one (1) year only, starting from the date of its effectivity;
- 1.3. The total capacities for Regulating Reserve (RR) and Contingency Reserve (CR) shall not exceed 70 MW at any given time. The contracted capacities indicate the minimum and maximum limits of AS capacities that can be offered by an aggregate of up to six (6) sectors. However, the declaration and scheduling of these AS capacities shall be based on the latest AS Accreditation Certificate, which shall not exceed the aforementioned maximum firm capacity;
- 1.4. The RPS under the ASPA shall be provided at all times as necessary as per declaration by the System Operator to protect the grid and avoid the occurrence of Manual Load Dropping;
- 1.5. The RPS shall only be allowed to be provided by IASCO within the scope accredited by NGCP, as indicated in the AS Accreditation Certificate;
- 1.6. Applicant IASCO shall make available the AS contracted capacity at all times. In case of replacement capacity, the rate to be applied shall be

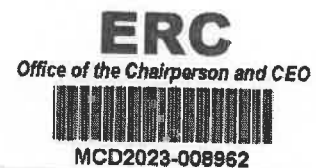
5. To ensure the reliability and integrity of the grid, Applicants are **DIRECTED** to deliver the contracted capacity under their Firm AS contract arrangement. Applicants must honor their Firm AS contract arrangement, which means NGCP must **ENSURE** that the contracted capacity under the instant ASPA shall be both declared and scheduled for dispatch at the least cost manner. Further, IASCO must ensure that its contracted capacity shall be available at all times to provide the AS requirements of the grid.
6. NGCP is **DIRECTED** to prioritize the drawing of reserves from its Firm AS contracts. No non-firm AS capacities shall be drawn, notwithstanding the existing or continued implementation of the said non-firm contracts, for as long as capacities under the firm contracts are available.

If NGCP should draw reserves from its non-firm AS contracts in violation of the above prioritization, NGCP shall not be allowed to recover any and all costs related to such drawing of capacities from non-firm contracts. NGCP, on its own account, shall be responsible for settling such amount from its AS provider.

SO ORDERED.

Pasig City, 13 July 2023.


MONALISA C. DIMALANTA
Chairperson and CEO






ALEXIS M. LUMBATAN
Commissioner

(took no part)
CATHERINE P. MACEDA
Commissioner


FLORESINDA G. BALDO-DIGAL
Commissioner

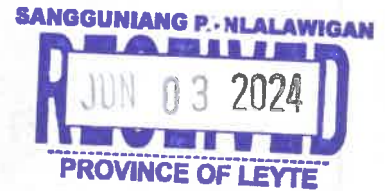

MARKO ROMEO L. FUENTES
Commissioner


LS: JTB / LSP / MCCG


ROS: FTA / MABN / NVP / AJMO /

18. Office of the Mayor
Biñan City
19. Office of the LGU Legislative body
Biñan City
20. Office of the Governor
Province of Lanao del Norte
21. Office of the LGU Legislative body
Province of Lanao del Norte
22. Office of the Mayor
Iligan City
23. Office of the LGU Legislative body
Iligan City
24. Office of the Solicitor General
Amorsolo Street, Legaspi Village, Makati City
Email: docket@osg.gov.ph
25. Commission on Audit
Don Mariano Marcos Avenue, Diliman, Quezon City, Metro Manila
Email: citizensdesk@coa.gov.ph
26. Senate Committee on Energy
Senate of the Philippines
GSIS Building, Roxas Blvd., Pasay City, Metro Manila
Email: senateenergycommittee@gmail.com
27. House of Representatives Committee on Energy
House of Representatives
Batasan Hills, Quezon City, Metro Manila
Email: committee.energy@house.gov.ph

Republic of the Philippines
ENERGY REGULATORY COMMISSION
Pasig City



**IN THE MATTER OF THE
JOINT APPLICATION FOR
APPROVAL OF THE
ANCILLIARY SERVICES
PROCUREMENT
AGREEMENT BETWEEN
THE NATIONAL GRID
CORPORATION OF THE
PHILIPPINES AND ISABEL
ANCILLARY SERVICES CO.
LTD., WITH PRAYER FOR
THE ISSUANCE OF
PROVISIONAL AUTHORITY**

ERC CASE NO. 2023-039 RC

**NATIONAL GRID
CORPORATION OF THE
PHILIPPINES AND ISABEL
ANCILLARY SERVICES CO.
LTD.,**

Applicants.

