



assume the electric transmission functions of NPC, and the authority and responsibility of NPC for the planning, construction and centralized operation and maintenance of its high voltage transmission line facilities, including grid interconnections and ancillary services.

2. NPC is a generation company which leases and contracts the Panit-An 15 MW Modular Diesel Power Plant (PMDPP) located at Panit-An, Capiz, Panay Island.

3. Under Section 9 of the EPIRA, TRANSCO was granted the following functions and responsibilities:

*"(a) Act as system operator of the nationwide electrical transmission and subtransmission system, to be transferred to it by NPC;*

x x x

*(c) Ensure and maintain the reliability, adequacy, security, stability and integrity of the nationwide electrical grid in accordance with the performance and standards for the operation and maintenance of the grid, as set forth in a Grid Code to be adopted and promulgated by the ERC within six (6) months from the effectivity of this Act;*

*(d) Improve and expand its transmission facilities, consistent with the Grid Code and the Transmission Development Plan (TDP) to be promulgated pursuant to this Act, to adequately serve generation companies, distribution utilities and suppliers requiring transmission service and/or ancillary services through the transmission system. x x x."*

4. TRANSCO's afore-quoted mandate is reiterated in Rule 6 of the Implementing Rules and Regulations (IRR) of the EPIRA which provides that:

*"Section 7. Functions and Responsibilities of TRANSCO or its Buyer or Concessionaire.*

*The TRANSCO or its Buyer or Concessionaire shall have, among others, the following functions and responsibilities:*

X X X

*(d) Improve and expand its transmission facilities, consistent with the TDP and the Grid Code, to adequately serve Generation Companies, Distribution Utilities and Suppliers requiring transmission service and/or Ancillary Services through the Transmission System.*

X X X

**Section 9. Compliance with the Grid Code.**

*TRANSCO or its Buyer or Concessionaire shall comply with the provisions of the Grid Code in the process of improving and expanding its transmission facilities in order to ensure and maintain the reliability, adequacy, security, stability and integrity of the Grid and adequately serve Electric Power Industry Participants requiring transmission service or Ancillary Services through the Grid."*

5. The Grid Code provides that TRANSCO, as System Operator, *"shall be responsible for determining, acquiring, and dispatching the capacity needed to supply the required Grid Ancillary Services and for developing and proposing Wheeling Charges and Ancillary Service tariff to the ERC."*

6. In fulfillment of its mandate under the EPIRA and the Grid Code, TRANSCO filed an application for the approval of its proposed Ancillary Services Procurement Plan (ASPP) with the Commission, which application was docketed as ERC Case No. 2002-253. Under the said ASPP, TRANSCO shall procure ancillary services from various power plants in the Philippine Grid essential in maintaining power quality, reliability, and security in the Philippine Grid. Ancillary services play a pivotal role in ensuring reliability in the operation of the transmission system and resultantly, in the reliability of the electricity supply in the Grid.

7. On March 9, 2006, the Commission issued an Order approving TRANSCO's ASPP, however, TRANSCO was directed to file Section 5 of the ASPP as a separate case.

8. In compliance with the aforesaid directive, TRANSCO filed the subject section of the ASPP entitled the "Ancillary Services-Cost Recovery Mechanism (AS-CRM)", which case was docketed as ERC Case No. 2006-049 RC.

9. The Commission in its Order dated October 11, 2006, provisionally approved the AS-CRM of the ASPP allowing TRANSCO to recover the cost of ancillary services it arranged or procured with the qualified ancillary service provider/s. In the said Order, TRANSCO was directed to submit any ASPA for the Commission's approval.

10. On October 3, 2007, the Commission approved with finality the AS-CRM of the ASPP subject to various conditions, among which are as follows:

(a) The cost of procuring the Ancillary Services (AS) under the ASPP shall be recovered 100% from the load customers but only until such time that such AS is already traded in the Wholesale Electricity Spot Market (WESM); and

(b) All contracts for AS provision shall be submitted to the Commission for approval.

11. With the approval of the ASPP and its AS-CRM, TRANSCO negotiated and continuously negotiates with various owners and operators of generating facilities to provide the much needed AS for the various grids.

12. Consistent with the ASPP and its AS-CRM, TRANSCO entered into an ASPA with NPC, which leased the 15 MW PMDPP for the provision of AS in the Visayas Grid.

