

Republic of the Philippines
ENERGY REGULATORY COMMISSION
San Miguel Avenue, 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 KING
ENERGY GENERATION, INC.
(MISAMIS OCCIDENTAL
POWER PLANT 2 - PANAON),
WITH PRAYER FOR THE
ISSUANCE OF PROVISIONAL
AUTHORITY**

ERC CASE NO. 2019-077 RC

**NATIONAL GRID
CORPORATION OF THE
PHILIPPINES (NGCP) AND
KING ENERGY GENERATION,
INC. (KEGI),**

Applicants.

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NOV 04 2019

NOTICE OF PUBLIC HEARING

TO ALL INTERESTED PARTIES:

Notice is hereby given that on 15 October 2019, National Grid Corporation of the Philippines (NGCP) and King Energy Generation, Inc. (KEGI) filed an *Application* dated 23 September 2019, seeking for the approval of their Ancillary Services Procurement Agreement (ASPA) between NGCP and KEGI for the Misamis Occidental Power Plant 2 – Panaon, with Prayer for the Issuance of Provisional Authority.

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

1. This Application is for the approval of the Ancillary Services Procurement Agreement (“ASPA”) between the NGCP and KEGI dated 11 September 2019, and pursuant 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 (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. 9511¹ 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 KEGI 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 Barangay San Luis, Gingoog, Misamis Oriental. It may be served with orders, notices, and other legal processes through its undersigned counsel. It is the owner and operator of the Misamis Occidental Power Plant 2 ("Generation Facility") located at Barangay Map-an, Panaon, Misamis Occidental which has been 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 ("EPIRA") 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")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 through the transmission system³.

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.⁴

¹ An Act Granting the National Grid Corporation of the Philippines a Franchise to Engage in the Business of Conveying or Transmitting Electricity Through High Voltage Back-Bone System of Interconnected Transmission Lines, Substations and Related Facilities, and for other Purposes;

² Section 9 (c);

³ Section 9 (d);

⁴ Section 6.3.1.2;

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.

9. NGCP agreed to procure and KEGI agreed to supply AS, under a non-firm contracted capacities, in the forms of: (a) DR; and (b) RPS. The copy of the Ancillary Services Procurement Agreement between NGCP and KEGI dated 11 September 2019 is attached as Annex "A".

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:

Misamis Occidental Power Plant 2: Under Accreditation No. 2018-M013

Dispatchable Reserve Service
Unit 1 - 7.5MW
Unit 2 - 7.5MW

Reactive Power Support
Lagging Only

The copy of NGCP Accreditation Certificate No. 2018-M013 dated 14 November 2018 is attached as Annex "B".

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**FIRM AND NON-FIRM CONTRACTED CAPACITY
RATE AND IMPACT SIMULATION**

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

Types of Ancillary Services (AS) that can be nominated:

Non-Firm Contracted Capacity:

1. *Reactive Power Support (RPS)
Available Capacity of Reactive Power outside the range of 85% lagging and 90% leading power factor.*

2. *Dispatchable Reserve (DR)
Available Capacity, up to 15.6MW (Int. 1-9 and 18-24) with Bilateral Contracts from Int. 10-17*

Once the Bilateral contracts expire by Year 2024, the available units may also be offered for DR.

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

12. The Applicable Rates for the capacities covered by the ASPAs as provided in both Schedule 3, are as follows:

- A. Non-Firm Contracted Capacity Applicable Rates:
1. Dispatchable Reserve: maximum of PhP 1.25/kW/hr
 2. Reactive Power Support: PhP 4.00/kVARh

- B. Incidental Energy Cost
The Cost of Incidental Energy ("IE_{min}") is the payment of minimum cost of actual energy generated for the Firm and Non-Firm Contracted Capacity which shall be paid and computed using the formula below:

Incidental Energy Cost
 $IEDR = G \times (AR + VOM + \text{Actual Fuel Cost}) - REVWESM$

Where:

- G = Summation of energy generated or dispatched due to Non-Firm Scheduled Capacity, in kWh
- AR = Applicable Rate per AS type
- VOM = PhP 0.5/kWh
- Actual Fuel Cost = rate of fuel in PhP/kWh
- REVWESM = Summation of WESM revenue based on Final Ex-post market clearing price of the AS Provider's trading Node arising from G above, once

WESM is implemented. This will be set to ZERO while WESM is not yet in place in the Mindanao Grid.