X-----X

Promulgated:
May 18, 2023

ORDER

On 08 May 2023, National Grid Corporation of the Philippines (NGCP) and Isabel Ancillary Services Co. Ltd. (IASCO) filed an *Application* dated 11 April 2023, seeking the Commission's approval of their Ancillary Services Procurement Agreement (ASPA), with prayer for the issuance of provisional authority.

The pertinent allegations of the *Application* are hereunder quoted as follows:

NATURE OF THE CASE

1. This Application is for the approval of the Ancillary Services Procurement Agreement ("ASPA" or "Agreement") dated 16 January 2023, entered into by the NGCP and IASCO, in relation 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

Philippine Grid Code ("PGC"),² adopted and promulgated by the Honorable Commission, and to adequately serve generation companies, distribution utilities and suppliers requiring transmission service and/or ancillary services ("AS" or "Ancillary Services")³ through the transmission system.⁴ Ancillary 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.

6. 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 of the ERC.⁵
7. Ancillary Services is defined in Section 4 (b) of the EPIRA to *"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.
8. 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.
9. On 12 February 2020, 9 October 2020, and 10 February 2021, IASCO completed its accreditation testing of the Generation Facility each for RR, CR, and RPS, respectively, with the NGCP. Thus, the NGCP certified that the units of the Generation Facility have met and complied with the Standard Ancillary Services Technical Requirements of the ASPP as capable of providing RR, CR, and RPS. A copy of NGCP Accreditation Certificate No. AS-2022-V003-R01 valid from 11 May 2022 to 10 May 2024 is attached hereto as Annex "B".
10. In a letter dated 31 January 2022, addressed to the Department of Energy ("DOE") and the Honorable Commission, IASCO requested, among others, clarification as to the applicability of DOE Department Circular No. DC2021-

² ERC Resolution No. 22, series of 2016, entitled "A Resolution Approving the Publication of the Approved Philippine Grid Code 2016 Edition". See also Section 9(c), EPIRA.

³ Section 4(b), EPIRA. "Ancillary Services" 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.

⁴ Section 9(d), EPIRA.

⁵ Chapter 6, Grid Operations ("GO"), GO Section 6.3.1.2, PGC.

CONTRACTED CAPACITY RATES
AND IMPACT SIMULATION

13. Section 3 of the ASPA states that IASCO shall provide the AS in accordance with Schedule 1 of the ASPA, as follows:

Contracted Capacities:

- A. Regulating Reserve ("RR")¹³:
Between 8MW to 60MW capacity per hourly interval,
24 hours
- B. Contingency Reserve ("CR")¹⁴:
Between 10MW to 60MW capacity per hourly interval
for twenty-four (24) hours
- C. Reactive Power Support:
Available capacity of Reactive Power outside the range
of 85% lagging and 90% leading power factor.

Note that the total capacities of RR and CR shall not exceed 70MW at any given time. The capacities stated above are the minimum and maximum ancillary service capacities that can be provided by an aggregate of up to six (6) Sectors. However, declaration and schedule shall be based on the latest AS Accreditation Certificate, which shall not exceed the maximum firm capacities as stated above.

14. Schedule 3 of the ASPA provides for the formula for the computation of the Ancillary Service Payment, and the applicable rates for Capacity Payment:

A. Ancillary Service Payment

1. For RR, Ancillary Service Payment is the total of the Capacity Payment and the Incidental Energy Payment in B and D below.