13. The following existing conditions are the driving factors that led to the execution of the ASPA with NPC:

- (a) The Visayas Grid is currently experiencing insufficient reserve capacity;
- (b) The existing dependable capacity in the Visayas is not enough to meet the existing grid demand requirement and this situation is expected to worsen unless additional reserve capacities are installed; and
- (c) The regular annual preventive maintenance, which normally takes two (2) weeks to one (1) month, of NPC power plants cannot be performed without curtailment to Visayas customers over a long period of time (rotating brownout).

14. The AS to be contracted by TRANSCO include the following:

- (a) Contingency Reserve (formerly known as Spinning Reserve);

- (b) Dispatchable Reserve (formerly known as Back-Up Reserve);
- and
- (c) Reactive Power Support.

15. At present, based on the load data of the System Operator of the Visayas Grid, the peak demand of the Cebu-Negros-Panay (CNP) Grid is at 858 MW.

16. In accordance with the AS-CRM, TRANSCO shall recover the rate provided in the ASPA or the amount paid to NPC's 15 MW PMDPP's AS provision to all load customers.

17. TRANSCO proposed to recover the cost of AS in the following schedule:

Type of AS	Capacity Fee	Energy Fee/Fuel Cost
Contingency Reserve	To be recovered from all load customers in the Visayas Grid	To be recovered from all load customers in the Panay Grid
Dispatchable Reserve	To be recovered from all load customers in the Visayas Grid	To be recovered from all load customers in the Panay Grid
Reactive Power Support	To be recovered from all load customers in the Panay Grid	To be recovered from all load customers in the Panay Grid

18. Consistent with the AS-CRM, with the intention of the Business Separation and Unbundling Plan, and in order to avoid its transmission business subsidizing the cost of AS, TRANSCO proposed to recover from all load customers in the Grid, for whom the AS is being contracted, all relative and incidental expenses (not covered by the Second Regulatory Period's Final Determination) that it will incur in relation with the procurement and operation of the AS for the grid requirement. These expenses may include, but not limited to

the following: filing fees, publications (Application, Notices, Orders and etc.), interest on account for delayed payment attributable to any load customer's failure to pay the amount due on ancillary services, and others.

19. The requirement for Contingency Reserve in the Visayas Grid is 72 MW, considering that the largest synchronized generating unit is the Cebu Thermal Power Plant No. 2 with a capacity of 72 MW while the largest power import is the Leyte-Cebu submarine cable with a capacity of 360 MW and 180 MW single interconnection.

20. At present, only 1,013 MW is available in the CNP Grid, 360 MW of which is located in Leyte. Hence, should the Leyte-Cebu submarine cable encounter problems, the CNP area will only have 653 MW of power available.

21. Considering that the peak demand in the CNP reaches 858 MW, there is a shortage of 205 MW based on the requirement of 72 MW and 180 MW reserve. Law and regulation mandates TRANSCO to ensure system reliability at all times, including the duty to ensure that there are adequate reserves to forestall any power interruption due to a problem in the transmission grid, such as the unavailability of the Leyte submarine cable.

22. On May 10, 2006, the Leyte submarine cable tripped which caused a Grid-wide blackout in the Visayas. Due to the absence of AS providers, the blackout lasted for more than 0.63 hours.

23. It has become readily apparent that such a situation should be prevented in the future and the need for Contingency, Dispatchable Reserve and Reactive Power Support has become imperative to prevent similar situations.

24. The absence of the system reliability in the Grid will result in an adverse effect to the public as well as to the small and large scale businesses in the area. This will certainly encourage investments and growth in the local area.

25. The ASPA will further encourage other providers to invest in new capacities/plants to respond to the long-term need of the Visayas Grid.

26. It is respectfully prayed of the Commission to issue the following: (a) a Provisional Authority approving the ASPA between TRANSCO and NPC and to include the costs for the provision of AS by NPC's 15 MW PMDPP in the ancillary service charges of TRANSCO and to be recovered in accordance with the ERC-approved AS-CRM based on the schedule above cited; and (b) An Order approving the ASPA between TRANSCO and NPC and include the costs thereof in the ancillary service charges of the TRANSCO in accordance with the terms and conditions of the said Agreement.

On August 6, 2008, TRANSCO and NPC filed an "Urgent Motion for Issuance of Provisional Authority" alleging, in addition to the allegations in the Application, that:

1. Given the existence of clear and undisputed facts of immediate and irreparable injury to the Visayas people, they prayed that a provisional authority be immediately issued. Further, they prayed that the subject provisional authority be made effective beginning June 22, 2008 when the parties were constrained to

run the subject Panit-An 15MW MDPP to purposely address the foregoing situation.