Reactive Power Support:

$$\begin{aligned} \text{Payment of RPS} &= \text{kVARh Payment} + \text{IERPS} \\ \text{kVARh Payment} &= \text{Compensable kVARh} \times \text{P4.00/kVARh} \\ \text{Compensable kVARh} &= \text{Actual kVARh} - \text{Base kVARh} \end{aligned}$$

Where:

Actual kVAR = actual reactive power provided within each interval

Base kVARh = corresponding kVARh at 0.85 power factor lagging or 0.9 power factor leading, for the unit's MW loading. For clarity, the MW loading is the unit's Pmin, or RTD schedule, whichever is greater.

$$\begin{aligned} \text{IERPS} &= \text{Payment on Energy and Variables} \\ &= G^*(\text{VOM} + \text{Actual Fuel Cost}) - \text{REVVESM} \end{aligned}$$

Where:

G = summation of energy dispatched to produce the scheduled kVar less the energy for the BCQ

VOM = PhP 0.5kWh

Actual Fuel Cost = rate of fuel in PhP/kWh

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 was subjected to a simulation by NGCP, the results of which are as follows:

Ancillary Service	Indicative Rate Impact	
	PhP/kW-month	PhP/kWh-equivalent
DR w/ WESM	7.3488	0.0164
DR w/o WESM	8.9998	0.0201
RPS w/ IE* w/o WESM	3.7491	0.00793
RPS w/o IE* w/o WESM	3.7261	0.0078

A copy of the Rate Impact Simulation for King Energy Generation, Inc. – Misamis Occidental Power Plant 2 (KEGI MOPP 2) is attached as Annex "C".

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.

16. The ASPA shall be effective for a period of five (5) years, to commence immediately upon the effectivity of the provisional approval, or in the absence thereof, the final approval of the instant Application. 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.

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

Document	Annex
Certificate of Compliance	"D"
Summary of Existing Power Supply Agreement ⁵	"E"
Certificate of Incorporation (SEC Reg. No. 201019693)	"F"
2019 General Information Sheet	"G"
Audited Financial Statement (for the year ended 31 December 2018)	"H"
Certification issued by Independent Electricity Market Operator of the Philippines, Inc., dated 13 August 2019	"I"

18. While KEGI is a co-applicant, it manifests that the instant Application shall neither modify, diminish or constitute a waiver of KEGI'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 Mindanao 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

⁵ The capacity of the Generation Facility is available to provide ancillary services from intervals 1-9 and 18-24, sans intervals 10-17 reserved for its bilateral contracts.

Mindanao Grid, entitled as: "Mindanao Dispatch Reserve Availability" is attached as Annex "J".

21. As the demand for power in the Mindanao 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 KEGI to ensure and maintain the reliability, adequacy, security, stability and integrity of the Mindanao 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 Mindanao 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 as Annex "K".

PRAYER

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

- a) Immediately ISSUE a provisional authority to implement the ASPA between NGCP and KEGI dated 11 September 2019; and
- b) APPROVE, after notice and hearing, the subject ASPA.

Applicants pray for other just and equitable relief.

The Commission has set the *Application* for determination of compliance with the jurisdictional requirements, expository presentation, Pre-trial Conference, and presentation of evidence on **09 January 2020 (Thursday) at two'o clock in the afternoon (02:00 P.M.), at La Elena Pension House, National Highway, Brgy. Butuay, Poblacion Jimenez, Misamis Occidental.**

All persons who have an interest in the subject matter of the instant case may become a party by filing with the Commission a verified Petition to Intervene at least five (5) days prior to the initial hearing and subject to the requirements under Rule 9 of the 2006 ERC Rules of Practice and Procedure, indicating therein the docket number and title of the case and stating the following:


- 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 case may file their Opposition or Comment thereon at any stage of the proceeding before the Applicants rest their case, subject to the requirements under Rule 9 of the 2006 ERC Rules of Practice and Procedure. No particular form of Opposition or Comment is required, but the document, letter, or writing should contain the following:

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

All such persons who wish to have a copy of the *Application* may request from Applicants that they be furnished with the same, prior to the date of the initial hearing. The applicants are hereby directed to furnish all those making such request with copies of the *Application* and its attachments, subject to the reimbursement of reasonable photocopying costs. Any such person may likewise examine the *Application* and other pertinent records filed with the Commission during the standard office hours.

WITNESS, the Honorable Chairperson and CEO **AGNES VST DEVANADERA** and the Honorable Commissioners **CATHERINE P. MACEDA**, **PAUL CHRISTIAN M. CERVANTES**, and **ALEXIS M. LUMBATAN**, Energy Regulatory Commission, this 21 October 2019 in Pasig City.


JOSEFINA PATRICIA A. MAGPALE-ASIRIT
Oversight Commissioner for the Legal Service


LS: BNB/BNV/TSA/GEO