Ancillary Service Payment_{RR} = Capacity Payment + Incidental Energy Payment

2. For CR, Ancillary Service Payment is the total of the Capacity Payment and the Incidental Energy Payment in B and D below

Ancillary Service Payment_{CR} = Capacity Payment + Incidental Energy Payment

¹³ Firm Arrangement

¹⁴ Firm Arrangement

D. Incidental Energy Payment

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

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

Incidental Energy Payment

$$= \{G \times (\text{Capacity Payment Rate} + \text{Variable Costs})\} \\ - (\text{WESM Revenue})$$

Where:

- G = summation of actual energy generated or dispatched from the Scheduled Capacity, in kWh
- Variable Costs, in PhP/kWh = Fuel Cost and Variable O&M Cost, in PhP/kWh
 - Fuel Cost = shall be the rate, In PhP/kWh, submitted by the Service Provider every month based on either of the following, whichever is lower; (i) its actual fuel stock inventory consumption report, or (ii) the estimated fuel consumption based on the monthly generation, in kWh, multiplied by the fuel efficiency rate of PhP0.47 liters/kWh.
 - Variable O&M Cost, in PhP/kWh = PhP1.38/kWh x (Current CPI ÷ Base CPI)
- WESM Revenue = summation of WESM revenue based on market clearing price at the generator's trading node, arising from G.

15. Applicants submit that the rates represent a reasonable recovery of its opportunity cost in making available generation capacity to provide the procured AS.

AS Type	Indicative Rate Impact	
	P/kW – month	P/kwh
RR	46.9925	0.0924
CR	31.7648	0.0625
RPS	5.0954	0.0100

A copy of the Rate Impact Simulation for IASCO with a brief discussion on how NGCP derived the proposed ancillary service rate is attached as Annexes "C" to "C-2".

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 Visayas Grid.
17. The ASPA shall be effective for a period of one (1) year, to commence immediately upon the effectivity of the provisional approval, or in the absence thereof, the final approval of the

22. IASCO thus respectfully moves that these documents are not disclosed and treated as confidential documents in accordance with Section 1, Rule 4 of the Honorable Commission's Rules of Practice and Procedure. Accordingly, NPSI (*sic*) submits one (1) copy of said documents in a sealed envelope, with the envelope and each page of the document stamped with the word "Confidential".

ALLEGATIONS IN SUPPORT OF THE PRAYER FOR
PROVISIONAL AUTHORITY

23. It is a declared policy of the State to ensure the quality, reliability, security and affordability of the supply of electric power.²³ 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. However, the Honorable Commission must first approve the contract before the same can be implemented.
24. As the demand for power in Visayas increases, the requirements of the system 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.
25. IASCO having offered to provide its RR, CR, and RPS, will significantly help maintain the required power quality and voltage level in the Visayas Grid. The IASCO is strategically located in Isabel, Leyte, thus, its provision for the AS will enable the NGCP to comply with its mandate.²⁴
26. 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 Ms. Lisaflor B. Kater, which is attached as Annex "J".

PRAYER

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

1. Immediately ISSUE a provisional authority to implement the subject ASPA executed on 16 January 2022; and
2. APPROVE, after notice and hearing, the subject ASPA.
3. ISSUE an Order treating Schedule 3 of Annex "A", and Annexes "A-1" to "A-3", "C", "C-1" and "C-2" as confidential information pursuant to Section 1, Rule 4

²³ Section 2(b), EPIRA.

²⁴ A copy of the AS Availability for Visayas 2022 is hereto attached as Annex "K".

legislative bodies, where NGCP and IASCO principally operate, including NGCP's regional offices, for the appropriate posting thereof on their respective bulletin boards;

- 3) Inform the consumers within the affected area, by any other means available and appropriate, of the filing of the *Application*, its reasons therefor, and of the scheduled hearing thereon;
- 4) Furnish with copies of this *Order* and the attached *Notice of Virtual 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 and attend the scheduled hearing; and
- 5) Furnish with copies of the *Application* and its attachments, except those subject of a motion for confidential treatment of information, all those making requests therefor, subject reimbursement of reasonable photocopying costs.