2. TRANSCO, in accordance with the AS-CRM, would recover the actual cost of the AS provision incurred since June 22, 2008 immediately following the billing period from the receipt of the Order of the Commission approving the instant application.

3. In the computation of the total cost of AS provision from Panit-An 15MW MDPP, with the purpose of mitigating the cost of ancillary in the grid, they proposed to adjust the cost of the AS (especially energy fee) with the ERC-approved NPC's average Visayas Grid rate or the proposed formula below:

$$\text{Total Cost of AS} = \text{Capacity Cost} + \text{Energy Cost} - \text{Energy Cost Adjustments}$$

Where:

Capacity Cost	= kW as scheduled x by the contracted capacity price
Energy Cost	= kWh registered x by the contracted energy fee + AFC
Energy Cost Adjustment	= kWh registered (adjusted by applicable loss factor) x ERC-approved NPC Grid rate

Note: AFC=Adjustment on Fuel Cost based on ASPA

4. Given that the request is to allow TRANSCO to recover the total cost of AS provision from Panit-An 15MW MDPP, TRANSCO proposed to spread the amount of cost in accordance with the following schedule:

Amount of AS Cost (PhP)	Number of Billing Periods
5Mn to 10Mn	3 billing periods
More than 10Mn but not to exceed 20Mn	5 billing periods
More than 20Mn	6 billing periods

5. They prayed that the period for the recovery of cost already incurred prior to the approval, be no longer than six (6) months and that the Commission immediately issue a Provisional Authority approving their ASPA and to include the costs for the provision of AS by National Power Plant's 15MW PMDPP in the ancillary service charges of TRANSCO and be recovered, in accordance with the ERC-approved AS-CRM based on the schedule stated above effective June 22, 2008.

On August 14, 2008, TRANSCO and NPC filed a "Submission" and a "Correction" that paragraph 7 of the "Urgent Motion for Issuance of Provisional Authority" be corrected as follows:

7. Given that the request is to allow TRANSCO to recover the total cost of AS provision from Panit-An 15 MW Modular Diesel Power Plant, TRANSCO proposed to spread the amount of cost in accordance with the following schedule:

<b>Amount of AS Cost (PhP)</b>	<b>Number of Billing Periods</b>
1Mn to 50 Mn	3 billing periods
More than 50Mn but not to exceed 100Mn	5 billing periods
More than 100Mn	6 billing periods

The Commission has set the application for initial hearing, pre-trial conference, expository presentation and evidentiary hearing on the following date and venue:

DATE	TIME	VENUE	PARTICULARS
October 28, 2008 (Tuesday)	Two o' clock in the afternoon (2:00 P.M.)	Iloilo Grand Palace Hotel, Iloilo City	Jurisdictional, Expository Presentation, and Pre-trial Conference
October 29, 2008 (Wednesday)	Nine o' clock in the morning to Twelve o' clock in the afternoon (9:00 A.M.-12:00 NN)	Iloilo Grand Palace Hotel, Iloilo City	Evidentiary Hearing

All persons who have an interest in the subject matter of the proceeding may become a party by filing, at least five (5) days prior to the initial hearing and subject to the requirements in the ERC's Rules of Practice and Procedure, a verified petition with the Commission giving the docket number and the title of the proceeding and stating: (1) the petitioner's name and address; (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.

All other persons who may want their views known to the Commission with respect to the subject matter of the proceeding may file their opposition to the application or comment thereon at any stage of the proceeding before the applicants conclude the presentation of their evidence. No particular form of opposition or comment is required, but the document, letter or writing should contain the name and address of such person and a concise statement of the opposition or comment and the grounds relied upon.

All such persons who may wish to have a copy of the application may request the applicants, prior to the date of the initial hearing, that they be furnished with a copy of the application. The applicants are hereby directed to

furnish all those making such request with copies of the application and its attachments, subject to reimbursement of reasonable photocopying costs. Likewise, any such person may examine the application and other pertinent records filed with the Commission during the usual office hours.

**WITNESS**, the Honorable Chairperson, **ZENAIDA G. CRUZ-DUCUT**, and the Honorable Commissioners, **ALEJANDRO Z. BARIN**, and **MARIA TERESA A.R. CASTAÑEDA**, Energy Regulatory Commission, this 22nd day of August, 2008 at Pasig City.

  
**ATTY. FRANCIS SATURNINO C. JUAN**  
Executive Director III

  
MVA/NJS/E/Notice of hearing /ASPA/TRANSCO & NPC