Within five (5) calendar days prior to the date of the virtual hearing, NGCP and IASCO must submit to the Commission via electronic mail (e-mail) at docket@erc.ph, and copy furnish the Legal Service through legal@erc.ph, the scanned copies of its written compliance with the aforementioned jurisdictional requirements, attaching the following methodically arranged and duly marked documents:

- 1) The evidence of publication of the attached *Notice of Virtual Hearing* consisting of the affidavits of the Editor or Business Manager of the newspapers where the said *Notice of Virtual 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 Virtual Hearing* consisting of certifications issued to that effect, signed by the aforementioned Governor, Mayors, and LGU legislative bodies or their duly authorized representatives, bearing the seals of their offices;

Applicants NGCP and IASCO must ensure that all the documents or exhibits proposed to be presented have already been duly submitted to the Commission **at least five (5) calendar days** before the date of the scheduled initial virtual hearing and Pre-Trial Conference pursuant to the preceding paragraph.

Failure of NGCP and IASCO 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 NGCP and IASCO 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, in order to put in plain words and explain, for the benefit of the consumers and other concerned parties, the nature of the *Application*. Relevant information and pertinent details substantiating the reasons and justifications for the *Application* must be cited in support thereof.

Applicants NGCP and IASCO are hereby directed to file a copy of their Expository Presentation via e-mail at doCKET@erc.ph, and copy furnish the Legal Service through legal@erc.ph, **at least five (5) calendar days** prior to the scheduled virtual hearing. NGCP and IASCO shall also be required, upon the request of any stakeholder, to provide an advance copy of their expository presentation, **at least five (5) calendar days** prior to the scheduled virtual hearing.

Applicants NGCP and IASCO are hereby directed to submit, through personal service, registered mail, or ordinary mail/private courier, one (1) set of the original or certified true hard copies of its Jurisdictional Compliance, Expository Presentation, Pre-trial Brief, and Judicial Affidavits of witnesses, **within five (5) working days** from the date that the same were electronically submitted, as reflected in the acknowledgment receipt e-mail sent by the Commission.

(This space is intentionally left blank.)

Copy Furnished:

1. National Grid Corporation of the Philippines (NGCP)
Applicant
NGCP Building, Quezon Ave. corner BIR Road, Diliman Quezon City
2. Attys. Luis Manuel U. Bugayong, Mark Anthony S. Actub, Bienz Reinier Draeion A. Que
Counsels for NGCP
NGCP Building, Quezon Ave. corner BIR Road, Diliman Quezon City
Email: lubugayong@ngcp.ph
msactub@ngcp.ph
baque@ngcp.ph
3. Isabel Ancillary Services Co. Ltd. (IASCO)
Applicant
Lot 2-A-1 and Lot 2-A-1-D, Leyte Industrial Development Estate
Isabel, Leyte
4. Puno and Puno
Attys. Minerva A. Santos, Joseph Vincent B. Alvaera, Ariadine Rauz F. Villanueva
Counsels for IASCO
33rd Flor Podium Tower West
12 ADB Ave. Ortigas Center, Mandaluyong City
Email: masantos@punolaw.com
jbalvaera@punolaw.com
afvillanueva@punolaw.com
5. Office of the Governor
Province of Leyte
6. Office of the Local Government Unit (LGU) legislative body
Province of Leyte
7. Office of the Mayor
Isabel, Leyte
8. Office of the LGU legislative body
Isabel, Leyte
9. Office of the Mayor
Quezon City
10. Office of the LGU legislative body
Quezon City
11. Office of the Governor
Province of Cebu
12. Office of the LGU legislative body
Province of Cebu
13. Office of the Mayor
Cebu City
14. Office of the LGU legislative body
Cebu City
15. Office of the Governor
Province of Laguna
16. Office of the LGU legislative body
Province of Laguna
17. Office of the Mayor
Bifian City

Republic of the Philippines
ENERGY REGULATORY COMMISSION
Pasig City

IN THE MATTER OF THE
JOINT APPLICATION FOR
APPROVAL OF THE
ANCILLIARY SERVICES
PROCUREMENT
AGREEMENT BETWEEN
THE NATIONAL GRID
CORPORATION OF THE
PHILIPPINES AND ISABEL
ANCILLARY SERVICES CO.
LTD., WITH PRAYER FOR
THE ISSUANCE OF
PROVISIONAL AUTHORITY

ERC CASE NO. 2023-039 RC

NATIONAL GRID
CORPORATION OF THE
PHILIPPINES AND ISABEL
ANCILLARY SERVICES CO.
LTD.,

Applicants.

X-----X

Promulgated:

May 18, 2023

NOTICE OF VIRTUAL HEARING

TO ALL INTERESTED PARTIES:

Notice is hereby given that on 08 May 2023, National Grid Corporation of the Philippines (NGCP) and Isabel Ancillary Services Co. Ltd. (IASCO) filed an *Application* dated 11 April 2023, seeking the Commission's approval of their Ancillary Services Procurement Agreement (ASPA), with prayer for the issuance of provisional authority.

The pertinent allegations of the *Application* are hereunder quoted as follows:

NATURE OF THE CASE

1. This Application is for the approval of the Ancillary Services Procurement Agreement ("ASPA" or "Agreement") dated 16

electrical grid in accordance with the performance standards for its operations and maintenance, as set forth in the Philippine Grid Code ("PGC"),² adopted and promulgated by the Honorable Commission, and to adequately serve generation companies, distribution utilities and suppliers requiring transmission service and/or ancillary services ("AS" or "Ancillary Services")³ through the transmission system.⁴ Ancillary 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.

6. 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 of the ERC.⁵
7. Ancillary Services is defined in Section 4 (b) of the EPIRA to *"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.
8. 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.
9. On 12 February 2020, 9 October 2020, and 10 February 2021, IASCO completed its accreditation testing of the Generation Facility each for RR, CR, and RPS, respectively, with the NGCP. Thus, the NGCP certified that the units of the Generation Facility have met and complied with the Standard Ancillary Services Technical Requirements of the ASPP as capable of providing RR, CR, and RPS. A copy of NGCP Accreditation Certificate No. AS-2022-VO03-RO1 valid from 11 May 2022 to 10 May 2024 is attached hereto as Annex "B".
10. In a letter dated 31 January 2022, addressed to the Department of Energy ("DOE") and the Honorable Commission, IASCO requested, among others, clarification as

² ERC Resolution No. 22, series of 2016, entitled "A Resolution Approving the Publication of the Approved Philippine Grid Code 2016 Edition". See also Section 9(c), EPIRA.

³ Section 4(b), EPIRA. "Ancillary Services" 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.

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Contracted Capacities:

- A. Regulating Reserve ("RR")¹³:
Between 8MW to 60MW capacity per hourly interval,
24 hours
- B. Contingency Reserve ("CR")¹⁴:
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for twenty-four (24) hours
- C. Reactive Power Support:
Available capacity of Reactive Power outside the range
of 85% lagging and 90% leading power factor.

Note that the total capacities of RR and CR shall not exceed 70MW at any given time. The capacities stated above are the minimum and maximum ancillary service capacities that can be provided by an aggregate of up to six (6) Sectors. However, declaration and schedule shall be based on the latest AS Accreditation Certificate, which shall not exceed the maximum firm capacities as stated above.

14. Schedule 3 of the ASPA provides for the formula for the computation of the Ancillary Service Payment, and the applicable rates for Capacity Payment:

A. Ancillary Service Payment

1. For RR, Ancillary Service Payment is the total of the Capacity Payment and the Incidental Energy Payment in B and D below.

$$\text{Ancillary Service Payment}_{RR} = \text{Capacity Payment} + \text{Incidental Energy Payment}$$

2. For CR, Ancillary Service Payment is the total of the Capacity Payment and the Incidental Energy Payment in B and D below

$$\text{Ancillary Service Payment}_{CR} = \text{Capacity Payment} + \text{Incidental Energy Payment}$$

3. For Reactive Power Support, Ancillary Service Payment is as follows:

$$\text{kVAR Payment} = (\text{Incidental kVARh Rate} \times \text{Compensable kVARh})$$

¹³ Firm Arrangement

¹⁴ Firm Arrangement

Where:

- G = summation of actual energy generated or dispatched from the Scheduled Capacity, in kWh
 - Variable Costs, in PhP/kWh = Fuel Cost and Variable O&M Cost, in PhP/kWh
 - Fuel Cost = shall be the rate, In Php/kWh, submitted by the Service Provider every month based on either of the following, whichever is lower; (i) its actual fuel stock inventory consumption report, or (ii) the estimated fuel consumption based on the monthly generation, in kWh, multiplied by the fuel efficiency rate of Php0.47 liters/kWh.
 - Variable O&M Cost, in PhP/kWh = $\text{Php}1.38/\text{kWh} \times (\text{Current CPI} \div \text{Base CPI})$
 - WESM Revenue = summation of WESM revenue based on market clearing price at the generator's trading node, arising from G .
15. Applicants submit that the rates represent a reasonable recovery of its opportunity cost in making available generation capacity to provide the procured AS.

AS Type	Indicative Rate Impact	
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CR	31.7648	0.0625
RPS	5.0954	0.0100

A copy of the Rate Impact Simulation for IASCO with a brief discussion on how NGCP derived the proposed ancillary service rate is attached as Annexes "C" to "C-2".

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 Visayas Grid.
17. The ASPA shall be effective for a period of one (1) year, to commence immediately upon the effectivity of the provisional approval, or in the absence thereof, the final approval of the instant Application.¹⁵ In the event that the provisional or final approval, 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.
18. IASCO, as a generation company, falls within the ambit of Section 6 of the EPIRA. Attached are copies of relevant documents proving IASCO's due registration as a generation company, relevant permits to operate the Generation Facility and audited financial statements, as follows:

¹⁵ Section 7, ASPA.

ALLEGATIONS IN SUPPORT OF THE PRAYER FOR
PROVISIONAL AUTHORITY

23. It is a declared policy of the State to ensure the quality, reliability, security and affordability of the supply of electric power.²³ 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. However, the Honorable Commission must first approve the contract before the same can be implemented.
24. As the demand for power in Visayas increases, the requirements of the system 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.
25. IASCO having offered to provide its RR, CR, and RPS, will significantly help maintain the required power quality and voltage level in the Visayas Grid. The IASCO is strategically located in Isabel, Leyte, thus, its provision for the AS will enable the NGCP to comply with its mandate.²⁴
26. 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 Ms. Lisaflor B. Kater, which is attached as Annex "J".

PRAYER

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

1. Immediately ISSUE a provisional authority to implement the subject ASPA executed on 16 January 2022; and
2. APPROVE, after notice and hearing, the subject ASPA.
3. ISSUE an Order treating Schedule 3 of Annex "A", and Annexes "A-1" to "A-3", "C", "C-1" and "C-2" as confidential information pursuant to Section 1, Rule 4 of the ERC Rules of Practice and Procedure and prescribing the guidelines for the protection thereof.

Other just and equitable reliefs are likewise prayed for.

²³ Section 2(b), EPIRA.

²⁴ A copy of the AS Availability for Visayas 2022 is hereto attached as Annex "K".

- 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.

Likewise, all other persons who may want their views known to the Commission with respect to the subject matter of the case may file through e-mail at doCKET@erc.ph, and copy furnish the Legal Service through legal@erc.ph, their Opposition or Comment **at least five (5) calendar days** prior to the initial virtual hearing. Rule 9 of the ERC Revised Rules of Practice and Procedure shall govern. No particular form of Opposition or Comment is required, but the document, letter, or writing should contain the following:

- 1) The name, mailing address, and e-mail address of such person;
- 2) A concise statement of the Opposition or Comment; and
- 3) The grounds relied upon.

All interested parties filing their Petition to Intervene, Opposition or Comment are required to submit the hard copies thereof through personal service, registered mail, or ordinary mail/private courier, **within five (5) working days** from the date that the same were electronically submitted, as reflected in the acknowledgment receipt e-mail sent by the Commission.

Any of the persons mentioned in the preceding paragraphs may access the copy of the *Application* on the Commission's official website at www.erc.gov.ph.

Finally, all interested persons may be allowed to join the scheduled initial virtual hearings by providing the Commission, thru legal.virtualhearings@erc.ph, their respective e-mail addresses and indicating therein the case number of the instant *Application*. The Commission will send the access link/s to the aforementioned hearing platform within five (5) working days prior to the scheduled hearings.